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

FORM 10-Q

For the quarter ended June 30, 2018

of

ARRIS INTERNATIONAL PLC
(Exact name of registrant as specified in its charter)

England and Wales	001-37672	98-1241619
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

3871 Lakefield Drive, Suwanee, Georgia	30024
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (678) 473-2000

ARRIS International plc (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 International plc is a large accelerated filer and is not a shell company.

ARRIS International plc has submitted electronically and posted on its corporate web site every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months.

As of July 31, 2018, 180,330,719 shares of ARRIS International plc's Ordinary Shares were outstanding.

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FORM 10-Q
For the Three and Six Months Ended June 30, 2018
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PART I. FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

ARRIS INTERNATIONAL PLC
CONSOLIDATED BALANCE SHEETS
(in thousands except share and per share data) (unaudited)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 501,411	$ 487,573
Short-term investments, at fair value	46,698	23,874
Total cash, cash equivalents and short-term investments	548,109	511,447
Accounts receivable (net of allowances for doubtful accounts of $9,077 in 2018 and $10,230 in 2017)	1,183,360	1,218,089
Other receivables	192,067	157,845
Inventories (net of reserves of $59,097 in 2018 and $69,459 in 2017)	803,217	825,211
Prepaid income taxes	10,406	28,351
Prepaids	40,290	26,644
Other current assets	196,014	145,953
Total current assets	2,973,463	2,913,540
Property, plant and equipment (net of accumulated depreciation of $384,942 in 2018 and $367,954 in 2017)	299,991	372,467
Goodwill	2,259,177	2,278,512
Intangible assets (net of accumulated amortization of $1,807,077 in 2018 and $1,599,573 in 2017)	1,580,393	1,771,362
Investments	69,902	71,082
Deferred income taxes	146,443	115,436
Other assets	72,155	101,858
Total assets	$7,401,524	$ 7,624,257
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,125,619	$ 1,206,656
Accrued compensation, benefits and related taxes	140,387	155,966
Accrued warranty	38,651	44,507
Deferred revenue	123,590	115,224
Current portion of long-term debt and financing lease obligation	83,709	83,559
Income taxes payable	2,094	6,244
Other accrued liabilities	361,315	321,113
Total current liabilities	1,875,365	1,933,269
Long-term debt and financing lease obligation, net of current portion	2,074,352	2,116,244
Accrued pension	31,889	42,637
Noncurrent deferred revenue	58,233	54,090
Noncurrent income taxes	120,988	144,665
Deferred income taxes	62,886	68,888
Other noncurrent liabilities	68,507	80,430
Total liabilities	4,292,220	4,440,223
Stockholders' equity:		
Ordinary shares, nominal value £0.01 per share, 181.8 million and 185.2 million shares issued and outstanding in 2018 and 2017, respectively	2,722	2,768
Capital in excess of par value	3,424,905	3,387,128
Accumulated deficit	(329,731)	(225,881)
Accumulated other comprehensive (loss) income	(4,648)	4,552
Total ARRIS International plc stockholders' equity	3,093,248	3,168,567
Stockholders' equity attributable to noncontrolling interest	16,056	15,467
Total stockholders' equity	3,109,304	3,184,034

Total liabilities and stockholders’ equity	$7,401,524	$ 7,624,257

See accompanying notes to the consolidated financial statements.

ARRIS INTERNATIONAL PLC
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands except share and per share data) (unaudited)

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Net sales	$1,726,540	$1,664,170	$3,304,250	$3,147,276
Cost of sales	1,227,785	1,260,813	2,329,812	2,406,661
Gross margin	498,755	403,357	974,438	740,615
Operating expenses:				
Selling, general and administrative expenses	173,353	113,921	334,557	218,560
Research and development expenses	167,200	133,098	336,997	266,060
Amortization of intangible assets	90,485	91,012	205,193	184,657
Impairment of goodwill	—	—	3,400	—
Integration, acquisition, restructuring and other costs	22,844	9,690	36,499	19,785
Total operating expenses	453,882	347,721	916,646	689,062
Operating income	44,873	55,636	57,792	51,553
Other expense (income):				
Interest expense	23,647	23,344	46,173	43,027
(Gain) loss on investments	(844)	3,609	(317)	8,139
Interest income	(1,792)	(1,788)	(3,324)	(3,709)
(Gain) loss on foreign currency	(824)	9,373	4,009	14,113
Other (income) expense, net	(169)	926	(61)	841
Income (loss) before income taxes	24,855	20,172	11,312	(10,858)
Income tax (benefit) expense	(9,944)	(8,302)	(6,454)	1,699
Consolidated net income (loss)	34,799	28,474	17,766	(12,557)
Net loss attributable to noncontrolling interest	(955)	(1,862)	(4,388)	(3,795)
Net income (loss) attributable to ARRIS International plc.	$ 35,754	$ 30,336	$ 22,154	$ (8,762)
Net income (loss) per ordinary share [1]:				
Basic	$ 0.19	$ 0.16	$ 0.12	$ (0.05)
Diluted	$ 0.19	$ 0.16	$ 0.12	$ (0.05)
Weighted average ordinary shares:				
Basic	184,216	186,803	184,376	188,291
Diluted	185,669	189,002	186,288	188,291

(1) Calculated based on net income (loss) attributable to stockholders of ARRIS International plc

See accompanying notes to the consolidated financial statements.

ARRIS INTERNATIONAL PLC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands) (unaudited)

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Consolidated net income (loss)	$ 34,799	$28,474	$ 17,766	$(12,557)
Available-for-sale securities:				
Unrealized gain (loss) on available-for-sale securities, net of tax of $0 and $(57) for the three months ended June 30, 2018 and 2017, and $0 and $(109) for the six months ended June 30, 2018 and 2017 respectively	—	107	—	204
Reclassification adjustments recognized in net income, net of tax of $305 and $(33) for the three months ended June 30, 2018 and 2017, and $381 and $(31) for the six months ended June 30, 2018 and 2017 respectively	(420)	61	(662)	58
Net change in available-for-sale securities	(420)	168	(662)	262
Derivative instruments:				
Unrealized gain (loss) on derivative instruments, net of tax of $(1,121) and $768 for the three months ended June 30, 2018 and 2017, and $(3,065) and $277 for the six months ended June 30, 2018 and 2017 respectively	4,159	(2,019)	11,316	(456)
Reclassification adjustments recognized in net income, net of tax of $117 and $(163) for the three months ended June 30, 2018 and 2017, and $53 and $(678) for the six months ended June 30, 2018 and 2017 respectively	(434)	429	(194)	1,117
Net change in derivative instruments	3,725	(1,590)	11,122	661
Pension liabilities:				
Reclassification adjustments recognized in net income	—	4	29	15
Net change in pension liabilities	—	4	29	15
Cumulative translation adjustments	(20,445)	(6,999)	(19,663)	(2,018)
Other comprehensive income (loss), net of tax	(17,140)	(8,417)	(9,174)	(1,080)
Comprehensive income (loss)	17,659	20,057	8,592	(13,637)
Comprehensive loss attributable to noncontrolling interest	(903)	(1,881)	(4,362)	(3,823)
Comprehensive income (loss) attributable to ARRIS International plc	$ 18,562	$21,938	$ 12,954	$ (9,814)

See accompanying notes to the consolidated financial statements.

ARRIS INTERNATIONAL PLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands) (unaudited)

	Six months ended June 30, 2018	Six months ended June 30, 2017
Operating activities:		
Consolidated net income (loss)	$ 17,766	$ (12,557)
Depreciation	44,109	43,003
Amortization of acquired intangible assets	208,955	187,978
Amortization of deferred financing fees and debt discount	2,422	3,891
Deferred income tax benefit	(46,077)	(37,523)
Foreign currency remeasurement of deferred taxes	21	7,191
Stock compensation expense	42,759	41,740
Impairment of goodwill	3,400	—
Provision for non-cash warrants	—	5,081
Recovery for doubtful accounts	(292)	(248)
Loss on disposal of property, plant & equipment and other	222	1,590
(Gain) loss on investments and other	(182)	8,139
Changes in operating assets and liabilities, net of effect of acquisitions and dispositions:		
Accounts receivable	20,862	368,020
Other receivables	(34,222)	(59,549)
Inventories	19,420	(106,841)
Accounts payable and accrued liabilities	(104,470)	36,881
Prepaids and other, net	24,557	9,124
Net cash provided by operating activities	199,250	495,920
Investing activities:		
Purchases of investments	(37,309)	(62,250)
Sales of investments	11,549	150,301
Purchases of property, plant and equipment	(28,646)	(42,900)
Purchases of intangible assets	(423)	(422)
Deposit received for the sale of property, plant and equipment	30,000	—
Other, net	171	826
Net cash (used in) provided by investing activities	(24,658)	45,555
Financing activities:		
Proceeds from issuance of shares, net	9,018	8,553
Repurchase of shares	(111,244)	(126,965)
Repurchase of shares to satisfy employee minimum tax withholdings	(13,979)	(13,882)
Proceeds from issuance of debt	—	30,314
Payment of debt obligations	(43,750)	(75,239)
Payment of financing lease obligation	(414)	(405)
Payment of deferred financing fees and debt discount	—	(1,462)
Contribution from noncontrolling interest	2,257	3,500
Net cash used in financing activities	(158,112)	(175,586)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(2,649)	147
Net increase in cash, cash equivalents and restricted cash	13,831	366,036
Cash, cash equivalents and restricted cash at beginning of period	489,116	981,692
Cash, cash equivalents and restricted cash at end of period	$ 502,947	$1,347,728

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Consolidated Balance Sheets to the total of the same such amounts show above (in thousands). Amounts included in restricted cash represent those required to be set aside by contractual agreements, such as rent deposits with landlords, deposits with certain government agencies and cash collateral with certain financial institutions.

	June 30, 2018	June 30, 2017	December 31, 2017
Cash and cash equivalents	$501,411	$1,346,028	$ 487,573
Restricted cash included in other current assets	820	165	23

Restricted cash included in other assets	716	1,535	1,520
Total	$502,947	$1,347,728	$ 489,116

See accompanying notes to the consolidated financial statements.

ARRIS INTERNATIONAL PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1. Organization and Basis of Presentation

ARRIS International plc (together with its consolidated subsidiaries and consolidated venture, except as the context otherwise indicates, "ARRIS" or the "Company") is a global entertainment, communications, and networking technology and solutions provider, headquartered in Suwanee, Georgia. The Company operates in three business segments, Customer Premises Equipment ("CPE"), Network & Cloud ("N&C") and Enterprise Networks ("Enterprise") (See Note 15 *Segment Information* for additional details), specializing in enabling service providers including cable, telephone, and digital broadcast satellite operators and media programmers to deliver media, voice, IP data services and Wi-Fi to their subscribers and enabling enterprises to experience constant, wireless and wired connectivity across complex and varied networking environments. ARRIS is a leader in set-tops, digital video and Internet Protocol Television ("IPTV") distribution systems, broadband access infrastructure platforms, associated data and voice CPE and wired and wireless enterprise networking. The Company's solutions are complemented by a broad array of services including technical support, repair and refurbishment, and systems design and integration.

The consolidated financial statements include the accounts of the Company and its wholly owned foreign and domestic subsidiaries and consolidated venture in which the Company owns more than 50% of the outstanding voting shares of the entity. All intercompany accounts and transactions have been eliminated.

The accompanying financial data as of June 30, 2018 and for the three and six months ended June 30, 2018 and June 30, 2017 has been prepared by the Company, without audit, pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States ("GAAP") have been condensed or omitted pursuant to such rules and regulations. The December 31, 2017 Consolidated Balance Sheet was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

In the opinion of management, all normal recurring adjustments necessary to present fairly the consolidated balance sheet as of June 30, 2018, the consolidated statements of operations, the statements of comprehensive income (loss), and the statements of cash flows for the six months ended June 30, 2018 and June 30, 2017 as applicable, have been made. Certain prior year amounts in the financial statements and notes have been reclassified to conform to the fiscal year 2018 presentation. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

Note 2. Impact of Recently Adopted Accounting Standards

Adoption of new accounting standards — In May 2014, the FASB issued an accounting standard update, Revenue from Contracts with Customers. The standard requires an entity to recognize revenue to depict the transfer of control 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. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB issued several amendments to the standard since its initial issuance, including delaying its effective date to reporting periods beginning after December 15, 2017, but permitting companies the option to adopt the standard one year earlier, as well as clarifications on identifying performance obligations and accounting for licenses of intellectual property, among others.

There are two permitted transition methods under the new standard, the full retrospective method or the modified retrospective method. Under the full retrospective method, the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown on the face of the financial statements being presented. Under the modified retrospective method, the cumulative effect of applying the standard would be recognized at the date of the initial application of the standard and the effect of the prior periods would be calculated and shown through a cumulative effect change in retained earnings. ARRIS adopted the standard using the modified retrospective method on January 1, 2018. (See Note 3 *Revenue from Contracts with Customers* for additional details).

In January 2016, the FASB issued an update to amend certain aspects of recognition, measurement, presentation and disclosure of financial instruments. Under this standard, certain equity investments are measured at fair value with changes recognized in current period earnings as opposed to other comprehensive income (loss). This guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. ARRIS adopted the standard on January 1, 2018 by recording a cumulative-effect adjustments as of the beginning of the year. The adoption of this guidance did not have a material impact on the Company's consolidated financial position and results of operations.

In August 2016, the FASB issued amended guidance on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of the amended guidance is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. The amended guidance adds or clarifies guidance on eight cash flow issues, including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or certain other debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. The guidance is effective for the Company beginning January 1, 2018 for both interim and annual reporting periods, with early adoption permitted. Entities must apply the guidance retrospectively to all periods presented but may apply it prospectively from the earliest date practicable if retrospective application would be impracticable. ARRIS adopted this update as of January 1, 2018. The adoption of this guidance did not have a material impact on the Company's consolidated financial position and results of operations.

In November 2016, the FASB issued new guidance that requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new guidance is effective for interim and annual periods beginning after December 15, 2017. ARRIS adopted this update retrospectively as of January 1, 2018. The adoption of this guidance did not have a material impact on the Company's consolidated financial position and results of operations.

In March 2017, the FASB issued an accounting standard update that requires entities to disaggregate the service cost component from the other components of net periodic benefit costs and present it with other current compensation costs for related employees in the income statement and present the other components elsewhere in the income statement and outside of income from operations if that subtotal is presented. The amendments in this update also allow only the service cost component to be eligible for capitalization when applicable. The accounting standard update is effective for the Company in the first quarter of fiscal 2018. ARRIS adopted this update as of January 1, 2018. The adoption of this guidance did not have a material impact on the Company's consolidated financial position and results of operations.

In May 2017, the FASB issued an accounting standard which amends the scope of modification accounting for share-based payment arrangements. The standard provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. The accounting standard will be applied prospectively to awards modified on or after the effective date. It is effective for interim and annual periods beginning after December 15, 2017 (January 1, 2018 for the Company). ARRIS adopted this update as of January 1, 2018. The adoption of this guidance did not have any impact on the Company's consolidated financial position and results of operations.

Accounting standards issued but not yet effective — In February 2016, the FASB issued new guidance that will require lessees to recognize most leases on their balance sheets as a right-of-use asset with a corresponding lease liability, and lessors to recognize a net lease investment. Additional qualitative and quantitative disclosures will also be required. This standard is effective for interim and annual reporting periods beginning after December 15, 2018, although early adoption is permitted. The new standard requires a modified retrospective transition through a cumulative-effect adjustment as of the beginning of the earliest period presented in the financial statements, although the FASB recently approved an option for transition relief to not restate or make required disclosures under the new standard in comparative periods in the period of adoption. Along with that transition relief, the FASB also recently approved a practical expedient for lessors to allow for the combined presentation of lease and non-lease revenues when certain conditions are met.

The Company has established a project management team to analyze the impact of this standard, including its current accounting policies and practices to identify potential impacts that would result from the application of this standard. The Company's adoption process of the new standard is ongoing, including evaluating and quantifying the impact on its consolidated financial statements, identifying the population of leases (and embedded leases), implementing a selected technology solution and collecting and validating lease data. The Company expects its lease obligations designated as operating leases (as disclosed in Note 23 to the audited consolidated financial statements in its most recent Annual Report on Form 10-K) will be reported on the consolidated balance sheets upon adoption.

In January 2017, the FASB issued an accounting standard update that clarifies the definition of a business to help companies evaluate whether acquisition or disposal transactions should be accounted for as asset groups or as businesses. The accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2019 on a prospective basis. The impact of this accounting standard update will be facts and circumstances dependent, but the Company expects, that in some situations, transactions that were previously accounted for as business combinations or disposal transactions will be accounted for as asset purchases or asset sales under the accounting standard update.

In August 2017, the FASB issued an accounting standard which eliminates the requirement to separately measure and report hedge ineffectiveness and requires companies to recognize all elements of hedge accounting that impact earnings in the same income statement line item where the hedged item resides. The standard includes new alternatives for measuring the hedged item for fair value hedges of interest rate risk and eases the requirements for effectiveness testing, hedge documentation and applying the critical terms match method. Finally, the standard introduces new alternatives that permit companies to reduce the risk of material error if the shortcut method is misapplied. The accounting standard is effective beginning January 1, 2019 and is required to be applied prospectively. The Company is currently assessing the potential impact of the adoption of this standard on its Consolidated Financial Statements.

In February 2018, the FASB issued an accounting standard which allows companies to reclassify stranded tax effects resulting from the U.S. 2017 Tax Cuts and Jobs Act, from accumulated other comprehensive income to retained earnings. The guidance also requires certain new disclosures regardless of the election. The accounting standard is effective in the first quarter of fiscal 2020, and earlier adoption is permitted. The Company is currently assessing the potential impact of the adoption of this standard on its Consolidated Financial Statements.

Note 3. Revenue from Contracts with Customers

On January 1, 2018, the Company adopted the new accounting standard *Revenue from Contracts with Customers* using the modified retrospective transition method. The Company has elected to apply the new standard to contracts that were considered "open" as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under the new accounting standard, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under previous guidance. Upon adoption, an initial cumulative effect adjustment of $1.8 million increase was recorded to opening accumulated deficit and a $2.7 million increase in shareholder's equity attributable to noncontrolling interest.

Revenue Recognition

ARRIS generates revenue from varying activities, including the delivery of stand-alone equipment, custom design and installation services, and bundled sales arrangements inclusive of equipment, software and services. Revenue is recognized when performance obligations in a contract are satisfied through the transfer of control of the good or service at an amount of consideration expected to receive. The following are required before revenue is recognized.

- Identify the contract with the customer. A variety of arrangements are considered contracts; however, these are usually the Master Purchase Agreement and amendments or customer purchase orders.

- Identify the performance obligations in the contract. Performance obligations are identified as promised goods or services in an arrangement that are distinct.
- Determine the transaction price. Transaction price is the amount of consideration the Company expects in exchange for transferring the promised goods or services. The consideration may include fixed or variable amounts or both.
- Allocate the transaction price to the performance obligations. The transaction price is allocated to the performance obligations on a relative standalone selling price basis.
- Recognize revenue as the performance obligations are satisfied. Revenue is recognized when transfer of control of the promised goods or services has occurred. This is either at a point in time or over time.

Revenue is deferred for any performance obligations in which payment is received or due prior to the transfer of control of the good or service.

Equipment – For the N&C and CPE segments, the Company provides customers with equipment that can be placed within various stages of a broadband system that enable delivery of telephony, video and high-speed data as well as outside plant construction and maintenance equipment. For the Enterprise segment, equipment sales include products for wireless and wired connections to data networks. For equipment sales, revenue is recognized when control of the product has transferred to the customer. This is generally at a point in time when products have been shipped, right to payment has normally been obtained, and risk of loss has been transferred. Additionally, based on historical experience, ARRIS has established reliable estimates related to sales returns and other allowances for discounts. These estimates are recorded as a reduction to revenue at the time the revenue is recognized.

ARRIS's equipment deliverables typically include proprietary operating system software, which isn't considered separately identifiable. Therefore, ARRIS's equipment deliverables are considered one distinct performance obligation.

Multiple Performance Obligation Arrangements – Certain customer transactions may include multiple performance obligations based on the bundling of equipment, software and services. When a multiple performance obligation arrangement exists, the transaction price is allocated to the performance obligations, and revenue is recognized on a relative standalone selling price basis upon transfer of control.

To determine the standalone selling price ("SSP"), the Company first looks to establish SSP through an observable price when the good or service is sold separately in similar circumstances. If SSP cannot be established through an observable price, the Company will estimate the SSP considering market conditions, customer specific factors, and customer class. The Company typically uses a combination of approaches to estimate SSP.

Software Sold Without Tangible Equipment – ARRIS sells functional intellectual property ("IP") licenses that typically do not meet the criteria to be recognized over time. Revenue from a functional IP license is most commonly recognized upon delivery of the license/software to the customer.

Standalone Services – Installation, training, and professional and support services are recognized as control of the services transfer to the customer. This is either over time or at a point in time depending on the details of the arrangement and the timing of when the customer can direct the use of and obtain substantially all the remaining benefits from the services provided. Each performance obligation that is recognized over time will be measured based on progress to complete satisfaction of the performance obligation. The objective, when measuring progress, is to depict our performance in transferring control of the goods or services. Based on specific facts and circumstances, we use output methods (milestones reached, time elapsed, units produced) or input methods (resources consumed, labor hours expended, costs incurred relevant to the entire project) to measure our progress toward satisfying the performance obligation. The support services will be recognized over time using a time elapsed method (i.e. ratably).

Incentives – Customer incentive programs that include consideration, primarily rebates/credits to be used against future product purchases and certain volume discounts, are classified as variable consideration and reduce the overall transaction price.

Value Added Resellers (VAR), Distribution Channels and Retail – ARRIS recognizes revenue upon transfer of control of the goods or services to the VAR, Distributors and Retail customers. Sales through retail and distribution channels are made primarily under agreements or commitments allowing for limited rights of return, primarily for stock rotation purposes, and include various sales incentive programs, such as back-end rebates, discounts, marketing development funds, price protection, and volume incentives.

Enterprise sales distributors are granted rights of stock rotation that are limited to contractually specified percentage of the distributors aggregate purchase volume. These stock rotation rights are subject to expiration 180 days from the time of product shipment by us to the distributor. Upon shipment of the product, ARRIS reduces revenue for an estimate of potential future stock rotation returns related to the current period product revenue. ARRIS analyzes historical returns, channel inventory levels, current economic trends and changes in customer demand for our products when evaluating the adequacy of the allowance for sales returns, namely stock rotation returns.

Regarding the various sales incentive programs, the Company can reasonably estimate its backend rebates, discounts and similar incentives due to an established sales history with its customers and records the estimated reserves and allowances at the time the related revenue is recognized. The Company recognizes marketing development funds at the later of when the related revenue is recognized, or the program is offered to the channel partner. ARRIS's sales incentives to its channel partners are recorded as a reduction to revenue.

ARRIS's estimated allowances for returns due to stock rotation and various sales incentive programs can vary from actual results that could materially impact our financial position and results of operations. Based on the relevant facts and circumstances, the Company believes the methodologies applied to calculate these reserves fairly represents our expected results at the point in time in which they are made.

Disaggregation of Revenue

The following table summarizes the revenues from contracts with customers by major product line for the three and six months ended June 30, 2018 (in thousands):

	Three months ended June 30, 2018	Six months ended June 30, 2018
CPE:		
Broadband CPE	$ 405,082	$ 728,367
Video CPE	603,049	1,154,990
Sub-total	1,008,131	1,883,357
Network & Cloud:		
Networks	479,386	932,387
Software and services	70,110	155,373
Sub-total	549,496	1,087,760
Enterprise Networks:		
Enterprise Networks	172,240	342,154
Other:		
Other	(3,327)	(9,021)
Total net sales	$ 1,726,540	$ 3,304,250

Customer Premises Equipment — The CPE segment's product solutions include Broadband products, such as DSL and DOCSIS gateways and modems, and Video products, such as video gateways, clients and set-tops, that enable service providers to offer voice, video and high-speed data services to residential and business subscribers.

Network & Cloud — The N&C segment's product solutions include cable modem termination system, video infrastructure, distribution and transmission equipment and cloud solutions that enable facility-based service providers to construct a state-of-the-art residential and metro distribution network. The portfolio also includes a full suite of global services that offer technical support, professional services and system integration offerings to enable solution sales of ARRIS's end-to-end product portfolio.

Enterprise Networks — The Enterprise Networks segment focuses on enabling constant, wireless and wired connectivity across complex and varied networking environments. It offers dedicated engineering, sales and marketing resources to serve customers across a spectrum of enterprises—including hospitality, education, smart cities, government, venues, service providers and more.

The following table summarizes the revenues from contracts with customers by geographic areas for the three and six months ended June 30, 2018 (in thousands):

	For the three months ended June 30, 2018				
	CPE	N&C	Enterprise	Other [1]	Total
Domestic – U.S.	$ 540,452	$345,828	$111,967	$(4,404)	$ 993,843
Americas, excluding U.S.	220,350	105,981	1,770	(8)	328,093
Asia Pacific	29,081	39,578	23,477	(39)	92,097
EMEA	218,248	58,109	35,026	1,124	312,507
Total international	467,679	203,668	60,273	1,077	732,697
Total net revenues	$1,008,131	$549,496	$172,240	$(3,327)	$1,726,540

	For the six months ended June 30, 2018				
	CPE	N&C	Enterprise	Other [1]	Total
Domestic – U.S.	$1,014,614	$ 672,311	$207,682	$(7,606)	$1,887,001
Americas, excluding U.S.	376,213	199,881	7,622	(5)	583,711
Asia Pacific	51,205	95,343	53,102	(39)	199,611
EMEA	441,325	120,225	73,748	(1,371)	633,927
Total international	868,743	415,449	134,472	(1,415)	1,417,249
Total net revenues	$1,883,357	$1,087,760	$342,154	$(9,021)	$3,304,250

(1) Adjustments include acquisition accounting impacts related to deferred revenue

Impact of New Revenue Guidance on Financial Statement Line Items

The following table compares the reported condensed balance sheet and statement of operations, as of and for the three and six months ended June 30, 2018, to the pro-forma amounts had the previous guidance been in effect (in thousands):

	As reported June 30, 2018	Pro forma – as if previous accounting guidance was in effect
Assets		
Accounts receivable	$ 1,183,360	$ 1,163,234
Other current assets	196,014	195,950
Deferred income taxes	146,443	140,831
Liabilities		
Deferred revenue (current and non-current)	$ 181,823	$ 190,220

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	As reported	Pro-forma	As reported	Pro-forma
Revenues				
Net sales	$1,726,540	$1,714,584	$3,304,250	$3,275,727
Costs and expenses				
Cost of sales	$1,227,785	$1,227,785	$2,329,812	$2,329,876
Income tax (benefit) expense	(9,944)	(6,964)	(6,454)	(843)
Consolidated net income (loss)	34,799	19,863	17,766	(16,432)
Net loss attributable to non-controlling interest	(955)	(1,540)	(4,388)	(5,130)
Net income (loss) attributable to ARRIS International plc	35,754	21,403	22,154	(11,302)
Net income (loss) per ordinary share:				
Basic	$ 0.19	$ 0.12	$ 0.12	$ (0.06)
Diluted	$ 0.19	$ 0.12	$ 0.12	$ (0.06)

Pro-forma net sales were $12.0 million and $28.5 lower than actual net sales in the statements of operations for the three and six months ended June 30, 2018, respectively, largely due to license revenue that is currently being recognized upon delivery of the license as opposed to recognizing ratably over the license term.

Other

Contract Assets and Liabilities – When payments from customers are received in advance of performance, the Company records a contract liability (deferred revenue). When the Company fulfills performance obligations prior to being able to invoice the customer, a contract asset (unbilled receivables) is recorded. Additionally, the balances for these are calculated at the contract level on a net basis.

The unbilled receivables are included in Accounts Receivable on the unaudited Consolidated Balance Sheets. As of June 30, 2018, the Company has unbilled receivables of $37.2 million.

The changes in the contract asset account relate to license revenue is now being recognized upon delivery instead of being recognized ratably over the license term.

The following table summarizes the changes in deferred revenue for the six months ended of June 30, 2018 (in thousands)

Opening balance at January 1, 2018	$168,757
Deferral of revenue	106,506
Recognition of unearned revenue	(92,470)
Other	(970)
Balance at June 30, 2018	$181,823

As of the end of the current reporting period, the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied that have a duration of one year or more was $64.8 million. The majority of ARRIS' contracts that have performance obligations that are unsatisfied are part of contracts have a duration of one year or less.

Practical Expedients

Sales commissions are incremental contract acquisition costs which are expected to be recovered. The Company has elected to recognize these expenses as incurred due to the amortization period of these costs being one year or less.

Costs to obtain or fulfill a contract are incremental costs that are expected to be recovered. The Company has elected to recognize these expenses as incurred due to the amortization period of these costs being one year or less. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained are recognized in expense when incurred.

The Company has elected not to adjust the promised amount of consideration for the effects of a significant financing component when it expects, at contract inception, that the period between when ARRIS transfers a promised good or service to a customer, and when the customer pays will be one year or less.

The Company has elected the expedient that states an entity does not need to evaluate whether shipping and handling activities are promised services to its customers. If revenue is recognized for the related good before the shipping and handling activities occur, the related costs of those shipping and handling activities are accrued.

The Company has also elected to exclude from the transaction price certain types of taxes collected from a customer and remitted to a third-party (e.g., governmental agency), including sales, use and value-added taxes. As a result, revenue is presented net of these taxes.

Additionally, the Company has elected for contracts that were modified before the beginning of the earliest reporting period to reflect the aggregate effect of all modifications when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price.

Note 4. Business Acquisition

Acquisition of Ruckus Wireless and ICX Switch business

On December 1, 2017, ARRIS completed the acquisition of Ruckus Wireless and ICX Switch business ("Ruckus Networks"). The total cash paid was approximately $761.0 million (net of estimated adjustments for working capital and noncash settlement of pre-existing payables and receivables) The purchase agreement provides for customary final adjustments and potential cash payments or receipts that are expected to occur in 2018.

With this acquisition, ARRIS expands its leadership in converged wired and wireless networking technologies beyond the home into the education, public venue, enterprise, hospitality, and multi-dwelling unit markets.

The preliminary estimated goodwill of $308.2 million arising from the acquisition is attributable to the strategic opportunities and synergies that are expected to arise from the acquisition of Ruckus Networks and the workforce of the acquired business. Goodwill has been preliminarily assigned to our new Enterprise reporting unit as of June 30, 2018. The Company will finalize the assignment during the measurement period. A portion of the goodwill is expected to be deductible for income tax purposes.

The following table summarizes the fair value of consideration transferred for Ruckus Networks (in thousands):

Cash consideration	$779,743
Estimated working capital adjustments	(16,371)
Non-cash consideration (1)	(2,359)
Total consideration transferred	$761,013

(1) Non-cash consideration represents a $2.4 million settlement of preexisting payables and receivables between Ruckus Networks and ARRIS.

Total consideration excludes $61.5 million paid for the cash settlement of stock-based awards for which vesting was accelerated as contemplated in the purchase agreement. This was expensed in the fourth quarter of 2017.

The following is a summary of the estimated fair values of the net assets acquired (in thousands):

	Amounts Recognized as of Acquisition Date (a)	Adjustments	Amounts Recognized as of Acquisition Date (as adjusted)
Total estimated consideration transferred	$ 761,013	$ —	$ 761,013
Cash and cash equivalents	18,958	—	18,958
Accounts receivable, net	32,940	(7,910)	25,030
Inventories	48,897	(461)	48,436
Prepaids & other	4,836	(1,005)	3,831
Property, plant & equipment	33,500	2,014	35,514
Intangible assets	472,500	22,200	494,700
Other assets	39,528	(37,872)	1,656
Accounts payable and accrued liabilities	(17,216)	2,350	(14,866)
Other current liabilities	(9,666)	(1,988)	(11,654)
Deferred revenue	(47,718)	970	(46,748)
Noncurrent deferred income tax liabilities	(92,233)	(7,643)	(99,876)
Other noncurrent liabilities	(41,347)	39,137	(2,210)
Net assets acquired	442,979	9,792	452,771
Goodwill	$ 318,034	(9,792)	$ 308,242

(a) As previously reported as of December 31, 2017

As a result of measurement period changes for intangible assets, the Company recorded a decrease to previously recorded amortization for quarters ended December 31, 2017 and March 31, 2018 of $1.8 million and $1.0 million, respectively. These adjustments have been recorded prospectively in the first six months of 2018.

The acquisition was accounted for using the acquisition method of accounting, which requires, among other things, that the assets acquired, and liabilities assumed be recognized at their acquisition date fair values, with any excess of the consideration transferred over the estimated fair values of the identifiable net assets acquired recorded as goodwill. The accounting for the business combination is based on currently available information and is considered preliminary. The Company has not received a final valuation report from the independent valuation expert for acquired property, plant and equipment and intangible assets. In addition, the Company is still gathering information about income taxes and deferred income tax assets and liabilities, accounts receivables, warranty obligations, other assets and accrued liabilities based on facts that existed as of the date of the acquisition. The final accounting for the business combination may differ materially from that presented in these unaudited consolidated financial statements.

The $494.7 million of acquired intangible assets are comprised of the following (in thousands):

	Preliminary Estimated Fair value	Estimated Weighted Average Life (years)
Technology and patents	$ 217,900	5.4
Customer contracts and relationships	195,400	10.0
Tradenames	55,400	indefinite
Trademarks and tradenames	10,700	10.0
Backlog	15,300	0.3
Total estimated fair value of intangible assets	$ 494,700	

The fair value of trade accounts receivable is $25.0 million with the gross contractual amount being $26.2 million. The Company expects $1.2 million to be uncollectible.

The Company incurred acquisition related costs of $0.6 million and $0.7 million during the three and six months ended June 30, 2018, respectively. This amount was expensed by the Company as incurred and is included in the Consolidated Statement of Operations in the line item titled “Integration, acquisition, restructuring and other costs”.

The Ruckus Networks business contributed revenues of approximately $343.8 million to our consolidated results for the six months ended June 30, 2018.

Note 5. Goodwill and Intangible Assets

Goodwill

As of June 30, 2018, the Company has preliminarily recorded goodwill of $308.2 million related to the Ruckus Networks acquisition. The Company is in the process of assigning the assets and liabilities acquired to each of its identified reporting units and as such, the determination of this goodwill by reporting unit is incomplete as of June 30, 2018. The Company intends to finalize the assignment of the goodwill from the Ruckus Networks acquisition during fiscal year 2018.

The changes in the carrying amount of goodwill for the year to date period ended June 30, 2018 are as follows (in thousands):

	CPE	N & C	Enterprise	Total
Goodwill	1,386,680	1,003,654	318,034	2,708,368
Accumulated impairment losses	—	(429,856)	—	(429,856)
Balance as of December 31, 2017	$1,386,680	$ 573,798	$318,034	$2,278,512
Changes in year 2018:				
Goodwill acquired, net	—	—	(9,792)	(9,792)
Impairment	—	(3,400)	—	(3,400)
Other	(6,143)	—	—	(6,143)
Balance as of June 30, 2018	$1,380,537	$ 570,398	$308,242	$2,259,177
Goodwill	1,380,537	1,003,654	308,242	2,692,433
Accumulated impairment losses	—	(433,256)	—	(433,256)
Balance as of June 30, 2018	$1,380,537	$ 570,398	$308,242	$2,259,177

During the six months ended June 30, 2018, the Company recorded measurement period adjustments of $9.8 million related to Ruckus acquisition and $6.1 million of currency translation on non-USD denominated goodwill.

In addition, during the six months ended June 30, 2018, the Company recorded partial impairment of goodwill of $3.4 million related to our Cloud TV reporting unit, respectively, of which $1.2 million is attributable to the noncontrolling interest. This impairment was a result of the indirect effect of a change in accounting principle related to the adoption of new accounting standard *Revenue from Contracts with Customers*, resulting in changes in the composition and carrying amount of the net assets of our Cloud TV reporting unit. The partial impairment was included in impairment of goodwill on the Consolidated Statements of Operations.

Intangible Assets

The gross carrying amount and accumulated amortization of the Company's acquired intangible assets as of June 30, 2018 and December 31, 2017 are as follows (in thousands):

	June 30, 2018			December 31, 2017		
	Gross Amount	Accumulated Amortization	Net Book Value	Gross Amount	Accumulated Amortization	Net Book Value
Definite-lived intangible assets:						
Customer relationships	$1,761,898	$ 866,141	$ 895,757	$1,672,470	$ 780,655	$ 891,815
Developed technology, patents & licenses	1,479,200	873,420	605,780	1,521,893	771,200	750,693
Trademarks, trade and domain names	75,672	53,016	22,656	87,472	41,885	45,587
Backlog	15,300	14,500	800	35,000	5,833	29,167
Sub-total	$3,332,070	$1,807,077	$1,524,993	$3,316,835	$1,599,573	$1,717,262
Indefinite-lived intangible assets:						
Tradenames	55,400	—	55,400	—	—	—
In-process research and development	—	—	—	54,100	—	54,100
Sub-total	55,400	—	55,400	54,100	—	54,100
Total	$3,387,470	$1,807,077	$1,580,393	$3,370,935	$1,599,573	$1,771,362

As of June 30, 2018, the Company preliminarily recorded intangible assets (other than goodwill) of $494.7 million related to the Ruckus Networks acquisition. In-process research and development of $4.1 million was reclassified to become a definite-lived asset upon completion of the associated research and development efforts during the three months ended June 30, 2018.

Amortization expense is reported in the consolidated statements of operations within cost of sales and operating expenses. The following table presents the amortization of acquired intangible assets (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Cost of sales	$ 889	$ 711	$ 1,779	$ 1,422
Selling, general and administrative expenses	986	949	1,983	1,899
Amortization of acquired intangible assets [1]	90,485	91,012	205,193	184,657
Total	$ 92,360	$ 92,672	$ 208,955	$ 187,978

(1) Reflects amortization expense for the intangible assets acquired through business combinations.

The estimated total amortization expense for finite-lived intangibles for each of the next five fiscal years is as follows (in thousands):

2018 (for the remaining six months)	$180,112
2019	333,202
2020	321,357
2021	186,571
2022	149,312
Thereafter	354,439

Note 6. Investments

ARRIS's investments consisted of the following (in thousands):

	As of June 30, 2018	As of December 31, 2017
Current Assets:		
Available-for-sale securities	$ 46,698	$ 23,874
Noncurrent Assets:		
Available-for-sale securities	5,662	5,718
Equity method investments	21,402	22,021
Cost method investments	10,092	10,092
Other investments	32,746	33,251
Total classified as non-current assets	69,902	71,082
Total	$ 116,600	$ 94,956

Available-for-sale securities - ARRIS's investments in debt and marketable equity securities are categorized as available-for-sale and are carried at fair value. Realized gains and losses on available-for-sale securities are included in net income. Unrealized gains and losses on available-for-sale debt securities are included in the Consolidated Balance Sheets as a component of accumulated other comprehensive income (loss).

The amortized costs and fair value of available-for-sale securities were as follows (in thousands):

	June 30, 2018				December 31, 2017			
	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit (non-U.S.)	$ 46,698	$ —	$ —	$46,698	$ 12,809	$ —	$ —	$12,809
Corporate bonds	—	—	—	—	11,003	86	(24)	11,065
Corporate obligations	14	—	—	14	13	—	—	13
Money markets	37	—	—	37	38	—	—	38
Mutual funds	86	—	(4)	82	65	14	—	79
Other investments	5,805	285	(561)	5,529	4,941	744	(97)	5,588
Total	$ 52,640	$ 285	$ (565)	$52,360	$ 28,869	$ 844	$ (121)	$29,592

The following table represents the breakdown of the available-for-sale investments with gross unrealized losses and the duration that those losses had been unrealized (in thousands):

	June 30, 2018					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Certificates of deposit (non-U.S.)	$46,698	$ —	$—	$ —	$46,698	$ —
Corporate obligations	14	—	—	—	14	—
Money markets	37	—	—	—	37	—
Mutual funds	82	(4)	—	—	82	(4)
Other investments	5,529	(561)	—	—	5,529	(561)
Total	$52,360	$ (565)	$—	$ —	$52,360	$ (565)

	December 31, 2017					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Certificates of deposit (non-U.S.)	$12,809	$ —	$—	$ —	$12,809	$ —
Corporate bonds	11,065	(24)	—	—	11,065	(24)
Corporate obligations	13	—	—	—	13	—
Money markets	38	—	—	—	38	—
Mutual funds	79	—	—	—	79	—
Other investments	5,588	(97)	—	—	5,588	(97)
Total	$29,592	$ (121)	$—	$ —	$29,592	$ (121)

As of June 30, 2018, for fixed income securities that were in unrealized loss positions, the Company has determined that (i) it does not have the intent to sell any of these investments, and (ii) it is more likely than not that it will not be required to sell any of these investments before recovery of the entire amortized cost basis.

The sale and/or maturity of available-for-sale securities resulted in the following activity (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Proceeds from sales	$ 549	$ 58,416	$ 11,549	$ 150,301
Gross gains	—	2	5	12
Gross losses	—	—	—	—

The contractual maturities of the Company's available-for-sale securities as of June 30, 2018 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 (in thousands):

	June 30, 2018	
	Amortized Cost	Fair Value
Within 1 year	$ 46,698	$ 46,698
After 1 year through 5 years	—	—
After 5 years through 10 years	—	—
After 10 years	5,942	5,662
Total	$ 52,640	$ 52,360

Other-than-temporary investment impairments - 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. For the three and six months ended June 30, 2018, ARRIS concluded that no other-than-temporary impairment losses existed.

For the three and six months ended June 30, 2017, the Company concluded that one private company had indicators of impairment, as the cost basis exceeded the fair value of the investments resulting in other-than-temporary impairment charges of $2.8 million. These charges are reflected in the Consolidated Statements of Operations.

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 7. Fair Value Measurement

Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S GAAP 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. 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 U.S GAAP are as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities.

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 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 June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Certificates of deposit (non-U.S.)	$ —	$46,698	$ —	$46,698
Corporate obligations	—	14	—	14
Money markets	37	—	—	37
Mutual funds	82	—	—	82
Other investments	—	5,529	—	5,529
Interest rate derivatives — asset derivatives	—	21,077	—	21,077
Interest rate derivatives — liability derivatives	—	(377)	—	(377)
Foreign currency contracts — asset position	—	4,598	—	4,598
Foreign currency contracts — liability position	—	(166)	—	(166)

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Certificates of deposit (non-U.S.)	$ —	$12,809	$ —	$12,809
Corporate bonds	—	11,065	—	11,065
Corporate obligations	—	13	—	13
Money markets	38	—	—	38
Mutual funds	79	—	—	79
Other investments	—	5,588	—	5,588
Interest rate derivatives — asset derivatives	—	10,156	—	10,156
Interest rate derivatives — liability derivatives	—	(4,024)	—	(4,024)
Foreign currency contracts — asset position	—	405	—	405
Foreign currency contracts — liability position	—	(8,802)	—	(8,802)

In addition to the financial instruments included in the above table, certain nonfinancial assets and liabilities are measured at fair value on a nonrecurring basis in accordance with applicable authoritative guidance. This includes items such as nonfinancial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) and nonfinancial long-lived asset groups measured at fair value for an impairment assessment. In general, nonfinancial assets including goodwill, other intangible assets and property and equipment are measured at fair value when there is an indication of impairment and are recorded at fair value only when any impairment is recognized.

During the six months ended June 30, 2018, the Company recorded partial impairment of goodwill of $3.4 million related to our Cloud TV reporting unit, of which $1.2 million is attributable to the noncontrolling interest, respectively. During the fourth quarter of 2017, the Company recorded partial impairments of goodwill and indefinite-lived tradenames of $51.2 million and $3.8 million, respectively, acquired in the ActiveVideo acquisition and included as part of the Cloud TV reporting unit, of which $19.3 million is attributable to the noncontrolling interest. See Note 5 *Goodwill and Intangible Assets* for further discussion.

The Company believes the principal amount of debt as of June 30, 2018 approximated fair value because of interest-bearing rates that are adjusted periodically, analysis of 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 8. Derivative Instruments and Hedging Activities

Overview

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

The Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a specific risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives also may be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting. In accordance with the FASB's fair value measurement guidance, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Cash Flow Hedges of Interest Rate Risk

The Company's senior secured credit facilities, which are comprised of (i) a "Term Loan A Facility", (ii) a "Term Loan A-1 Facility", (iii) a "Term Loan B-3 Facility", and (iv) a "Revolving Credit Facility", have variable interest rates based on LIBOR. (See Note 15 *Indebtedness* for additional details.) As a result of exposure to interest rate movements, during 2015, the Company entered into various interest rate swap arrangements, which effectively converted $625.0 million of its variable-rate debt based on one-month LIBOR to an aggregate fixed rate of 2.25% plus a leverage-based margin. During 2016, due to additional exposure from the Term Loan A-1 Facility, the Company added additional interest rate swap arrangements which effectively converted $450.0 million of the Company's variable-rate debt based on one-month LIBOR to an aggregate fixed rate of 0.98% plus a leverage-based margin. Total notional amount of these swaps as of June 30, 2018 was $1,075.0 million and each swap matures on March 31, 2020. During the six months ended June 30, 2018, the Company entered into new forward-starting interest rate swap arrangements which effectively will convert $1,075.0 million of the Company's variable-rate debt based on one-month LIBOR to an aggregate fixed rate of 2.63% plus a leverage-based margin for the period beginning March 31, 2020 and ending June 30, 2022. 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'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 2018, 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 six months ended June 30, 2018, approximately $0.1 million and $0.4 million expense has been recorded related to hedge ineffectiveness by the Company.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. Over the next 12 months, the Company estimates that an additional $7.2 million may be reclassified as a decrease to interest expense.

The table below presents the impact the Company's derivative financial instruments had on Consolidated Statement of Operations (in thousands):

	Location of Gain(Loss) Reclassified from AOCI into Income	Three months ended June 30,		Six months ended June 30,	
		2018	2017	2018	2017
Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Interest expense	$ 5,280	$ (2,787)	$ 14,381	$ (733)
Amounts Reclassified from Accumulated OCI into Income (Effective Portion)	Interest expense	(551)	590	(248)	1,795

The following table indicates the location on the Consolidated Balance Sheets in which the Company's derivative assets and liabilities designated as hedging instruments have been recognized and the related fair values of those derivatives (in thousands):

	Balance Sheet Location	June 30, 2018	December 31, 2017
Interest rate derivatives — asset derivatives	Other current assets	7,132	3,590
Interest rate derivatives — asset derivatives	Other assets	13,945	6,566
Interest rate derivatives — liability derivatives	Other accrued liabilities	—	(3,053)
Interest rate derivatives — liability derivatives	Other noncurrent liabilities	(377)	(971)

Credit-risk-related Contingent Features

Each of ARRIS's agreements with its derivative counterparties contains a provision where the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company's default on the indebtedness. As of June 30, 2018 and December 31, 2017, the fair value of derivatives, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was a net asset position of $20.7 million and $6.1 million, respectively. As of June 30, 2018, 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 of foreign currency risk

The Company 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. ARRIS also has certain predictable expenditures for international operations in local currency. 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 for certain exposures, ARRIS has entered into various foreign currency contracts. As of June 30, 2018, the Company had forward contracts with notional amounts totaling 30 million euros which mature throughout 2018, forward contracts with a total notional amount of 30 million Australian dollars which mature throughout 2018 and 2019, forward contracts with notional amounts totaling 15 million Canadian dollars which mature throughout 2018, forward contracts with notional amounts totaling 40 million British pounds which mature throughout 2018 and forward contracts with notional amounts totaling 479.2 million South African rand which mature throughout 2018 and 2019.

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 economically hedge certain risk but 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's derivatives is currently 12 months.

The following table indicates the location on the Consolidated Balance Sheets in which the Company's derivative assets and liabilities not designated as hedging instruments have been recognized and the related fair values of those derivatives (in thousands):

	Balance Sheet Location	June 30, 2018	December 31, 2017
Foreign exchange contracts — asset derivatives	Other current assets	$ 4,598	$ 405
Foreign exchange contracts — liability derivatives	Other accrued liabilities	(166)	(8,202)
Foreign exchange contracts — liability derivatives	Other non-current liabilities	—	(600)

The change in the fair values of ARRIS's derivatives not designated as hedging instruments recorded in the Consolidated Statements of Operations were as follows (in thousands):

	Statement of Operations Location	Three months ended June 30,		Six months ended June 30,	
		2018	2017	2018	2017
Foreign exchange contracts	(Gain) loss on foreign currency	$ (16,350)	$ 9,612	$ (8,882)	$ 16,319

Note 9. Pension Benefits

Components of Net Periodic Pension Cost (in thousands):

	U.S. Pension Plans		Non-U.S. Pension Plans	
	Three months ended June 30,		Three months ended June 30,	
	2018	2017	2018	2017
Service cost	$ —	$ —	$ 158	$ 154
Interest cost	345	434	101	113
Return on assets (expected)	(62)	(224)	(68)	(75)
Amortization of net actuarial loss(gain)	253	138	—	—
Net periodic pension cost	$ 536	$ 348	$ 191	$ 192

	U.S. Pension Plans		Non-U.S. Pension Plans	
	Six months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Service cost	$ —	$ —	$ 317	$ 308
Interest cost	691	867	202	226
Return on assets (expected)	(124)	(448)	(137)	(150)
Amortization of net actuarial loss(gain)	506	276	—	—
Net periodic pension cost	$ 1,073	$ 695	$ 382	$ 384

Employer Contributions

All the amounts in the tables above, other than service costs, were recorded in Other (income) expense, net on the unaudited Consolidated Statements of Operations.

No minimum funding contributions are required in 2018 under the Company's U.S. defined benefit plan. During the three and six months ended June 30, 2018, the Company made a minimum funding contribution of $0.3 million and $1.4 million, respectively, related to its Taiwan pension plan. During the three and six months ended June 30, 2017, the Company made a minimum funding contribution of $0.3 and $0.6 million, respectively, related to its Taiwan pension plan.

In late 2017, the Company commenced the process of terminating its U.S. defined benefit pension plan. Ultimate plan termination is subject to regulatory approval and to prevailing market conditions and other considerations. In the event approvals are received and the Company proceeds with effecting termination, settlement of the plan obligations is expected to occur in 2019. If the settlement occurs as expected in 2019, the plan's deferred actuarial losses remaining in accumulated other comprehensive income (loss) at that time will be recognized as expense.

Note 10. 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's 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's aggregate product warranty liabilities for the six months ended June 30, 2018 was as follows (in thousands):

Balance at December 31, 2017	$ 76,089
Accruals related to warranties (including changes in assumptions)	15,378
Settlements made (in cash or in kind)	(23,010)
Balance at June 30, 2018	$ 68,457

The decline in the warranty accrual resulted from lower sales volume of CPE products, accompanied by settlement of warranty claims for amounts less than their previously recorded value.

Note 11. Inventories

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

	June 30, 2018	December 31, 2017
Raw material	$150,399	$ 149,328
Work in process	7,602	5,416
Finished goods	645,216	670,467
Total inventories, net	$803,217	$ 825,211

Note 12. Property, Plant and Equipment

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

	June 30, 2018	December 31, 2017
Land	$ 26,652	$ 68,562
Buildings and leasehold improvements	204,579	205,534
Machinery and equipment	453,702	466,325
	684,933	740,421
Less: Accumulated depreciation	(384,942)	(367,954)
Total property, plant and equipment, net	$ 299,991	$ 372,467

In February 2018, the Company announced an agreement to sell its manufacturing facility in New Taipei City, Taiwan, along with certain manufacturing fixed assets. The aggregate consideration for the acquired assets is $81.3 million ($75.0 million for the facility and land, plus $6.3 million for the manufacturing fixed assets). As a condition of sale, the Company will indemnify the buyer for certain environmental obligations up to $7.0 million. The assets have been reclassified as held for sale and were measured at their carrying amount. Total assets held for sale at June 30, 2018 were $58.1 million, which is reported in the Consolidated Balance Sheets as a component of "Other current assets." The sale is expected to close in the second half of 2018.

Note 13. Restructuring, Acquisition and Integration

Restructuring

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, 2017	$ 4,379	$ 3,302	$ 7,681
Restructuring charges	31,664	119	31,783
Cash payments / adjustments	(7,794)	(826)	(8,620)
Balance at June 30, 2018	$ 28,249	$ 2,595	$30,844

Employee severance and termination benefits – In the second quarter of 2018, ARRIS recorded restructuring charges of $21.2 million which included $15.5 million related to severance and employee termination benefits for approximately 150 employees as well as $5.7 million related to additional termination benefits associated with the planned sale of the factory in Taiwan. These initiatives affected all segments, with the exception of Enterprise Networks during the period. The liability for the plan is expected to be paid in 2018.

In the first quarter of 2018, ARRIS recorded restructuring charges of $10.5 million related to severance and employee termination benefits for 850 employees, including the planned sale of the factory in Taiwan. This initiative affected all segments. The liability for the plan is expected to be paid in 2018.

In 2017, ARRIS recorded restructuring charges of $13.3 million related to severance and employee termination benefits for 195 employees. This initiative affected all segments. The liability for the plan has been materially settled as of June 30, 2018.

In first quarter of 2016, ARRIS completed its acquisition of Pace. ARRIS initiated restructuring plans as a result of the combination that focuses on the rationalization of personnel, facilities and systems across the ARRIS organization. The estimated cost recorded during 2016 was approximately $96.3 million. The restructuring plan affected approximately 1,545 employees across the company. The remaining liability is expected to be settled in 2018.

This amount is included in the Consolidated Statement of Operations in the line item titled "Integration, acquisition, restructuring and other costs".

Contractual obligations – ARRIS has accruals representing contractual obligations that relate to excess leased facilities. A liability for such costs is recognized and measured initially at fair value on the cease-use date based on remaining lease rentals, adjusted for the effects of any prepaid or deferred items recognized, reduced by the estimated sublease rentals that could be reasonably obtained even if it is not the intent to sublease. The fair value of these liabilities is based on a net present value model using a credit-adjusted risk-free rate. The liability will be paid out over the remainder of the leased properties' terms, which continue through 2021. Actual sublease terms may differ from the estimates originally made by the Company. Any future changes in the estimates or in the actual sublease income could require future adjustments to the liabilities, which would impact net income in the period the adjustment is recorded.

During the year ended December 31, 2017, the Company exited three facilities and recorded a charge of $5.7 million.

Acquisition

During the three and six months ended June 30, 2018, acquisition expenses were approximately $0.6 million and $0.7 million, respectively. During the three and six months ended June 30, 2017, acquisition expenses were approximately $2.3 million and $4.7 million, respectively. These expenses related to the acquisition of the Ruckus Networks and consisted of banker and other fees.

Integration

Integration expenses of approximately $1.1 million and $4.0 million were recorded during the three and six months ended June 30, 2018, respectively. Integration expenses of approximately $0.3 million and $1.6 million were recorded during the three months and six months ended June 30, 2017, respectively. These expenses related to integration-related outside services following the Ruckus Networks and Pace acquisitions.

Note 14. Indebtedness

The following is a summary of indebtedness and lease financing obligations (in thousands):

	As of June 30, 2018	As of December 31, 2017
Current liabilities:		
Term A loan	$ 19,550	$ 19,550
Term A-1 loan	62,500	62,500
Term B-3 loan	5,450	5,450
Lease finance obligation	958	870
Current obligations	88,458	88,370
Current deferred financing fees and debt discount	(4,749)	(4,811)
	83,709	83,559
Noncurrent liabilities:		
Term A loan	356,787	366,562
Term A-1 loan	1,140,625	1,171,875
Term B-3 loan	532,738	535,463
Revolver	—	—
Lease finance obligation	60,530	61,032
Noncurrent obligations	2,090,680	2,134,932
Noncurrent deferred financing fees and debt discount	(16,328)	(18,688)
	2,074,352	2,116,244
Total	$ 2,158,061	$ 2,199,803

Senior Secured Credit Facilities

On December 20, 2017, the Company entered into a Fourth Amendment (the "Fourth Amendment") to its Amended and Restated Credit Facility dated June 18, 2015, as previously amended on December 14, 2015, April 26, 2017, and October 17, 2017 (the "Credit Agreement"). The Fourth Amendment provided for a new Term B-3 Loan facility in the principal amount of $542.3 million, the proceeds of which (along with cash on hand) were used to repay in full the existing Term B Loan facility. Under the terms of the Fourth Amendment, the maturity date of the new Term B Loan facility remains April 26, 2024, but the new Term B Loan facility has an interest rate of LIBOR (as defined in the Credit Agreement) plus a percentage ranging from 2.00% to 2.25% for Eurocurrency Loans (as defined in the Credit Agreement) or the prime rate (as determined in accordance with the Credit Agreement) plus a percentage ranging from 1.00% to 1.25% for Base Rate Loans (as defined in the Credit Agreement), in either case depending on ARRIS's consolidated net leverage ratio. The Fourth Amendment also increased to $500 million the amount of cash that can be used to offset indebtedness in the calculation of the consolidated net leverage ratio for purposes of determining the applicable interest rate. All other material terms of the Credit Agreement remained unchanged.

On October 17, 2017, the Company entered into the Third Amendment and Consent (the "Third Amendment") to the Credit Agreement. Pursuant to the Third Amendment, ARRIS (i) incurred "Refinancing Term A Loans" of $391 million, (ii) incurred "Refinancing Term A-1 Loans" of $1,250 million, and (iii) obtained a "Refinancing Revolving Credit Facility" of $500 million, the proceeds of which were used to refinance in full the existing Term A Loans, the existing Term A-1 Loans and the existing Revolving Credit Loans outstanding under the Credit Agreement immediately prior to the effectiveness of the Third Amendment. The existing Term B Loans were not refinanced and remained outstanding.

The Third Amendment extended the maturity date of the Term A Loans and the Revolving Credit Facility to October 17, 2022. Pursuant to the Third Amendment, the Company is subject to a minimum consolidated interest coverage ratio test, which is unchanged from the Credit Agreement. In addition, the Company is subject to a maximum consolidated net leverage ratio test of not more than 4.0:1.0, subject to a step-down to 3.75:1.00 commencing with the fiscal quarter ending March 31, 2019. The amount of unrestricted cash used to offset indebtedness in the calculation of the consolidated net leverage ratio was also increased from $200 million to $500 million. The interest rates under the Third Amendment were not changed.

On April 26, 2017, ARRIS entered into a Second Amendment (the "Second Amendment") to the Credit Agreement. The Second Amendment provided for a new Term B Loan facility in the principal amount of $545 million, the proceeds of which (along with cash on hand) were used to repay the existing Term B Loan facility. Under the terms of the Second Amendment, the new Term B-2 Loan has a maturity date of April 2024 and an interest rate of LIBOR plus a percentage ranging from 2.25% to 2.50% for Eurocurrency Rate Loans (as defined in the Credit Agreement), or the prime rate plus a percentage ranging from 1.25% to 1.50% for Base Rate Loans (as defined in the Credit Agreement), in either case depending on the Company's consolidated net leverage ratio.

Interest rates on borrowings under the senior secured credit facilities are set forth in the table below.

	Rate	As of June 30, 2018
Term A Loan	LIBOR + 1.75 %	3.84%
Term A-1 Loan	LIBOR + 1.75 %	3.84%
Term B-3 Loan	LIBOR + 2.25 %	4.34%
Revolving Credit Facility (1)	LIBOR + 1.75 %	Not Applicable

(1) Includes unused commitment fee of 0.30% and letter of credit fee of 1.75% not reflected in interest rate above.

The Credit Agreement provides for adjustments to the interest rates paid on the Term A Loan, Term A-1 Loan, Term B-3 Loan and Revolving Credit Facility based upon the achievement of certain leverage ratios.

Borrowings under the senior secured credit facilities are secured by first priority liens on substantially all 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 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. 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 interest coverage ratio and a maximum leverage ratio. As of June 30, 2018, ARRIS was in compliance with all covenants under the Credit Agreement.

During the three and six months ended June 30, 2018, the Company made mandatory payments of approximately \$21.9 million and \$43.8 million, respectively, related to the senior secured credit facilities.

Other

As of June 30, 2018, the scheduled maturities of the contractual debt obligations for the next five years are as follows (in thousands):

2018 (for the remaining six months)	$ 43,750
2019	87,500
2020	87,500
2021	87,500
2022	1,297,738
Thereafter	513,662

Note 15. 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 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.

As of January 1, 2018, the Company has changed the composition of its measurement of segment profit and loss (direct contribution) used by the Company's chief operating decision maker. Beginning in 2018, the Company charges bonus, equity compensation and certain other costs which are now directly aligned with each of its segments within its measurement of segment profit and loss (direct contribution). These costs historically were included as part of "Corporate and Unallocated Costs". Consequently, the Company's segment information for the 2017 period has been restated to reflect such change.

Our CODM manages the Company under three segments:

- ***Customer Premises Equipment ("CPE")*** – The CPE segment's product solutions include set-top boxes, gateways, and subscriber premises equipment that enable service providers to offer voice, video and high-speed data services to residential and business subscribers.
- ***Network & Cloud ("N&C") –*** The N&C segment's product solutions include cable modem termination system, video infrastructure, distribution and transmission equipment and cloud solutions that enable facility-based service providers to construct a state-of-the-art residential and metro distribution network. The portfolio also includes a full suite of global services that offer technical support, professional services and system integration offerings to enable solutions sales of ARRIS's end-to-end product portfolio.
- ***Enterprise Networks ("Enterprise")*** — The Enterprise segment focuses on enabling constant, wireless and wired connectivity across complex and varied networking environments. It offers dedicated engineering, sales and marketing resources to serve customers across a spectrum of enterprises—including hospitality, education, smart cities, government, venues, service providers and more.

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. Direct contribution is defined as gross margin less direct operating expense. The "Corporate and Unallocated Costs" category of expenses include corporate sales and marketing, home office general and administrative expenses. "Corporate and Unallocated Costs" also includes corporate sales and marketing for the CPE and N&C segments. Marketing and sales expense related to the Enterprise segment are considered a direct operating expense for that segment and are not included in the "Corporate and Unallocated Costs." These expenses are not included in the measure of segment direct contribution and as such are reported as "Corporate and Unallocated Costs" and are included in the reconciliation to income (loss) before income taxes. A measure of assets is not applicable, as segment assets are not regularly reviewed by the CODM for evaluating performance or allocating resources.

The table below represents information about the Company's reportable segments (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net sales to external customers:				
CPE	$1,008,131	$1,155,883	$1,883,357	$2,210,939
N&C	549,496	510,972	1,087,760	941,408
Enterprise	172,240	—	342,154	—
Other [1]	(3,327)	(2,685)	(9,021)	(5,071)
Total	1,726,540	1,664,170	3,304,250	3,147,276
Direct contribution:				
CPE	85,723	113,852	135,484	222,764
N&C	201,282	172,658	429,820	284,758
Enterprise	17,774	—	43,302	—
Segment total	304,779	286,510	608,606	507,522
Corporate and unallocated costs	(146,577)	(130,172)	(305,722)	(251,527)
Amortization of intangible assets	(90,485)	(91,012)	(205,193)	(184,657)
Impairment of goodwill	—	—	(3,400)	—
Integration, acquisition, restructuring and other	(22,844)	(9,690)	(36,499)	(19,785)
Operating income (loss)	44,873	55,636	57,792	51,553
Interest expense	23,647	23,344	46,173	43,027
(Gain) loss on investments	(844)	3,609	(317)	8,139
Interest income	(1,792)	(1,788)	(3,324)	(3,709)
(Gain) loss on foreign currency	(824)	9,373	4,009	14,113
Other expense (income), net	(169)	926	(61)	841
Income (loss) before income taxes	$ 24,855	$ 20,172	$ 11,312	$ (10,858)

(1) Adjustments related acquisition accounting impacts related to deferred revenue

The compositions of our corporate and unallocated costs that are reflected in the consolidated statement of operations were as follow (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Corporate and unallocated costs:				
Cost of sales	$ 17,383	$ 13,549	$ 54,181	$ 28,022
Selling, general and administrative expenses	100,820	92,191	194,491	175,846
Research and development expenses	28,374	24,432	57,050	47,659
Total	$ 146,577	$ 130,172	$ 305,722	$ 251,527

Note 16. Sales Information

Revenues from external customers are attributed to individual countries on an end-customer basis, based on domicile of the purchasing entity, if known, or the location of the customer's headquarters if the specific purchasing entity within the customer is unknown. ARRIS sells a majority its products in the United States. The Company's non-U.S. revenue is generated from Asia Pacific, Canada, Europe, Middle East and Latin America. Sales to customers outside of United States were approximately 42.4% and 42.9% of total sales for the three and six months ended June 30, 2018, respectively. For the three and six months ended June 30, 2017, sales to customers outside of United States were approximately 32.6% and 33.9%, respectively.

The table below set forth our sales based on geography of our customers (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
U.S.	$ 993,843	$1,121,079	$1,887,001	$2,079,556
Non-U.S.				
Americas, excluding U.S.	328,093	256,260	583,711	548,861
Asia Pacific	92,097	108,458	199,611	160,373
EMEA	312,507	178,373	633,927	358,486
Total non-U.S.	732,697	543,091	1,417,249	1,067,720
Total sales	$1,726,540	$1,664,170	$3,304,250	$3,147,276

Note 17. 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Basic:				
Net income (loss) attributable to ARRIS International plc	$ 35,754	$ 30,336	$ 22,154	$ (8,762)
Weighted average shares outstanding	184,216	186,803	184,376	188,291
Basic earnings (loss) per share	$ 0.19	$ 0.16	$ 0.12	$ (0.05)
Diluted:				
Net income (loss) attributable to ARRIS International plc	$ 35,754	$ 30,336	$ 22,154	$ (8,762)
Weighted average shares outstanding	184,216	186,803	184,376	188,291
Net effect of dilutive equity awards	1,453	2,199	1,912	—
Total	185,669	189,002	186,288	188,291
Diluted earnings (loss) per share	$ 0.19	$ 0.16	$ 0.12	$ (0.05)

Potential dilutive shares include stock options, unvested restricted and performance awards and warrants.

For the three months ended June 30, 2018 and 2017, approximately 2.0 million and 3.4 million of the equity-based awards were excluded from the computation of diluted earnings per share. For the six months ended June 30, 2018 approximately 1.9 million of the equity-based awards were excluded from the computation of diluted earnings per share. For the six months ended June 30, 2017, all the equity-based awards were excluded from the computation of diluted earnings per share. These exclusions are made if the Company has net losses, of which have an anti-dilutive effect.

During the six months ended June 30, 2018, the Company issued 1.5 million ordinary shares related to the vesting of restricted shares, as compared to 2.6 million shares for the twelve months ended December 31, 2017.

The warrants have a dilutive effect in those periods in which the average market price of the shares exceeds the current effective conversion price (under the treasury stock method) and are not subject to performance conditions. There is no vesting in the first half of 2018. The dilutive effect of these vested shares was immaterial.

The Company has not paid cash dividends on its shares since its inception. Any future determination to pay dividends will be at the discretion of the Board of Directors and will be dependent on then-existing conditions, including the Company's financial condition, results of operations, capital requirements, contractual and legal restrictions, business prospects and other factors that the Board considers relevant. The Credit Agreement governing the Company's senior secured credit facilities contains restrictions on the Company's ability to pay dividends on its ordinary shares.

Note 18. Income Taxes

ARRIS is subject to the U.K. statutory tax rate and a territorial corporate tax system. The U.K. statutory rate for 2018 is 19% as compared to 19.25% in 2017. The statutory rate in the U.K. decreased from 20% to 19% effective April 1, 2017. The Company's statutory rate for 2017 represented the blended rate that was in effect for the year ended December 31, 2017 based on the 20% statutory rate that was effective for the first quarter of 2017 and the 19% rate effective for the remainder of 2017.

The Tax Cuts and Jobs Act of 2017 (the "Act") enacted on December 22, 2017 introduced significant changes to U.S. income tax law including, but not limited to, a reduction to the U.S. statutory tax rate from 35% to 21%, creation of new taxes on certain foreign-sourced earnings and certain intercompany payments, introduction of limits on interest deductibility, and increased limitations on certain executive compensation. Since the Act was passed late in the fourth quarter of 2017, and ongoing guidance and accounting interpretation are expected during 2018, the Company considers the accounting of the impacts of the Act to be incomplete due to additional work necessary to determine re-measurement of any changes to deferred tax assets and liabilities associated with any acquisition accounting adjustments for fair market value adjustments made within the acquisition accounting measurement period; (2) assess any forthcoming guidance; and (3) finalize its ongoing analysis of final year-end data and tax positions. Any subsequent adjustment to these amounts is recorded to tax expense in the quarter of 2018 when the analysis is complete.

As the Company obtains and analyzes more information and interprets the Act and any additional guidance issued by the U.S. Treasury Department, the Internal Revenue Service (IRS), and other standard-setting bodies, the Company may adjust the provisional amounts. Those adjustments may materially affect the provision for income taxes and effective tax rate in the period in which the adjustments are made. The only significant adjustments made during the six months ended June 30, 2018 were a direct result of the acquisition accounting adjustments made during the quarters for fair value adjustments. As a result of the change to the fair value of certain assets and liabilities, the gross deferred tax amounts associated with those assets and liabilities also changed. The fair value adjustments are as of the acquisition date, December 1, 2017, resulting in the gross deferred tax impacts being measured at the applicable enacted tax rate of 35% on that date. These deferred tax impacts were then remeasured to 21% to reflect the enacted rate as of December 22, 2017. As a result of these acquisition accounting measurement period adjustments, the Company recorded discrete tax expense of $2.7 million and tax benefit of $5.6 million during the first quarter of 2018 and second quarter of 2018, respectively.

In the fourth quarter of 2017, the Company estimated $(0.2) million tax benefit for the impact of the one-time transition tax for the deemed repatriation of the earnings of the ARRIS controlled foreign corporations. The Company expects to finalize this amount during the third quarter of 2018. The Company has recorded current tax on its global intangible low-taxed income ("GILTI") relative to the 2018 operations and has elected to account for GILTI as period costs when incurred. No other significant adjustments were made during the second quarter of 2018. The Company will complete our analysis within the measurement period in accordance with Staff Accounting Bulletin No. 118.

The Company reported the following operating results for the periods presented (in thousands):

	Three Months Ended June 30		Six Months Ended June 30,	
	2018	2017	2018	2017
Income (loss) before income taxes	$ 24,855	$ 20,172	$ 11,312	$ (10,858)
Income tax (benefit) expense	(9,944)	(8,302)	(6,454)	1,699
Effective income tax rate	(40.0)%	(44.8)%	(57.1)%	(15.6)%

The Company's effective income tax rate fluctuates based on, among other factors, the level and location of income. The difference between the U.K. federal statutory income tax rate, 19% and 19.25%, respectively, and our effective income tax rate for the 2018 and 2017 periods is primarily due to the benefits of other foreign income tax regimes and the U.S. federal research and development credits**.**

The Company's effective income tax rate for the six months ended June 30, 2018 was impacted by $1.8 million of expense related to excess book deductions for stock based compensation, $2.3 million of expense related to changes in permanent reinvestment assertions, offset by $1.3 million of benefit related to the release of uncertain tax positions due to settlement of audits, $2.8 million of benefit related to the effects of tax rate changes in the U.S., and $4.2 million of benefit related to an internal restructuring to move certain Ruckus Networks intangible property into the U.S.

The Company's effective income tax rate for the six months ended June 30, 2017 was impacted by $8.0 million related to the intra-entity sale of an asset, offset by $4.0 million of benefit related to statute closures for uncertain tax positions and $4.8 million of benefit related to the reversal of interest related to uncertain tax positions.

Note 19. Shareholders' Equity

The following table provides a reconciliation of the beginning and ending carrying amounts of total equity, equity attributable to shareholders of ARRIS International plc and equity attributable to noncontrolling interest (in thousands):

	Ordinary Shares	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total ARRIS International plc stockholders' equity	Non-controlling Interest	Total stockholders' equity
Balance, December 31, 2017	$ 2,768	$3,387,128	$ (225,881)	$ 4,552	$3,168,567	$ 15,467	$3,184,034
Net income	—	—	22,154	—	22,154	(4,388)	17,766
Other comprehensive income, net of tax	—	—	—	(9,200)	(9,200)	26	(9,174)
Compensation under stock award plans	—	42,759	—	—	42,759	—	42,759
Issuance of ordinary shares and other	21	(4,982)	—	—	(4,961)	—	(4,961)
Repurchase of ordinary shares, net	(67)	—	(124,876)	—	(124,943)	—	(124,943)
Contribution from noncontrolling interest	—	—	—	—	—	2,257	2,257
Cumulative effect adjustment to opening balance (1)	—	—	(1,128)	—	(1,128)	2,694	1,566
Balance, June 30, 2018	$ 2,722	$3,424,905	$ (329,731)	$ (4,648)	$3,093,248	$ 16,056	$3,109,304

(1) Cumulative adjustment related to the adoption of accounting standards.

Note 20. Accumulated Other Comprehensive Income (Loss)

The following table summarizes the changes in accumulated other comprehensive income (loss) by component, net of taxes (in thousands):

	Available-for sale securities	Derivative instruments	Pension obligations	Cumulative translation adjustments	Total Accumulated Other Comprehensive Income (Loss)	Less AOCI attributable to Non-controlling Interest	Total ARRIS International plc AOCI
Balance, December 31, 2017	$ 662	$ 5,589	$ (8,993))	$ 7,243	$ 4,501	$ 51	$ 4,552
Other comprehensive income before reclassifications	—	11,316	—	(19,663)	(8,347)	(26)	(8,373)
Amounts reclassified from accumulated other comprehensive income (loss)	(662)	(194)	29	—	(827)	—	(827)
Net current-period other comprehensive income (loss)	(662)	11,122	29	(19,663)	(9,174)	(26)	(9,200)
Balance as of June 30, 2018	$ —	$ 16,710	$ (8,964)	$ (12,369)	$ (4,673)	$ 25	$ (4,648)

	Available-for sale securities	Derivative instruments	Pension obligations	Cumulative translation adjustments	Total Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total ARRIS International plc AOCI
Balance, December 31, 2016	$ 137	$ 671	$ (6,810)	$ 9,281	$ 3,279	$ 12	$ 3,291
Other comprehensive income before reclassifications	204	(456)	—	(2,046)	(2,298)	28	(2,270)
Amounts reclassified from accumulated other comprehensive income (loss)	58	1,117	15	—	1,190	—	1,190
Net current-period other comprehensive income (loss)	262	661	15	(2,047)	(1,108)	28	(1,080)
Balance as of June 30, 2017	$ 399	$ 1,332	$ (6,795)	$ 7,234	$ 2,171	$ 40	$ 2,211

Note 21. Repurchases of ARRIS Shares

The table below sets forth the purchases of ARRIS shares for the quarter ended June 30, 2018:

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in thousands)
April 2018	894,627	$26.64	894,627	476,169
May 2018	393,080	$25.50	393,080	466,145
June 2018 (2)	2,663,531	$24.81	2,663,403	400,057

(1) An aggregate of 128 shares shown in the table above were subject to equity awards that were cancelled for cash to satisfy employee minimum tax withholding obligations that arose on the vesting of the applicable restricted stock units.
(2) Includes an aggregate of 557,715 shares (approximately $13.7 million) pending settlement as of June 30, 2018.

Upon completing the combination in connection with the Pace acquisition, ARRIS International plc conducted a court-approved process in accordance with section 641(1)(b) of the U.K. Companies Act 2006, pursuant to which the Company reduced its stated share capital and thereby increased its distributable reserves or excess capital out of which ARRIS may legally pay dividends or repurchase shares. Distributable reserves are not linked to a U.S. GAAP reported amount.

In 2016, the Company's Board of Directors approved a $300 million share repurchase authorization replacing all prior programs. In early 2017, the Board authorized an additional $300 million for share repurchases, and authorized an additional $300 million for repurchases again in March 2018.

During the first quarter of 2018, the Company repurchased 1.0 million shares of its ordinary shares for $25.0 million at an average share price of $25.35. During the second quarter of 2018, the Company repurchased 4.0 million shares of its ordinary shares for $99.9 million at an average share price of $25.29. The remaining authorized amount for share repurchases under this plan was $400.1 million as of June 30, 2018. Since the end of the second quarter through August 1, 2018, we have repurchased an additional 2.0. million ordinary shares for approximately $50.0 million. The remaining authorized amount for share repurchases under this plan was $350.0 million as of August 1, 2018. In August 2018, we announced that we intend to purchase a minimum of $400 million of our ordinary shares in 2018, subject to market conditions.

Unless terminated earlier by a Board resolution, this new plan will expire when ARRIS has used all authorized funds for repurchase. However, U.K. law also generally prohibits a company from repurchasing its own shares through "off market purchases" without prior approval of shareholders when such company is not traded on a recognized investment exchange in the U.K. This shareholder approval lasts for a maximum period of five years. Prior to and in connection with the Pace combination, the Company obtained approval to purchase its own shares. This authority to repurchase shares terminates in January 2021, unless otherwise reapproved by the Company's shareholders.

Note 22. Commitments and Contingencies

Legal Proceedings

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

ARRIS is a global leader in entertainment, communications and networking technology. Our mission is to "redefine connectivity" in a rapidly evolving global communications industry. Our innovative offerings combine hardware, software, and services to enable advanced video experiences and constant connectivity featuring high bandwidth, speeds and reliability. Our products and services are utilized by the world's leading service providers, commercial enterprises and the hundreds of millions of people they serve.

We are headquartered in Suwanee, Georgia and operate in three business segments: Customer Premises Equipment ("CPE"), Network & Cloud ("N&C") and Enterprise Networks ("Enterprise"). We enable service providers including cable, telephone, and digital broadcast satellite operators and media programmers to deliver media, voice, and IP data services and Wi-Fi to their subscribers and enable enterprises to experience constant, wireless and wired connectivity across complex and varied networking environments. We are a leader in set-tops, digital video and IPTV distribution systems, broadband access infrastructure platforms, associated data and voice CPE and wired and wireless enterprise networking. Our solutions are complemented by a broad array of services including technical support, repair and refurbishment, and system design and integration.

Comparisons to our prior period results are impacted by the acquisition of Ruckus Networks on December 1, 2017.

Business and Financial Highlights

Business Highlights

- We have made significant progress in the integration of the Ruckus business operations, which were acquired in December of 2017.
- Revenues increased with the inclusion of Enterprise sales and strong sales in N&C, primarily for CMTS products, which were offset by a decline in CPE sales.
- International revenues reflected strong growth as operators invested in broadband and video capabilities and were 43% of total revenues in the first half of 2018.
- In the first half of 2018, we repurchased approximately 4.9 million ordinary shares for $124.9 million and added $300.0 million of additional share repurchase authority. Through August 1, 2018, we have repurchased an additional 2.0 million ordinary shares for $50.0 million.
- The Company intends to repurchase a minimum of $400 million of shares in 2018, subject to market conditions.

Financial Highlights

- Sales in the second quarter and first half of 2018 were $1,726.5 million and $3,304.3 million, respectively, as compared to $1,664.2 million and $3,147.3 million in the same period in 2017.
- Gross margin percentage was 28.9% in the second quarter of 2018, which compares to 24.2% in the second quarter of 2017. The increase in the margin reflects higher sales with the inclusion of Enterprise Networks and changes in product mix, which are helping offset memory and other product cost increases in our CPE products.
- Total operating expenses (excluding amortization of intangible assets, impairment of goodwill, integration, acquisition, restructuring charges and other costs) in the second quarter of 2018 were $340.6 million, as compared to $247.0 million in the same period last year. The increase primarily reflects the incremental expense associated with our acquisition of Ruckus Networks. In the quarter, the Company increased its investment in sales and marketing and research and development for the Enterprise segment to help grow sales and market share.
- We ended the second quarter of 2018 with $548.1 million of cash, cash equivalents and marketable security investments. We generated approximately $199.3 million of cash from operating activities through the first six months of 2018, which compares to $495.9 million during the same period in 2017. Inventories declined $46 million quarter over quarter.

- We ended the second quarter of 2018 with long-term debt of $2,117.7 million, at face value, the current portion of which is $87.5 million. We made mandatory payments of $43.8 million in the first six months of 2018.

Comparison of Operations for the Three and Six Months Ended June 30, 2018 and 2017

Net Sales

The table below sets forth our net sales for each of our segments (in thousands, except percentages):

	Net Sales				Increase (Decrease) Between 2018 and 2017			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017	$	%	$	%
Segment:								
CPE	$1,008,131	$1,155,883	$1,883,357	$2,210,939	$(147,752)	(12.8)%	$(327,582)	(14.8)%
N&C	549,496	510,972	1,087,760	941,408	38,524	7.5%	146,352	15.5%
Enterprise	172,240	—	342,154	—	172,240	100.0%	342,154	100.0%
Other (1)	(3,327)	(2,685)	(9,021)	(5,071)	(642)	(23.9)%	(3,950)	(77.9)%
Total sales	$1,726,540	$1,664,170	$3,304,250	$3,147,276	$ 62,370	3.7%	$ 156,974	5.0%

(1) Adjustments related to acquisition accounting impacts related to deferred revenue

The table below sets forth sales based on geography of our customers (in thousands, except percentages):

	Net Sales				Increase (Decrease) Between 2018 and 2017			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017	$	%	$	%
U.S.	$ 993,843	$1,121,079	$1,887,001	$2,079,556	$ (127,236)	(11.3)%	$(192,555)	(9.3)%
Non-U.S.								
Americas, excluding U.S.	328,093	256,260	583,711	548,861	71,833	28.0%	34,850	6.3%
Asia Pacific	92,097	108,458	199,611	160,373	(16,361)	(15.1)%	39,238	24.5%
EMEA	312,507	178,373	633,927	358,486	134,134	75.2%	275,441	76.8%
Total non-U.S.	732,697	543,091	1,417,249	1,067,720	189,606	34.9%	349,529	32.7%
Total sales	$1,726,540	$1,664,170	$3,304,250	$3,147,276	$ 62,370	3.7%	$ 156,974	5.0%

Customer Premises Equipment Net Sales 2018 vs. 2017

During the three and six months ended June 30, 2018, sales in the CPE segment decreased approximately 12.8% and 14.8%, respectively, as compared to the same period in 2017. The decrease is primarily attributable to lower cable and telco sales in the United States. We anticipate the continued overall trend towards more broadband CPE sales and less video CPE sales as operators adopt all IP networks and continue their investment in higher speed internet services and better in-home Wi-Fi capabilities, although there will continue to be variability in mix quarter to quarter. The Company is also being more selective about opportunities being pursued depending upon the profitability of the sales.

Network and Cloud Net Sales 2018 vs. 2017

During the three and six months ended June 30, 2018, sales in the N&C segment increased approximately 7.5% and 15.5%, respectively, as compared to the same period in 2017. The increase is primary due to increased CMTS product sales, partially offset by slightly lower Access Technologies products and professional services sales.

Enterprise Networks Net Sales 2018 vs. 2017

During the three and six months ended June 30, 2018, sales in the Enterprise segment were $172.2 million and $342.2 million, respectively. Revenues were not included in the same period of 2017, as the acquisition of Ruckus Networks was completed in the fourth quarter of 2017. We anticipate revenues to increase in the second half of 2018.

Gross Margin

The table below sets forth our gross margin (in thousands, except percentages):

	Gross Margin				Increase (Decrease) Between 2018 and 2017			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017	$	%	$	%
Gross margin dollars	$498,755	$403,357	974,438	740,615	95,398	23.7%	233,823	31.6%
Gross margin percentage	28.9%	24.2%	29.5%	23.5%		4.7		6.0

During the three and six months ended June 30, 2018, gross margin dollars increased as a result of the Ruckus Networks acquisition and a change in product mix. The Ruckus Networks acquisition impacted gross margin for 2018, due to a proportionately higher average gross margin than the historic ARRIS business. We also had higher sales of CMTS licenses which have higher margins than the average. We anticipate a mix towards more hardware in the N&C segment in the second half of 2018 which will modestly reduce gross margin. This increase is offset by continued pressure on gross margin relating to memory pricing and other component costs, particularly in the CPE segment which are expected to continue in the near term and could make it difficult to return to historical gross margin levels. The gross margin for the three and six months ended June 30, 2018 included $17.0 million of increased costs associated with writing up the historic cost of the Ruckus Networks inventory to fair value at the date of acquisition (subsequently increasing cost of sales). In addition, during the three and six months ended June 30, 2018, the gross margins were impacted by $3.3 million and $9.0 million, respectively, associated with a reduction in sales related to the acquisition accounting impacts of deferred revenue.

During the three and six months ended June 30, 2017, gross margins were also impacted by $2.7 million and $5.1 million, respectively, associated with a reduction in sales associated with the fair value of warrants issued to customers.

Operating Expenses

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

	Operating Expenses				Increase (Decrease) Between 2018 and 2017			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017	$	%	$	%
Selling, general and administrative	$173,353	$113,921	$334,557	$218,560	$ 59,432	52.2%	$115,997	53.1%
Research and development	167,200	133,098	336,997	266,060	34,102	25.6%	70,937	26.7%
Amortization of intangible assets	90,485	91,012	205,193	184,657	(527)	(0.6)%	20,536	11.1%
Impairment of goodwill	—	—	3,400	—	—	—	3,400	100.0%
Integration, acquisition, restructuring & other other	22,844	9,690	36,499	19,785	13,154	135.7%	16,714	84.5%
Total	$453,882	$347,721	$916,646	$689,062	$ 106,161	30.5%	$227,584	33.0%

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

Our selling, general and administrative expenses include sales and marketing costs, including personnel expenses for sales and marketing staff expenses, advertising, trade shows, corporate communications, product marketing expenses and other marketing expenses. In addition, general and administrative expenses consist of personnel expenses and other general corporate expenses for corporate executives, finance and accounting, human resources, facilities, information technology, legal and professional fees.

SG&A expenses increased for the three and six months ended June 30, 2018 compared to the prior year as result of the inclusion of incremental expense related to our acquisition of Ruckus Network. We increased our investment in sales and marketing and research and development in the Enterprise segment in the quarter.

Research & Development, or R&D, Expenses

R&D expenses consist primarily of personnel expenses, payments to suppliers for design services, product certification expenditures to qualify our products for sale into specific markets, prototypes, other consulting fees and reasonable allocations of our information technology and corporate facility costs. R&D expenses are recognized as they are incurred.

During the three and six months ended June 30, 2018, R&D expenses increased as compared to the same period in 2017. The increase is primarily the result of the inclusion of incremental expenses related to our acquisition of Ruckus Networks.

Amortization of Intangible Assets

Our intangible amortization expense relates to finite-lived intangible assets primarily acquired in business combinations. Intangibles amortization expense for the three months ended June 30, 2018 and 2017 was $90.5 million and $91.0 million, respectively. The decrease was as a result of certain intangible assets becoming fully amortized in the second quarter of 2018. For the six months ended June 30, 2018 and 2017, intangible amortization expense was $205.2 million and $184.7 million, respectively. The increase is primarily due to the incremental amortization expense from acquired intangibles associated with the Ruckus Networks acquisition.

Impairment of Goodwill

During the six months ended June 30, 2018, we recorded partial impairment of goodwill of $3.4 million from our Cloud TV reporting unit, of which $1.2 million is attributable to the noncontrolling interest. This impairment was a result of the indirect effect of a change in accounting principle related to the adoption of new accounting standard *Revenue from Contracts with Customers*, resulting in changes in the composition and carrying amount of the net assets of our Cloud TV reporting unit.

Integration, Acquisition, Restructuring and Other

During the three and six months ended June 30, 2018, we recorded integration, acquisition, restructuring, and other costs of $22.8 million and $36.5 million, respectively.

During the three and six months ended June 30, 2018, we recorded acquisition related expenses and integration expenses of $1.6 million and $4.7 million, respectively. These expenses related to the acquisition of Ruckus Networks and consisted of integration related outside services and other fees. Restructuring expense of $21.2 million and $31.8 million were recorded during the three and six months ended June 30, 2018, respectively. This primarily related to a restructuring plan that affected approximately 1,000 employees across the company, including the planned sale of our factory in Taiwan.

During the three and six months ended June 30, 2017, we recorded acquisition related expenses and integration expenses of $2.7 million and $6.3 million, respectively. These expenses related to the pending acquisition of the Ruckus Wireless and ICX Switch product lines and consisted primarily of banker fees and other fees.

Restructuring charges of $7.0 million and $13.5 million were recorded during the three and six months ended June 30, 2017, respectively, related to employee termination benefits, voluntary retirement offering, facility closures and non-cash write-off of property, plant and equipment.

Direct Contribution

Beginning in 2018, certain costs previously recorded or classified as part of “Corporate and Unallocated Costs”, including bonus, equity compensation and certain other direct costs are now reported within each operating segment. Consequently, our segment information for the 2017 period has been restated to reflect such change.

The table below sets forth our direct contribution, which is defined as gross margin less direct operating expenses (in thousands, except percentages).

	Direct Contribution				Increase (Decrease) Between 2018 and 2017			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017	$	%	$	%
Segment:								
CPE	$ 85,723	$113,852	$135,484	$222,764	$ (28,129)	(24.7)%	$ (87,280)	(39.2)%
N&C	201,282	172,658	429,820	284,758	28,624	16.6%	145,062	50.9%
Enterprise	17,774	—	43,302	—	17,774	100.0%	43,302	100.0%
Total	$304,779	$286,510	$608,606	$507,522	$ 18,269	6.4%	$101,084	19.9%

Customer Premises Equipment Direct Contribution 2018 vs. 2017

During the three and six months ended June 30, 2018, the CPE segment direct contribution decreased by approximately 24.7% and 39.2%, respectively, as compared to the same period in 2017. The direct contribution was negatively impacted by lower sales and product mix, as well as lower gross margin. Memory pricing and component costs continued to depress gross margins. The Company has informed customers that price increases are required to cover increases in costs and is in the midst of completing them. Further, the proposed tariffs would apply to certain products and the Company is expecting to pass those tariffs along to customers, which could alter customer spending and prices. Our CPE reporting unit has approximately $1.4 billion of goodwill as of June 30, 2018. The estimated fair value of our CPE reporting unit is closely aligned with the ultimate amount of revenue and operating income that it achieves, and while we continue to believe that the CPE reporting unit fair value is in excess of its carrying value, a prolonged or continued erosion in the direct contribution in the CPE segment could result in an impairment of goodwill associated with this business.

Network and Cloud Direct Contribution 2018 vs. 2017

During the three and six months ended June 30, 2018, direct contribution in our N&C segment increased by approximately 16.6% and 50.9%, respectively, as compared to the same period in 2017. The increase was primarily attributable to higher sales and the mix of product, including the sale of more CMTS products, in-particular licenses. We anticipate modestly lower direct contribution in the second half of 2018, resulting from a change in mix, with higher hardware sales anticipated.

Enterprise Networks Direct Contribution 2018 vs. 2017

During the three and six months ended June 30, 2018, direct contribution in our Enterprise segment was approximately $17.8 million and $43.3 million, respectively.

Corporate and Unallocated Costs

There are expenses that are not included in the measure of segment direct contribution and as such are reported as “Corporate and Unallocated Costs” and are included in the reconciliation to income (loss) before income taxes. The “Corporate and Unallocated Costs” category of expenses includes corporate sales and marketing, and home office general and administrative expenses. “Corporate and Unallocated Costs” also includes corporate sales and marketing for the CPE and N&C segments. Marketing and sales expense related to the Enterprise segment are considered a direct operating expense for that segment and is not included in the “Corporate and Unallocated Costs.”

The composition of our corporate and unallocated costs that are reflected in the consolidated statement of operations were as follows (in thousands, except percentages):

	Direct Contribution				Increase (Decrease) Between 2018 and 2017			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017	$	%	$	%
Cost of sales	$ 17,383	$ 13,549	$ 54,181	$ 28,022	$ 3,834	28.3%	$ 26,159	93.4%
Selling, general and administrative	100,820	92,191	194,491	175,846	8,629	9.4%	18,645	10.6%
Research and development	28,374	24,432	57,050	47,659	3,942	16.1%	9,391	19.7%
Total	$146,577	$130,172	$305,722	$251,527	$ 16,405	12.6%	$ 54,195	21.5%

During the three and six months ended June 30, 2018, corporate and unallocated costs increased by approximately 28.3% and 93.4%, respectively, as compared to the same period in 2017. Included in the cost of sales in six months ended June 30, 2018 is $17.0 million associated with the step-up in the underlying net book value of Ruckus Networks inventory acquired in the acquisition to fair market value as of the acquisition date. The increase also reflected the inclusion of incremental expense related to our acquisition of Ruckus Networks.

Supplemental Information - Adjusted Direct Contribution and Other Costs

In addition to direct contribution, which is our measure of segment profit and loss, executive management has begun using additional measures to evaluate the operating performance of our operating segments. We are using "Adjusted Direct Contribution", which is defined as direct contribution less allocated facility costs, sales and marketing costs, plus stock-based compensation and depreciation. These costs are allocated to each of our operating segments, based upon expense type using various methods such as revenue, headcount, or actual estimated resource usage.

The table below sets forth our adjusted direct contribution, along with other supplemental costs disclosures:

	Three months ended June 30, 2018				
	CPE	N&C	Enterprise	Corporate & Unallocated	Total
Direct contribution	$ 85,723	$201,282	$ 17,774	$ (146,577)	$158,202
Adjustments:					
Allocated costs	(19,662)	(28,614)	(6,223)	54,499	—
Stock compensation expense	5,927	8,647	4,485	4,444	23,503
Depreciation expense	6,958	6,571	3,158	4,543	21,230
Adjusted direct contribution	$ 78,946	$187,886	$ 19,194	$ (83,091)	$202,935
Other Costs:					
Amortization of intangible assets	50,621	24,749	14,300	815	90,485
Integration, acquisition, restructuring, and other costs	14,589	6,427	1,650	178	22,844

	Three months ended June 30, 2017				
	CPE	N&C	Enterprise	Corporate & Unallocated	Total
Direct contribution	$113,852	$172,658	$ —	$ (130,172)	$156,338
Adjustments:					
Allocated costs	(20,934)	(30,013)	—	50,946	—
Stock compensation expense	6,438	10,123	—	5,764	22,325
Depreciation expense	10,033	7,169	—	4,497	21,699
Adjusted direct contribution	$109,389	$159,937	$ —	$ (68,965)	$200,362
Other Costs:					
Amortization of intangible assets	63,774	26,423	—	815	91,012
Integration, acquisition, restructuring, and other costs	4,087	1,792	2,674	1,137	9,690

	Six months ended June 30, 2018				
	CPE	N&C	Enterprise	Corporate & Unallocated	Total
Direct contribution	$135,484	$429,820	$ 43,302	$ (305,722)	$302,884
Adjustments:					
Allocated costs	(39,284)	(57,105)	(11,776)	108,165	—
Stock compensation expense	11,225	16,418	6,872	8,244	42,759
Depreciation expense	14,675	13,470	6,723	9,241	44,109
Adjusted direct contribution	$122,100	$402,603	$ 45,121	$ (180,072)	$389,752
Other Costs:					
Amortization of intangible assets	113,869	49,884	39,810	1,630	205,193
Impairment of goodwill	—	3,400	—	—	3,400
Integration, acquisition, restructuring, and other costs	21,857	8,901	4,726	1,015	36,499

	Six months ended June 30, 2017				
	CPE	N&C	Enterprise	Corporate & Unallocated	Total
Direct contribution	$222,764	$284,759	$ —	$ (251,528)	$255,995
Adjustments:					
Allocated costs	(40,065)	(57,828)	—	97,893	—
Stock compensation expense	11,884	18,981	—	10,875	41,740
Depreciation expense	18,566	14,759	—	9,678	43,003
Adjusted direct contribution	$213,149	$260,671	$ —	$ (133,082)	$340,738
Other Costs:					
Amortization of intangible assets	130,117	52,910	—	1,630	184,657
Integration, acquisition, restructuring, and other costs	5,372	5,471	6,308	2,634	19,785

Other Expense (Income)

The table below provides detail regarding our other expense (in thousands, except percentages):

	Other Expense (Income)				Increase (Decrease) Between 2018 and 2017			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017	$	%	$	%
Interest expense	$23,647	$23,344	$46,173	$43,027	$ 303	1.3%	$ 3,146	7.3%
(Gain) loss on investments	(844)	3,609	(317)	8,139	(4,453)	(123.4)%	(8,456)	(103.9)%
Interest income	(1,792)	(1,788)	(3,324)	(3,709)	(4)	(0.2)%	385	10.4%
(Gain) loss on foreign currency	(824)	9,373	4,009	14,113	(10,197)	(108.8)%	(10,104)	(71.6)%
Other (income) expense, net	(169)	926	(61)	841	(1,095)	(118.3)%	(902)	(107.3)%
Total	$20,018	$35,464	$46,480	$62,411	$ (15,446)	(43.6)%	$(15,931)	(25.5)%

Interest Expense

Interest expense includes the amortization of debt issuance costs (deferred finance fees and debt discounts) related to our term loans and interest expense paid on notes and term loans and other debt obligations. Interest expense for the three months ended June 30, 2018 and 2017 was $23.6 million and $23.3 million respectively. For the six months ended June 30, 2018 and 2017, interest expense was $46.2 million and $43.0 million, respectively.

In connection with the Second Amendment to the Credit Agreement, (see Note 14. *Indebtedness* of Notes to the Consolidated Financial Statements for additional details) we expensed approximately $2.5 million of debt issuance costs and wrote off approximately $0.3 million of existing debt issuance costs associated with certain lenders who were not party to the amended Term Loan B Facility, which were included as interest expense in the Consolidated Statements of Operations for the three and six months ended June 30, 2017.

Loss on Investments

We hold certain investments in equity securities of private and publicly-traded companies and investments in rabbi trusts associated with our deferred compensation plans and 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 (gain) loss on investments.

During the three months ended June 30, 2018 and 2017, we recorded net (gain) loss related to these investments of $(0.8) million and $3.6 million, respectively. During the six months ended June 30, 2018 and 2017, we recorded a net (gain) loss related to these investments of $(0.3) million, and $8.1 million, respectively. The reduction in losses for the three and six months ended June 30, 2018, as compared to same periods of the prior year reflect the wind-down of development activities for one of our equity method investments.

Loss on Foreign Currency

During the three months ended June 30, 2018 and 2017, we recorded a foreign currency (gain) loss of approximately $(0.8) million and $9.4 million, respectively. During the six months ended June 30, 2018 and 2017, we recorded a foreign currency loss of approximately $4.0 million and $14.1 million, respectively. We have U.S. dollar functional currency entities that bill certain international customers or have liabilities payable in their local currency. Additionally, certain intercompany transactions are denominated in foreign currencies and subject to remeasurement. To mitigate the volatility related to fluctuations in the foreign exchange rates, we enter into various foreign currency contracts. The loss (gain) on foreign currency is driven by the fluctuations in the foreign currency exchange rates.

Interest Income

Interest income during the three months ended June 30, 2018 and 2017 was $1.8 million. During the six months ended June 30, 2018 and 2017, interest income was $3.3 million and $3.7 million, respectively. The income reflects interest earned on cash, cash equivalents, and short-term and long-term marketable security investments.

Other (Income) Expense, net

Other (income) expense, net for the three months ended June 30, 2018 and 2017 was $(0.2) million and $0.9 million, respectively. For the six months ended June 30, 2018 and 2017, other (income) expense was $(0.1) million and $0.8 million, respectively.

Income Tax Expense

Our effective income tax rate fluctuates based on, among other factors, the level and location of income. The U.K. statutory rate for 2018 is 19% as compared to 19.25% in 2017. The difference between the U.K. statutory income tax rate of 19% and our effective income tax rate for the 2018 and 2017 periods is primarily due to the benefits of other foreign income tax regimes and the U.S. federal research and development credits**.**

Our effective income tax rate for the six months ended June 30, 2018 was impacted by $1.8 million of expense related to excess book deductions for stock based compensation, $2.3 million of expense related to changes in permanent reinvestment assertions, offset by $1.3 million of benefit related to the release of uncertain tax positions due to settlement of audits, $2.8 million of benefit related to the effects of tax rate changes in the U.S., and $4.2 million of benefit related to an internal restructuring to move certain Ruckus Networks intangible property into the U.S.

Our effective income tax rate for the six months period ended June 30, 2017 was impacted by $8.0 million related to the intra-entity sale of an asset, offset by $4.0 million of benefit related to statute closures for uncertain tax positions and $4.8 million of benefit related to the reversal of interest related to uncertain tax positions.

Non-GAAP Measures

ARRIS reports its financial results in accordance with accounting principles generally accepted in the United States ("GAAP" or referred to herein as "reported"). However, management believes that certain non-GAAP financial measures provide management and other users with additional meaningful financial information that should be considered when assessing our ongoing performance. Our management regularly uses our supplemental non-GAAP financial measures internally to understand, manage and evaluate our business and make operating decisions. These non-GAAP measures are among the factors management uses in planning for and forecasting future periods. 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 (in thousands, except per share data):

	For the Three Months Ended June 30, 2018		For the Three Months Ended June 30, 2017		For the Six Months Ended June 30, 2018		For the Six Months Ended June 30, 2017	
	Amount	Per Diluted Share	Amount	Per Diluted Share	Amount	Per Diluted Share	Amount	Per Diluted Share
Sales	$1,726,540		$1,664,170		$3,304,250		$3,147,276	
Highlighted items:								
Acquisition accounting impacts of deferred revenue	3,307		—		9,002		—	
Reduction in revenue related to warrants	—		2,658		—		5,081	
Adjusted sales	$1,729,847		$1,666,828		$3,313,252		$3,152,357	
Net income (loss) attributable to ARRIS International plc	$ 35,754	$ 0.19	$ 30,336	$ 0.16	$ 22,154	$ 0.12	$ (8,762)	$ (0.05)
Highlighted items:								
Impacting gross margin:								
Stock-based compensation expense	3,809	0.02	3,495	0.02	7,062	0.04	6,747	0.04
Reduction in revenue related to warrants	—	—	2,658	0.01	—	—	5,081	0.03
Acquisition accounting impacts of deferred revenue	3,307	0.02	—	—	9,002	0.05	—	—
Acquisition accounting impacts of fair valuing inventory	—	—	—	—	16,971	0.09	908	—
Impacting operating expenses:								
Integration, acquisition, restructuring and other costs	22,844	0.12	9,690	0.05	36,499	0.20	19,785	0.10
Amortization of intangible assets	90,485	0.49	91,012	0.48	205,193	1.10	184,658	0.97
Impairment of goodwill	—	—	—	—	3,400	0.02	—	—
Stock-based compensation expense	19,694	0.11	18,829	0.10	35,697	0.19	34,992	0.18
Noncontrolling interest share of Non-GAAP adjustments	(867)	—	(811)	—	(3,188)	(0.02)	(1,615)	(0.01)
Impacting other expense (income):								
Impairment of investments	—	—	—	—	—	—	2,750	0.01
Debt amendment fees	—	—	2,782	0.01	—	—	2,782	0.01
Remeasurement of deferred taxes	(3,676)	(0.02)	2,828	0.01	20	—	4,940	0.03
Impacting income tax expense:								
Income tax expense (benefit)	(37,387)	(0.20)	(40,937)	(0.22)	(61,928)	(0.33)	(54,270)	(0.28)
Total highlighted items	98,209	0.53	89,546	0.47	248,728	1.34	206,758	1.08
Adjustment net income	133,963	$ 0.72	119,882	$ 0.63	270,882	$ 1.45	197,996	$ 1.04
Weighted average ordinary shares - basic		184,216		186,803		184,376		188,291
Weighted average ordinary shares - diluted		185,669		189,002		186,288		190,932

Our non-GAAP financial measures reflect adjustments based on the following items, as well as the related income tax effects:

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 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.

Reduction in Revenue Related to Warrants: We entered into agreements with two customers for the issuance of warrants to purchase up to 14.0 million of ARRIS's ordinary shares. Vesting of the warrants is subject to certain purchase volume commitments, and therefore the accounting guidance requires that we record any change in the fair value of warrants as a reduction in revenue. Until final vesting, changes in the fair value of the warrants will be marked to market and any adjustment recorded in revenue. 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 gross margin.

Stock Compensation Expense: We have excluded the effect of stock compensation expense in calculating our non-GAAP operating expenses and net income (loss) measures. Although stock compensation is a key incentive offered to our employees, we continue to evaluate our business performance excluding stock compensation expenses. We record non-cash compensation expense related to grants of restricted stock units. 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.

Acquisition Accounting Impacts Related to Inventory Valuation: In connection with the accounting related to our acquisitions, business combinations rules require the acquired inventory be recorded at fair value on the opening balance sheet. This is different from historical cost. Essentially, we are required to write the inventory up to end customer price less a reasonable margin as a distributor. We have excluded the resulting adjustments in inventory and cost of sales as the historic and forward gross margin trends will differ as a result of the adjustments. We believe it is useful to understand the effects of this on cost of goods sold and margin.

Integration, Acquisition, Restructuring and Other Costs: We have excluded the effect of acquisition, integration, and other expenses and the effect of restructuring expenses in calculating our non-GAAP operating expenses and net income (loss) measures. We incurred expenses in connection with the ActiveVideo, Pace and Ruckus Networks acquisitions, which we generally would not otherwise incur in the periods presented as part of our continuing operations. Acquisition and integration expenses consist of transaction costs, costs for transitional employees, other acquired employee related costs, and integration related outside services. Restructuring expenses consist of employee severance and abandoned facilities. We believe it is useful to understand the effects of these items on our total operating expenses.

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.

Impairment of Goodwill: We have excluded the effect of the estimated impairment of goodwill in calculating our non-GAAP operating expenses and net income (loss) measures. Although an impairment does not directly impact our current cash position, such expense represents the declining value of the technology that was acquired. We exclude these impairments when significant and they are not reflective of ongoing business and operating results.

Noncontrolling Interest Share of Non-GAAP Adjustments: The joint venture formed for the ActiveVideo acquisition is accounted for by ARRIS under the consolidation method. As a result, the consolidated statements of operations include the revenues, expenses, and gains and losses of the noncontrolling interest. The amount of net income (loss) related to the noncontrolling interest is reported and presented separately in the consolidated statement of operations. We have excluded the noncontrolling share of any non-GAAP adjusted measures recorded by the venture, as we believe it is useful to understand the effect of excluding this item when evaluating our ongoing performance.

Impairment of Investments: 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).

Debt Amendment Fees: In 2017, the Company amended its credit agreement. This debt modification allowed us to improve the terms and conditions of the credit agreement, extend the maturities of Term Loan B. We have excluded the effect of the associated fees in calculating our non-GAAP financial measures. We believe it is useful to understand the effect of this item in our interest expense.

Remeasurement of Deferred Taxes: The Company records foreign currency remeasurement gains and losses related to deferred tax liabilities in the United Kingdom. The foreign currency remeasurement gains and losses derived from the remeasurement of the deferred income taxes from GBP to USD. We have excluded the impact of these gains and losses in the calculation of our non-GAAP measures. We believe it is useful to understand the effects of this item on our total 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 and non-U.S. valuation allowances, benefits for releases of uncertain tax positions due to settlement, change in law or statute of limitations and provision to return differences.

Financial Liquidity and Capital Resources

One of our key strategies is to ensure we have adequate liquidity and the financial flexibility to support our strategy, including acquisitions and share repurchases. In addition to our cash flow activities discussed below, we also focus on key metrics which are summarized in the table below:

	As of June 30, 2018	As of December 31, 2017
	(in thousands, except DSO and Turns)	
Cash, cash equivalents, and short-term investments	$ 548,109	$ 511,447
Accounts Receivable, net	$ 1,183,360	$ 1,218,089
-Days Sales Outstanding	64	63
Inventory, net	$ 803,217	$ 825,211
- Turns	6.0	7.2
Term loans at face value	$ 2,117,650	$ 2,161,400
Financing lease obligation	$ 61,488	$ 61,901

Overview

In managing our liquidity and capital structure, we remained 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, to fund internal growth and execute acquisitions.
- Share repurchases – use a portion of cash from operating activities to repurchase our ordinary shares subject to market conditions.
- Deleverage – reduce our debt obligation.

In the third quarter of 2018, the Company announced it intends to use a majority of free cash flow to repurchase shares in 2018, targeting a minimum of $400 million for the year, depending upon market conditions.

Accounts Receivable & Inventory

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

Accounts receivable at the end of the second quarter of 2018 decreased as compared to the fourth quarter of 2017, primarily due to the timing of purchases by customers.

Inventory decreased in 2018 as compared to 2017, reflecting the consumption of certain slower moving CPE inventory and timing of customer requirements.

Term Loans

In the six months ended June 30, 2018, we repaid $43.8 million of our term debt which reflects mandatory repayments.

Share Repurchases

Upon completing the Pace combination, we conducted a court-approved process in accordance with section 641(1)(b) of the U.K. Companies Act 2006, pursuant to which we reduced our stated share capital and thereby increased our distributable reserves or excess capital out of which we may legally pay dividends or repurchase shares. Distributable reserves are not linked to a U.S. GAAP reported amount. In 2016, our Board of Directors approved a $300 million share repurchase authorization replacing all prior programs. In early 2017, the Board authorized an additional $300 million for share repurchases and authorized a further $300 million for repurchases in March 2018. Unless terminated earlier by a Board resolution, this new plan will expire when ARRIS has used all authorized funds for repurchase. The remaining authorized amount for share repurchases under this plan was $400.1 million as of June 30, 2018. However, U.K. law also generally prohibits a company from repurchasing its own shares through "off market purchases" without prior approval of shareholders when such company is not traded on a recognized investment exchange in the U.K. This shareholder approval lasts for a maximum period of five years. Prior to and in connection with the Pace combination, we obtained approval to purchase our own shares. This authority to repurchase shares terminates in January 2021, unless otherwise reapproved by our shareholders.

During the first quarter of 2018, we repurchased 1.0 million ordinary shares for approximately $25.0 million at an average share price of $25.35. During the second quarter of 2018, we repurchased 4.0 million ordinary shares for approximately $99.9 million at an average stock price of $25.29. Since the end of the second quarter through August 1, 2018, we have repurchased an additional 2.0. million ordinary shares for approximately $50.0 million. The remaining authorized amount for share repurchases under this plan was $350.0 million as of August 1, 2018. The Company intends to repurchase a minimum of $400 million of shares in 2018, subject to market conditions.

During the first quarter of 2017, we repurchased 3.3 million ordinary shares for approximately $83.1 million at an average share price of $25.44.

Summary of Current Liquidity Position and Potential for Future Capital Raising

We believe our current liquidity position, where we have approximately $548.1 million of cash, cash equivalents, and short-term investments on hand as of June 30, 2018, together with approximately $498.3 million in availability under our Revolving Credit Facility, and our 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 June 30, 2018 include approximately $446.6 million held by all non-U.S. subsidiaries. Of that amount, $85.9 million was held by non-U.S. subsidiaries legally owned by ARRIS U.S. entities which earnings we expect to reinvest indefinitely outside of the United States. We do not expect to need the cash generated by those non-U.S. subsidiaries to fund our U.S. operations. However, in the unforeseen event that we repatriate cash from those non-U.S. subsidiaries, 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 dividend amount 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 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

For information regarding our credit facilities, see Note 14. *Indebtedness* of Notes to the Consolidated Financial Statements.

Interest rates on borrowings under the senior secured credit facilities are set forth in the table below. As of June 30, 2018, we had $376.3 million, $1,203.1 million and $538.2 million principal amounts outstanding under the Term A Loan, Term A-1 Loan and Term B-3 Loan Facilities, respectively. No borrowings under the Revolving Credit Facility and letters of credit totaling $1.7 million are issued under the Revolving Credit Facility.

	Rate	As of June 30, 2018
Term A Loan	LIBOR + 1.75 %	3.84%
Term A-1 Loan	LIBOR + 1.75 %	3.84%
Term B-3 Loan	LIBOR (1) + 2.25 %	4.34%
Revolving Credit Facility (1)	LIBOR + 1.75 %	Not Applicable

(1) Includes unused commitment fee of 0.30% and letter of credit fee of 1.75% not reflected in interest rate above.

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 interest coverage ratio and a maximum leverage ratio. As of June 30, 2018, we were in compliance with all covenants under the Credit Agreement.

Off-Balance Sheet Arrangements

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

Sources and Uses of Cash

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

	Six months ended June 30, 2018	2017
Cash provided by (used in):		
Operating activities	$ 199,250	$ 495,789
Investing activities	(24,658)	45,555
Financing activities	(158,112)	(175,586)
Effect of exchange rate changes	(2,649)	147
Net increase in cash and cash equivalents	$ 13,831	$ 365,905

Operating Activities:

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

	Six months ended June 30,	
	2018	2017
Consolidated net income (loss)	$ 17,766	$ (12,557)
Adjustments to reconcile net income (loss) to cash provided by operating activities	255,337	260,842
Net income including adjustments	273,103	248,285
Decrease in accounts receivable	20,862	368,020
Decrease (increase) in inventory	19,420	(106,841)
(Decrease) increase in accounts payable and accrued liabilities	(104,470)	36,881
All other, net	(9,665)	(50,556)
Cash provided by operating activities	$ 199,250	$ 495,789

Consolidated net income (loss), including adjustments, as per the table above, increased $24.8 million during the first six months of 2018 as compared to 2017. It should be noted that the net income reflected in the first six months of 2018 includes: 1) turnaround effect of inventory step-up in fair market value of $17.0 million, and 2) inclusion of the acquisition of Ruckus Networks. These items were either not present or were insignificant in the first six months of 2017.

Accounts receivable decreased by $20.9 million during the first six months of 2018. The decrease was primarily due to purchasing and payment patterns of our customers.

Inventory decreased by $19.4 million during the first six months of 2018, reflecting consumption of certain slower moving CPE inventory and timing of customer requirements. In the first six months of 2018, there was a $17.0 million reduction related to turnaround effect of inventory markup in acquisition accounting. We anticipate inventory will further decline in 2018.

Accounts payable and accrued liabilities decreased by $104.5 million during the first six months of 2018. The change was a decrease in accounts payable reflecting timing of payments and accrued expenses, and partially offset by an increase in deferred revenues.

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 six months of 2018 was approximately $9.7 million as compared to $50.6 million during the same period in 2017.

Investing Activities:

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

	Six months ended June 30,	
	2018	2017
Purchases of investments	$ (37,309)	$ (62,250)
Sales of investments	11,549	150,301
Purchases of property, plant and equipment	(28,646)	(42,900)
Purchases of intangible assets	(423)	(422)
Deposit proceeds for sale of property, plant and equipment	30,000	—
Other, net	171	826
Cash (used in) provided by investing activities	$ (24,658)	$ 45,555

Purchases and sales of investments **-** Represent purchases and sales of securities and other investments.

Purchases of property, plant and equipment **-** Represents capital expenditures which are mainly for test equipment, laboratory equipment, and computer and networking equipment and facilities.

Purchase of intangible assets **-** Represent primarily the purchase of technology licenses.

Deposit proceeds for sale of property, plant and equipment **–** Represents a deposit received as prepayment for the pending sale of our manufacturing facility and equipment in Taiwan.

Other, net **-** Represent dividend proceeds received from equity investments.

Financing Activities:

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

	Six months ended June 30,	
	2018	**2017**
Proceeds from issuance of shares, net	$ 9,018	$ 8,553
Repurchase of shares	(111,244)	(126,965)
Repurchase of shares to satisfy employee minimum tax withholdings	(13,979)	(13,882)
Proceeds from issuance of debt	—	30,314
Payment of debt obligations	(43,750)	(75,239)
Payment of financing lease obligation	(414)	(405)
Payment of deferred financing fees and debt discount	—	(1,462)
Contribution from noncontrolling interest	2,257	3,500
Cash used in financing activities	$(158,112)	$(175,586)

Proceeds from issuance of shares, net – Represents cash proceeds related to the vesting of restricted stock units, offset by expenses paid related to issuance of shares.

Repurchase of shares - Represents the cash used to buy back the Company's ordinary shares.

Repurchase of shares to satisfy employee minimum tax withholdings - Represents the shares withheld and cancelled for cash, to satisfy the employee minimum tax withholding when restricted stock units vest.

Proceeds from issuance of debt - Represents the proceeds from new borrowings for our "Term Loan B-2 Facility" upon the amendment to our amended and restated credit facility in 2017.

Payment of debt obligations - Represents the mandatory payment of the term loans under the senior secured credit facilities.

Payment of lease financing obligation - Represents the amortization related to the portion of the sale of building that did not qualify for sale-leaseback accounting.

Payment of deferred financing costs and debt discount - Represents the financing costs in connection with the execution of our senior secured credit facility under the Amended Credit Agreement. The costs have been deferred and will be recognized over the terms of the credit agreements. It also represents amounts paid to lenders in the form of upfront fees, which have been treated as a reduction in the proceeds received by the ARRIS and are considered a component of the discount of our senior secured credit facility under the Amended Credit Agreement.

Contribution from noncontrolling interest - Represents the equity investment contributions by the non-controlling interest in a joint venture formed for the ActiveVideo 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 $1,075.0 million of our variable rate debt based on one-month LIBOR to a fixed rate. This objective of these swaps is to manage the variability of cash flows in the interest payments related to the portion of the variable rate debt designated as being hedged.

Foreign Currency

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

We have certain international customers who are billed in their local currency and certain international operations that procure in U.S. dollars. We also have certain predicable expenditures for international operations in local currency. Additionally, certain intercompany transactions are denominated in foreign currencies and subject to revaluation. 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.

Capital Expenditures

Capital expenditures are made at a level designed to support the strategic and operating needs of the business. ARRIS's capital expenditures were $28.6 million in the first six months of 2018 as compared to $42.9 million in the first six months of 2017. Management expects to invest approximately $80 million in capital expenditures for the year 2018.

Critical Accounting Policies and Estimates

Our critical accounting policies and estimates are disclosed in our Form 10-K for the year ended December 31, 2017, as filed with the SEC. Our critical accounting policies and estimates have not changed in any material respect during the six months ended June 30, 2018, except for Revenue Recognition as a result of adopting the new standard related to revenue recognition. Refer to Note 2 *Impact of Recently Adopted Accounting Standards* and Note 3 *Revenue from Contracts with Customers* for additional details.

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 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, we expressly disclaim 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, 2017.

Item 4. CONTROLS AND PROCEDURES

(a) *Evaluation of Disclosure Controls and Procedures.* Management, with the participation and supervision of 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, our principal executive officer and principal financial officer 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*. Management, with the participation and supervision of 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. Except as described below, based on that evaluation, our principal executive officer and principal financial officer concluded, that there had been no change in our internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. During the quarter ended December 31, 2017 we acquired Ruckus Networks and are in the process of integrating the acquired business into our overall internal control over financial reporting process. We expect to include Ruckus Networks in the annual assessment of internal control over financial reporting as of December 31, 2018. In addition, we implemented certain changes to our internal controls to ensure we adequately evaluated our contracts and properly assessed the impact of the new accounting standard related to revenue recognition on our financial statements to facilitate its adoption on January 1, 2018.

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. We are currently unable to reasonably estimate the possible loss or range of possible loss for any of the matters identified below. The results in litigation are unpredictable and an adverse resolution of one or more of such matters not included in the estimate provided, or if losses are higher than what is currently estimated, it could have a material adverse effect on our business, financial position, results of operations or cash flows.

Due to the nature of our business, we are 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 allegations made in the pending cases and intend to vigorously defend these lawsuits; however, we are unable currently to forecast 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, we are not party to (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.

ChanBond v. MSOs, C.A. 15-cv-00848, et al, District of Delaware (RGA). On September 21, 2015, ChanBond filed suit against several MSOs alleging infringement of three U.S. Patents. Certain of our customers have requested that we provide indemnification. Requests for Inter Partes Review ("IPR") by ARRIS of the asserted patents were denied on procedural grounds. 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 may be required to indemnify the MSOs and/or pay damages for utilizing certain technology.

Chrimar v. Ruckus Wireless, Inc., C.A. 16-cv-00186, Northern District of California. On July 1, 2015, Chrimar filed suit against Ruckus alleging infringement of four U.S. Patents. The case has been stayed pending completion of IPR proceedings contesting the validity of the patents. All four of these IPRs have resulted in a final written decision invalidating the asserted claims, however Chrimar has filed a notice of appeal. 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, we may be required to pay damages for utilizing certain technology.

Hera Wireless et al. v. ARRIS, C.A. 1:17-cv-00948, District of Delaware. On July 14, 2017, Hera Wireless filed suit against ARRIS alleging infringement of three U.S. patents. 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 may be required to pay damages for utilizing certain technology.

In Re ARRIS Cable Modem Consumer Litigation, C.A. 5:17-cv-01834, Northern District of California. On March 31, 2017, Carlos Reyna, on behalf of himself and others similarly situated filed a putative class action lawsuit against ARRIS alleging that the SB6190 modem which includes the Intel Puma 6 chipset is defective. Other state court complaints have been filed but are stayed pending the outcome of the California action. The plaintiff alleges violation of the California Song-Beverly Consumer Warranty Act, California Consumer Legal Remedies Act, California False Advertising Law, and California Unfair Competition Law. It is premature to assess the likelihood of an unfavorable outcome. In the event of an unfavorable outcome, we may be required to pay damages.

RealTime Adaptive Streaming v. EchoStar et al., C.A. 17-cv-02097, District of Colorado. On November 6, 2017, RealTime Adaptive Streaming filed an amended complaint alleging that ARRIS products infringe two 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 pay damages for utilizing certain technology.

Rovi et al. v. Comcast et al., C.A. 1:16-cv-09826, Southern District of New York; 337-TA-1001, International Trade Commission. On April 1, 2016, Rovi filed suit against Comcast and several equipment vendors (including ARRIS and Pace) alleging infringement of 15 U.S. patents alleged to cover various program guide technology. On April 6, 2016, Rovi filed a complaint in the International Trade Commission (ITC) alleging infringement of seven U.S. patents (the same as those asserted in the New York suit). The ITC found Comcast in violation of two patents by various remote programming features, while also finding that ARRIS set-top boxes do not infringe the patents. In an example of what we believe is clear administrative authority overreach, the ITC thereby issued an exclusion order against Comcast from causing non-infringing set-top boxes to be imported for use in Comcast's system. Comcast has removed from its network the remote programming feature held infringing by the ITC, and U.S. Customs and Border Protection has ruled to allow importation of set-top products for use in Comcast's redesigned network. ARRIS and Comcast are appealing the ITC verdict. Until the matter is resolved, there remains a risk that U.S. Customs and Border Protection improperly applies the ITC's exclusion order, which could then result in delays on the delivery of ARRIS's products.

Rovi et al. v. Comcast et al., 337-TA-1103, International Trade Commission. On February 8, 2018, Rovi filed a new complaint in the International Trade Commission (ITC) alleging Comcast infringes eight U.S. patents controlled by Rovi and its affiliates. While ARRIS has been properly excluded from being a party to the complaint, in the event that the ITC finds Comcast to have committed a violation with respect to the patents, and again oversteps its bounds with respect to jurisdiction, ARRIS may be barred from importing set top boxes into the U.S. based on Comcast's purely domestic activity, over which ARRIS has no control, and which bar would have a materially adverse impact on our results.

Sprint Communications v. TWC, C.A. 11-cv-2686 etc., 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. Certain of our customers have requested that we provide indemnification. The complaint requests unspecified damages for past infringement and injunction against future infringement. At an initial trial, Sprint was awarded $140 million in damages from Time Warner Cable. It is premature to assess the likelihood of an unfavorable outcome on any indemnity claims. 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 any liability attributable to Motorola Home in this matter, a subsidiary of Google has agreed to indemnify ARRIS.

TQ Delta v. MSOs, C.A. 15-cv-00611; 15-cv-00615, etc., District of Delaware. On July 17, 2015, TQ Delta filed suit against several MSOs alleging infringement of several U.S. patents. Certain of our customers have requested that we provide indemnification. The case has been stayed pending the outcome of IPR proceedings. All of the asserted patents now have final written decisions by the Patent Trial and Appeals Board invalidating all asserted claims as a result of the IPRs. TQ Delta has filed a notice of appeal. 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, we may be required to indemnify the MSOs and/or pay damages for utilizing certain technology.

TQ Delta v. 2Wire Inc., C.A. 13-cv-01835, District of Delaware. On November 4, 2013, TQ Delta filed suit against 2Wire alleging infringement of several U.S. patents. The complaint requests unspecified damages for past infringement and an 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, we may be required to pay damages for utilizing certain technology.

XR Communications v. Ruckus Wireless, Inc., XR Communications v. ARRIS, C.A. 4:18-cv-01992, Northern District of California; and 8:18-cv-00192, Central District of California. On April 21, 2017, XR Communications filed suit against Ruckus in the Central District of California alleging infringement of three U.S. patents. The case was subsequently transferred to the Northern District of California. On February 2, 2018 XR Communications filed suit against ARRIS alleging infringement of the same three U.S. patents. IPR petitions have been filed against all three patents, and the litigation has been stayed pending completion of the IPR proceedings. The complaints request 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 cease using and/or pay damages for utilizing certain technology.

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 Sprint lawsuit described above, that reference this indemnification obligation. There are various limitations upon this obligation.

From time to time third parties demand that we or our customers enter into license agreements 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's 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 would 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:

- demand for network services;
- general economic conditions;
- foreign currency fluctuations;
- competition from other providers of broadband and high-speed services;
- customer specific financial or stock market conditions;
- availability and cost of capital;
- governmental regulations;
- customer acceptance of new services offered; 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 volatility in the capital markets, may impact their access to capital in the future, or reduce the amounts they spend on purchasing additional equipment from us. 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. We cannot predict the impact, if any, of any softening or downturn in the national or global economy or of specific customer financial challenges on our customers' expansion and maintenance expenditures.

Changes to United States tax, tariff and import/export regulations may have a negative effect on global economic conditions, financial markets and our business.

We import a significant amount of our products and components from our partner manufacturers in China. The Office of the U.S. Trade Representative (the "USTR") recently enacted a 25% tariff on imports into the U.S. of approximately 1,300 Chinese products with a combined import value of approximately $50 billion. Although some of the products and components we import are included on this list, we do not expect these tariffs to have a material impact on us. However, the USTR recently proposed similar tariffs on the import of other Chinese products with an additional combined import value of approximately $200 billion. The USTR is considering a tariff rate on the products of between 10% and 25%. This proposed tariff list includes many of our CPE and Enterprise Networks products. Even if we are able to pass the costs on to our customers, it is likely to reduce the amount of impacted products that customers in the U.S. will purchase and may impact cash flow due to the timing of payments for the tariffs and collection from our customers. While we may be able to shift the manufacturing locations for some of these products to locations that would not be subject to the proposed tariffs, manufacturing in such locations may increase our manufacturing costs and it will take time, likely in excess of six months, for us to establish manufacturing in the locations.

As evidenced by the USTR proposed tariffs, the current administration, along with Congress, has created significant uncertainty about the future relationship between the United States and other countries with respect to the trade policies, treaties, taxes, government regulations and tariffs that would be applicable. In addition to the potential direct impact to us of proposed tariffs as discussed above, these developments, or the perception that any of them could occur, may have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global trade and, in particular, trade between the impacted nations and the United States. Any of these factors could depress economic activity and restrict our access to suppliers or customers and have a material adverse effect on our business, financial condition and results of operations.

Our gross margins and operating margins will vary over time, and our aggregate gross margin may decrease from historical levels.

We expect our product gross margins to vary over time, and the aggregate gross margin we have achieved in recent years may continue to decrease and be adversely affected in the future by numerous factors, including customer, product and geographic mix shifts, the introduction of new products, customer acceptance of designed products with a lower cost to us, fluctuations in our license sales or services we provide, changes in the actions of our competitors, currency fluctuations that impact our costs or the cost of our products and services to our customers, tariffs, increases in material, labor, or inventory carrying costs, and increased costs due to changes in component pricing, such as flash memory and multilayer ceramic capacitors, for our CPE products. We will continue to focus on increasing revenues and operating margins and managing our operating expenses; however, no assurance can be provided that we will be able to achieve all or any of these goals.

The markets on which our business is focused is significantly impacted by technological change.

The broadcast and 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 residential and business high-speed Internet access, residential and business telephony services, digital television, video on demand and advertising services. New services, such as home security, power monitoring and control, and 4K (UHD) 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 over-the-top IP video service enables content providers such as Netflix and Hulu, programmers such as HBO and ESPN 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, many are also introducing similar OTT services over their existing networks, for delivery not only to televisions but to computers, tablets, and telephones to remain competitive. In addition, service providers continue to explore ways to virtualize portions of their networks, reducing dependence on specifically designed equipment, including our products, by utilizing software that provide the same functions. 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. In some instances, our customers themselves may be our competition. Some of our customers may develop their own software requiring support within our products and/or may design and develop products of their own which are produced to their own specifications directly by a contract manufacturer.

Our business is dependent on our ability to develop products that enable current and new customers to exploit these rapid technological changes. To the extent that we are unable to adapt our technologies to serve these emerging demands, including obtaining necessary certifications from content providers and programmers to include their over-the-top video applications as part of our product offerings and software to provide virtualized network functions, our business may be adversely affected.

Another trend that could affect us is the emerging interest in Distributed Access Architectures, which disaggregates some of the functions of CCAP and the Access and Transport platforms to enable deployment of these functions in ways that could reduce operator capital expenditures. ARRIS is developing a line of DAA products but operators are not aligned on the specific implementations of DAA and ARRIS could lose market share to competitors. Service providers also have the goal of virtualizing CCAP management and control functions as they deploy DAA as well, potentially enabling new competitors to enter the market and reducing their dependence on ARRIS products.

The Wi-Fi and wireless networking markets for both service providers and enterprises is generally characterized by rapidly changing technology, changing end customer needs, evolving industry standards and frequent introductions of new products and services.

To succeed, we must effectively anticipate, and adapt in a timely manner to, end customer requirements and continue to develop or acquire new products and features that meet market demands, technology trends and regulatory requirements. Likewise, if our competitors introduce new products and services that compete with ours, we may be required to reposition our product and service offerings or introduce new products and services in response to such competitive pressure. If we fail to develop new products or product enhancements, or our end customers or potential end customers do not perceive our products to have compelling technical advantages, our business could be adversely affected, particularly if our competitors are able to introduce solutions with such increased functionality earlier than we do. Developing our products is expensive, complex and involves uncertainties. Each phase in the development of our products presents serious risks of failure, rework or delay, any one of which could impact the timing and cost-effective development of such product and could jeopardize end customer acceptance of the product. We have experienced in the past and may in the future experience design, manufacturing, marketing and other difficulties that could delay or prevent the development, introduction or marketing of new products and enhancements. In addition, the introduction of new or enhanced products requires that we carefully manage the transition from older products to minimize disruption in customer ordering practices and ensure that new products can be timely delivered to meet our customers' demand. As a result, we may not be successful in modifying our current products or introducing new products in a timely or appropriately responsive manner, or at all. If we fail to address these changes successfully, our business and operating results could be materially harmed.

Consolidations in the broadcast and broadband communication systems industry could have a material adverse effect on our business.

The broadcast and broadband communication systems industry historically has experienced, and continues to experience, the consolidation of many industry participants. For example, Comcast recently announced a bid to acquire Sky, Vodafone announced it would merge its mobile operations in India with Idea Cellular, LGI announced the proposed sale of certain of its properties to T-Mobile, Wave Broadband announced it was consolidating with RCN under common ownership, Atlantic Broadband/Cogeco announced it would purchase MetroCast, Cable One bought NewWave Communications, T-Mobile US announced plans to acquire TV service provider Layer3, and Cablevision SA (Argentina) announced it would merge with Telecom Argentina SA. When consolidations occur, it is possible that the acquirer will not continue using the same suppliers, possibly resulting in an immediate or future elimination of sales opportunities for us. Even if sales are not reduced, consolidations also could result in delays in purchasing decisions by the affected companies prior to completion of the transaction. Further, even if we believe we will receive additional sales from a customer following a transaction as a result of, for example, typical network upgrades that follow combinations or otherwise, no assurance can be provided that such anticipated sales will be realized. In addition, consolidations can also result in increased pressure from customers for lower prices or better terms, 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. Any of these results could have a material adverse effect on our business.

We have significant indebtedness, 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 June 30, 2018, we had approximately $2,117.7 million in total indebtedness and $498.3 million available under our revolving line of credit to support our working capital needs. Our debt service obligations with respect to this indebtedness could have an adverse impact on our earnings and cash flows for as long as the indebtedness is outstanding.

This significant indebtedness also could 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 the principal and interest payments on our indebtedness when such payments are due, 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 ordinary shares or securities convertible into ordinary shares, reducing discretionary uses of cash or a combination of these and other measures. Issuances of additional ordinary shares or securities convertible into ordinary shares would have the effect of diluting the ownership percentage that stockholders will hold in the company and may reduce our reported earnings per share.

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 certain sales are denominated in foreign currencies. Additionally, certain intercompany transactions 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. In addition, many of our international customers make purchases from us that are denominated in U.S dollars. During periods where the U.S. dollar strengthens, it may impact these customers' ability to purchase products, which could have a material impact on our sales in the affected countries.

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 may have difficulty in forecasting our sales and may experience volatility in revenues and inventory levels.

Because a significant portion of our customers' purchases are discretionary, accurately forecasting our sales is difficult. In addition, our customers have increasingly submitted their purchase orders less evenly over the course of each quarter and lead times for manufacturing products have increased from where they have historically been. The combination of our dependence on relatively few key customers and the award by those customers of irregular but sizeable orders, together with the size of our operations, make it difficult to forecast sales and can result in revenue volatility, which could further result in maintaining inventory levels that are not optimal for our ultimate needs and could have a negative impact on our business.

We also have outstanding warrants with a customer to purchase our ordinary shares. Vesting of the warrants is subject to both the volume of purchases by the customers and product mix. Under applicable accounting guidance, if we believe that vesting of a tranche of the warrants is probable, we are required to mark-to-market the fair value of the warrant until it vests, and any change in the fair value is treated as a change in revenues from sales to the customer. The amount of the change in revenues that will be recorded is difficult to predict as both sales to the customer and changes in our stock price impact the calculation and are outside of our control. As a result, the warrants also could increase our revenue volatility.

The IRS may not agree that we are a foreign corporation for U.S. federal income tax purposes.

Following the Pace combination, we are incorporated under the laws of England and Wales and are a tax resident in the United Kingdom for U.K. tax purposes, the IRS may assert that we should be treated as a U.S. corporation (and, therefore, a U.S. tax resident) for U.S. federal income tax purposes. For U.S. federal income tax purposes, a corporation generally is considered to be a tax resident in the jurisdiction of its organization or incorporation. Because we are incorporated under the laws of England and Wales, we generally would be classified as a non-U.S. corporation (and, therefore, a non-U.S. tax resident) under these rules. Section 7874 of the Internal Revenue Code of 1986, as amended (the "Code"), however, provides an exception to this general rule under which a foreign incorporated entity may, in certain circumstances, be treated as a U.S. corporation for U.S. federal income tax purposes.

Generally, for us to be treated as a non-U.S. corporation for U.S. federal income tax purposes under Section 7874, the former stockholders of ARRIS Group must own (within the meaning of Section 7874) less than 80% (by both vote and value) of all of the outstanding shares of ARRIS (the "Ownership Test"). Based on the terms of the Pace combination, we believe historic ARRIS stockholders owned less than 80% of all the outstanding shares in ARRIS and, thus, the Ownership Test has been satisfied. However, ownership for purposes of Section 7874 is subject to various adjustments under the Code and the Treasury Regulations promulgated thereunder, and there is limited guidance regarding the Section 7874 provisions, including regarding the application of the Ownership Test. There can be no assurance that the IRS will agree with the position that the Ownership Test was satisfied following the Pace combination and/or would not successfully challenge the status of ARRIS as a non-U.S. corporation for U.S. federal income tax purposes.

If we were to be treated as a U.S. corporation for U.S. federal income tax purposes, we could be subject to substantial additional U.S. taxes. For U.K. tax purposes, we are expected, regardless of any application of Section 7874, to be treated as a U.K. tax resident. Consequently, if we are treated as a U.S. corporation for U.S. federal income tax purposes under Section 7874, we could be liable for both U.S. and U.K. taxes, which could have a material adverse effect on our financial condition and results of operations.

Our status as a foreign corporation for U.S. tax purposes could be affected by a change in law.

Under current law, we expect to be treated as a non-U.S. corporation for U.S. federal income tax purposes. However, changes to Section 7874 or the Treasury Regulations promulgated thereunder, or other changes in law, could adversely affect our status as a non-U.S. corporation for U.S. federal income tax purposes, our effective tax rate and/or future tax planning, and any such changes could have prospective or retroactive application to us and our stockholders.

In 2016, the U.S. Treasury issued proposed and temporary Regulations under Section 7874 and other sections of the Code, which, among other things, make it more difficult for the Ownership Test to be satisfied and would limit or eliminate certain tax benefits to so-called inverted corporations. These temporary Regulations generally apply to transactions occurring on or after April 4, 2016. Accordingly, with respect to the Pace combination, as it occurred prior to that date, we do not expect these temporary Regulations to adversely affect the tax status of ARRIS. However, these Regulations, among other things, may affect how, or limit options for how, ARRIS will be able to structure future acquisitions. We continue to monitor this situation, we will review any comments on these proposed Regulations that are made public, we will review the final Regulations when issued, and we will review any additional guidance issued by the U.S. Treasury and the IRS. Any such future guidance could have a material adverse impact on our financial position and results of operations.

Section 7874 of the Code may limit our ability to utilize certain U.S. tax attributes.

Following the acquisition of a U.S. corporation by a non-U.S. corporation, Section 7874 of the Code can limit the ability of the acquired U.S. corporation and its U.S. affiliates to utilize certain U.S. tax attributes (including net operating losses and certain tax credits) to offset, during the ten-year period following the acquisition, their U.S. taxable income, or related income tax liability, resulting from certain (a) transfers to related foreign persons of stock or other properties of the acquired U.S. corporation and its U.S. affiliates and (b) income received or accrued from related foreign persons during such period by reason of a license of any property by the acquired U.S. corporation and its U.S. affiliates (collectively, “inversion gain”). Based on the limited guidance available and as a result of the Pace transaction, we believe that this limitation under Section 7874 will apply and, as a result, we do not currently expect that the Company or its U.S. affiliates will be able to utilize certain U.S. tax attributes to reduce the amount of any inversion gain and/or to offset applicable U.S. federal income tax liability attributable to any inversion, but may continue to be used to reduce our taxable income from ordinary operations.

Changes to, interpretations of, and rulings related to, U.S., U.K., Luxembourg and other tax laws could adversely affect ARRIS.

Our business operations are subject to taxation in the U.S., U.K., Luxembourg and a number of other jurisdictions. Changes in tax laws or tax rulings, or changes in interpretations of existing laws, could materially affect our financial position and results from operations. Recently, the U.S. Congress, the Organization for Economic Co-operation and Development and other government agencies in jurisdictions where ARRIS and its affiliates do business have had an extended focus on issues related to the taxation of multinational corporations. One example is in the area of “base erosion and profit shifting,” including situations where payments are made between affiliates from a jurisdiction with high tax rates to a jurisdiction with lower tax rates. In this regard, on December 22, 2017, the President signed into law the “Tax Cuts and Jobs Act” (the “Act”). The Act significantly reforms the Internal Revenue Code of 1986, as amended. The Act, among other things, includes changes to U.S. federal tax rates, imposes significant additional limitations on the deductibility of interest, imposes limitations on the deductibility of certain payments between affiliates, allows for the immediate expensing of certain capital expenditures, and puts into effect the migration from a worldwide system of taxation to a territorial system and imposes several other changes to tax law on U.S. corporations. As many of the provisions of the Act did not come into effect until 2018 and further clarification of the law is expected, the total impact on our financial position is uncertain and could be materially adverse.

Another example involves “illegal state aid” as determined by the EU Competition Commission, which would require EU member states to recover unlawful aid given to multinational enterprises in the form of favorable transfer pricing treatment. In November of 2017, the European Commission issued a decision letter to the U.K. government asserting that Chapter 9 of the U.K. Controlled Foreign Company legislation provided illegal state aid. If the European Commission ultimately prevails in this dispute, ARRIS could owe additional taxes. Based on the Company’s current assessment of the issue no additional tax expense has been accrued. The tax laws, and the interpretation thereof, in the United States, the United Kingdom, Luxembourg and other countries in which ARRIS and its affiliates do business could change on a prospective or retroactive basis, including as part of the treaty changes that could result from the U.K.'s decision to leave the EU, and any such changes could adversely affect ARRIS and its affiliates. Further, the IRS or other applicable taxing authorities may disagree with positions we have taken in our tax filings, which could result in the requirement to pay additional tax, interest and penalties, which amounts could be significant.

Proposed changes to U.S. Model Income Tax Treaty could adversely affect ARRIS.

On May 20, 2015, the U.S. Treasury released proposed revisions to the U.S. model income tax convention (the "Model"), the baseline text used by the U.S. Treasury to negotiate tax treaties. The proposed revisions address certain aspects of the Model by modifying existing provisions and introducing entirely new provisions. Specifically, the proposed revisions target (1) exempt permanent establishments, (2) special tax regimes, (3) expatriated entities, (4) the anti-treaty shopping measures of the limitation on benefits article, and (5) subsequent changes in treaty partners' tax laws.

With respect to the proposed changes to the Model pertaining to expatriated entities, because the Pace combination is otherwise subject to Section 7874, if applicable treaties were subsequently amended to adopt such proposed changes, payments of interest, dividends, royalties and certain other items of income by ARRIS U.S. Holdings, Inc. (our primary U.S. holding company) or its U.S. affiliates to non-U.S. persons would become subject to full U.S. withholding tax at a 30% rate. This could result in material U.S. taxes being paid by recipients of payments from ARRIS Holdings and its U.S. affiliates. Additionally, revisions to the Model may influence the international community's discussion of approaches to treaty abuse and harmful tax practices with respect to the Organization for Economic Cooperation and Development's ongoing work regarding base erosion and profit shifting. We are unable to predict the likelihood that the proposed revisions to the Model become a part of the Model or any U.S. income tax treaty. However, any revisions to a U.S. income tax treaty, including the proposed revisions described in this paragraph, could adversely affect ARRIS and its affiliates.

Consequences of the UK's delivering notice to leave the European Union could materially adversely affect our business.

In March 2017, the U.K. government delivered formal notice of its intention to withdraw from the European Union. As a result, it now has up to two years to negotiate the terms of its exit, unless all the remaining member states of the European Union agree to an extension. Given the lack of precedent, it is unclear how the withdrawal of the U.K. from the European Union will affect the U.K.'s access to the EU Single Market and other important financial and trade relationships and how it will affect us. The withdrawal could, among other outcomes, disrupt the free movement of goods, services and people between the U.K. and the European Union, undermine bilateral cooperation in key policy areas and significantly disrupt trade between the U.K. and the European Union. Additionally, absent planning and restructuring, the withdrawal will impact the application of the limitation on benefit clause under Article 24 of the U.S. – Luxembourg tax treaty to impose a full U.S. withholding tax at a 30% rate on certain payments made by ARRIS Holdings. Under current European Union rules, following the withdrawal the U.K. will not be able to negotiate bilateral trade agreements with member states of the European Union. In addition, a withdrawal of the U.K. from the European Union could significantly affect the fiscal, monetary, legal and regulatory landscape within the U.K. and could have a material impact on its economy and the future growth of its various industries, including the broadcast and broadband communication systems industry in which we operate. Although it is not possible to predict fully the effects of the withdrawal of the U.K. from the European Union, the possible exit of the U.K. from the European Union or prolonged periods of uncertainty in relation to it could have a material adverse effect on our business and our results of operations.

Although certain technical problems experienced by users may not be caused by our products, our business and reputation may be harmed if users perceive our products as the cause of a slow or unreliable network connection, or a high-profile network failure.

Our products have been deployed in many different locations and user environments and are capable of providing services and connectivity to many different types of devices operating a variety of applications. The ability of our products to operate effectively can be negatively impacted by many different elements unrelated to our products. For example, a user's experience may suffer from an incorrect setting in a Wi-Fi device. Although certain technical problems experienced by users may not be caused by our products, users often may perceive the underlying cause to be a result of poor performance of the wireless network. This perception, even if incorrect, could harm our business and reputation. Similarly, a high-profile network failure may be caused by improper operation of the network or failure of a network component that we did not supply, but other service providers may perceive that our products were implicated, which, even if incorrect, could harm our business, operating results and financial condition.

If our Enterprise segment products do not interoperate with cellular networks and mobile devices, future sales of our products could be negatively affected.

Our Enterprise segment products are designed to interoperate with cellular networks and mobile devices using Wi-Fi technology. These networks and devices have varied and complex specifications. As a result, we must attempt to ensure that our products interoperate effectively with these existing and planned networks and devices. To meet these requirements, we must continue to undertake development and testing efforts that require significant capital and employee resources. We may not accomplish these development efforts quickly or cost-effectively, or at all. If our products do not interoperate effectively, orders for our products could be delayed or cancelled, which would harm our revenue, operating results and our reputation, potentially resulting in the loss of existing and potential end customers. The failure of our products to interoperate effectively with cellular networks or mobile devices may result in significant warranty, support and repair costs, divert the attention of our engineering personnel from our product development efforts and cause significant customer relations problems. In addition, our end customers may require our products to comply with new and rapidly evolving security or other certifications and standards. If our products are late in achieving or fail to achieve compliance with these certifications and standards, or our competitors achieve compliance with these certifications and standards, such end customers may not purchase our products, which would harm our business, operating results and financial condition.

The continued industry move to open standards may impact our future results.

Our industry has and will continue to demand products based on open standards. The move toward open standards is expected to increase the number of providers that will offer services to the market. This trend is also expected to increase the number of competitors who are able to supply products to service providers and the enterprise market and drive down the capital costs. These factors may adversely impact both our future revenues and margins. In addition, many of our customers participate in “technology pools” and increasingly request that we donate a portion of our source code used by the customer to these pools, which may impact our ability to recapture the R&D investment made in developing such code.

We believe that we will be increasingly required to work with third party technology providers. As a result, we expect the shift to more open standards may require us to license software and other components indirectly to third parties via various open source or royalty-free licenses. In some circumstances, our use of such open source technology may include technology or protocols developed by standards settings bodies, other industry forums or third-party companies. The terms of the open source licenses granted by such parties, or the granting of royalty-free licenses, may limit our ability to commercialize products that utilize such technology, which could have a material adverse effect on our results.

Our business is concentrated in a couple key customers. The loss of any of these customers or a significant reduction in sales to any of these customers would have a material adverse effect on our business.

For the three months ended June 30, 2018, sales to our two largest customers (including their affiliates, as applicable) accounted for approximately 29% of our total revenue. The loss of any 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.

Also, many of our service provider or larger enterprise customers have substantial purchasing power and leverage in negotiating contractual arrangements with us. These end customers may require us to develop additional product features, may require penalties for non-performance of certain obligations, such as delivery, outages or response time. The leverage held by these large end customers could result in lower revenues and gross margins. The loss of a single large end customer could materially harm our business and operating results.

Our Enterprise Networks segment sales may be impacted as a result of changes in public funding for the Federal Government and educational institutions.

Customers in the Enterprise Networks segment include agencies of the U.S. Federal Government and both public and private K-12 institutions in the United States. These markets typically operate on limited budgets and depend on the U.S. federal government to provide supplemental funding. For example, the Federal Communications Commission, or FCC, through its E-rate program (also known as the Schools and Libraries Program of the Universal Service Fund), provides supplemental funding to school districts to fund upgrades to technical infrastructure, including Wi-Fi infrastructure. The most recently announced order under the E-rate program provides for a significant increase to the annual E-rate funding cap, to $3.9 billion with inflation adjustments annually, and increases funding availability from a two-year period to five-year period. However, the E-rate program continues to be subject to uncertainty regarding eligibility criteria and specific timing of actual federal funding as well as subject to further federal program guidelines and funding appropriation. This uncertainty and potential further changes to the E-rate program may affect or delay purchasing decisions by our end customers in the education market and will continue to cause fluctuations in our overall revenue forecasts and financial results and create greater uncertainty regarding the level of customer orders in this market during the term of the E-rate program. Similarly, fluctuations in the annual budgeting process for U.S. Federal Government IT spending may result in deferral or cancellation of projects from which ARRIS expected to derive revenue for the Enterprise Networks segment.

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, in addition to a number of important patents and licenses. We cannot predict whether we can protect our technology or whether competitors will be able to develop similar technology independently, and such technology could be subject to challenge, unlawful copying or other unfair competitive practices. Given the dependence on technology within the market in which we compete, 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 involved in several proceedings (and other proceedings have been threatened) in which our customers were sued for patent infringement. (See Part II, Item 1, “Legal Proceedings”) In these cases our customers have made claims against us and other suppliers for indemnification. We may become involved in similar litigation involving these and other customers in the future. 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 patent infringement against us or our customer is successful, and we fail to obtain a license or develop non-infringing technology, we or our customer may be prohibited from marketing or selling products containing the infringing technology 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.

We may not realize the anticipated benefits of past or future acquisitions, divestitures, and strategic investments, including the recently completed Ruckus Networks acquisition, and the integration of acquired companies or technologies or divestiture of businesses may negatively impact our business and financial results.

We have acquired or made strategic investments in other companies, products, or technologies, and expect to make additional acquisitions and strategic investments in the future. For example, in 2016, we acquired Pace and sold our whole-home solutions business, and in December 2017, we acquired the Ruckus Networks business. Our ability to realize the anticipated benefits from acquisitions and strategic investments involves numerous risks, including, but not limited to, the following:

- The ability to satisfy closing conditions necessary to complete an acquisition, including receipt of applicable regulatory approvals;
- Difficulties in successfully integrating the acquired businesses and realizing any expected synergies, including failure to integrate successfully the sales organizations;
- Unanticipated costs, litigation, and other contingent liabilities;
- Diversion of management’s attention from our daily operations and business;
- Adverse effects on existing business relationships with customers and suppliers;
- Risks associated with entering into markets in which we have limited or no prior experience;
- Inability to attract and retain key employees; and

- The impact of acquisition and integration related costs, goodwill or in-process research and development impairment charges, amortization costs for acquired intangible assets, and acquisition accounting treatment, including the loss of deferred revenue and increases in the fair values of inventory and other acquired assets, on our GAAP operating results and financial condition.

The Ruckus Networks acquisition has resulted in an expansion on our current technologies, and we have established a new business unit to focus on this business. The expansion into new technologies, markets and distributions where we have not previously operated may not be successful and may adversely impact our ability to realize the benefits of the acquisition in the time expected or at all.

We may also divest or reduce our investment in certain businesses or product lines from time to time. Such divestitures involve risks, such as difficulty separating portions of our business, distracting employees, incurring potential loss of revenue, negatively impacting margins, and potentially disrupting customer relationships. We may also incur significant costs associated with exit or disposal activities, related impairment charges, or both.

We have substantial goodwill and amortizable intangible assets.

Our financial statements reflect substantial goodwill and intangible assets, approximately $2.3 billion and $1.6 billion, respectively, as of June 30, 2018, that was recognized in connection with acquisitions, including the recently completed Ruckus Networks acquisition.

We annually (and more frequently if changes in circumstances indicate that the asset may be impaired) review the carrying amount of our goodwill to determine whether it has been impaired for accounting purposes. In general, if the fair value of the corresponding reporting unit is less than the carrying amount of the reporting unit, 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 amount 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.

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, including as a result of restructuring undertaken in connection with the integration of acquisitions.

As of October 1, 2017 (the date of our annual impairment testing), the fair value of our CPE reporting unit exceeded its carrying amount by 34% and, accordingly, did not result in a goodwill impairment. Over the last twelve months, near-term trends impacting revenue and gross margin, including higher product costs associated with memory and other components have decreased the amount by which the fair value exceeds the carrying amount, such that our CPE reporting unit could be at risk of failing step one of the impairment test if future projections are not realized. Further, the proposed tariffs may also have an adverse impact on our business. The estimated fair value of our CPE reporting unit is closely aligned with the ultimate amount of revenue and operating income that it achieves over the projection period. At this time, our projections assume limited revenue growth and some recovery in gross margins over current levels in subsequent years, which is dependent on product cost improving and ability to pass on increased costs through price increases. Our CPE reporting unit has approximately $1.4 billion of goodwill as of June 30, 2018.

In addition, the Company adopted new guidance on revenue recognition as of January 1, 2018. As a result of retrospective application of this guidance in our Cloud TV reporting unit, a goodwill impairment of approximately $3.4 million was recognized in first quarter of 2018 resulting from the indirect effect of the change in accounting principle, effecting changes in the composition and carrying amount of the net assets.

We continue to evaluate the anticipated discounted cash flows from the Cloud TV reporting unit. If current long-term projections for this unit are not realized or materially decrease, we may be required to write off all or a portion of the remaining $26.5 million of goodwill and $25.6 million of associated intangible assets.

If we determine an impairment exists, we may be required to write off all or a portion of the goodwill and associated intangible assets related to any impaired business. 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, 2017.

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 are subject to technological, supply chain, product development and other related risks that could delay successful delivery. The market in which we operate is subject to a rapid rate of technological change, reflected in increased development and manufacturing complexity and increasingly demanding customer requirements, all of which can result in unforeseen delivery problems. Even if the products in development are successfully brought to market, they may be late, may not be widely used or we may not be able to capitalize successfully on the developed 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 such products:

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

Furthermore, our competitors may develop similar or alternative technologies that, if successful, could have a material adverse effect on us. Our strategic alliances are generally 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 and the loss of any such strategic relationship could have a material adverse effect on our business and results of operations.

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, can still occur from time to time. Product defects, including hardware failures, 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. In some cases, we are dependent on a sole supplier for components used in our products. Defects in sole-sourced components subject us to additional risk of being able to quickly address any product issues or failures experienced by our customers as a result of the component defect and could delay our ability to deliver new products until the defective components are corrected or a new supplier is identified and qualified. This could increase our costs in resolving the product issue, result in decreased sales of the impacted product, or damage our reputation with customers, any of which could have the effect of negatively impacting our operating results.

Hardware or software defects could also permit unauthorized users to gain access to our customers' networks and/or a consumer's home network. In addition to potentially damaging our reputation with customers, such defects may also subject us to claims for damages under agreements with our customers and subject us to fines by regulatory authorities.

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.

Our ability to sell our products is highly dependent on the quality of our support and services offerings, and our failure to offer high quality support and services would have a material adverse effect on our sales and results of operations.

Once our products are deployed, our channel partners and end customers depend on our support organization to resolve any issues relating to our products. A high level of support is important for the successful marketing and sale of our products. In many cases, our channel partners provide support directly to our end-customers. We do not have complete control over the level or quality of support provided by our channel partners. These channel partners may also provide support for other third-party products, which may potentially distract resources from support for our products. If we and our channel partners do not effectively assist our end customers in deploying our products, succeed in helping our end customers quickly resolve post-deployment issues or provide effective ongoing support, it would adversely affect our ability to sell our products to existing end-customers and could harm our reputation with potential end customers. In some cases, we guarantee a certain level of performance to our channel partners and end customers, which could prove to be resource-intensive and expensive for us to fulfill if unforeseen technical problems were to arise.

Many of our service provider and large enterprise end customers have more complex networks and require higher levels of support than our smaller end customers. If our support organization fails to meet the requirements of our service provider or large enterprise end customers, it may be more difficult to execute on our strategy to increase our sales to large end customers. In addition, given the extent of our international operations, our support organization faces challenges, including those associated with delivering support, training and documentation in languages other than English. As a result of these factors, our failure to maintain high quality support and services would have a material adverse effect on our business, operating results and financial condition.

We are dependent on a limited number of suppliers, and inability to obtain adequate and timely delivery of supplies could have a material adverse effect on 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. Likewise, we have only a limited number of potential suppliers for certain materials and hardware used in our products, and a number of our agreements with suppliers are short-term in nature. 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, modules and other materials and reduced control over pricing, quality and timely delivery of components, subassemblies, modules and other products. Current supply of components in the memory and passives (MLCC) categories could impact our ability to deliver on a timely basis and overall product costs. 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 which could damage relationships with current and prospective customers and potentially have a material adverse effect on our business. Our ability to ship products could also be impacted by country laws and/or union labor disruptions. Disputes of this nature may have a material impact on our financial results.

Where we rely on third parties to manufacture our products, our ability to supply products to our customers may be disrupted.

We outsource the majority of the manufacturing of our products to third-party manufacturers. Our reliance on these third-party manufacturers reduces our control over the manufacturing process and exposes us to risks, including reduced control over quality assurance, product costs, and product supply and timing. Any manufacturing disruption by these third-party manufacturers could severely impair our ability to fulfill orders. Our reliance on outsourced manufacturers also yields the potential for infringement or misappropriation of our intellectual property. If we are unable to manage our relationships with these third-party manufacturers effectively, or if these third-party manufacturers suffer delays or disruptions for any reason, experience increased manufacturing lead-times, capacity constraints or quality control problems in their manufacturing operations, or fail to meet our future requirements for timely delivery, our ability to ship products to our customers may be severely impaired, and our business and operating results could be seriously harmed.

These manufacturers typically fulfill our supply requirements on the basis of individual orders. We do not have long term contracts with our third-party manufacturers that guarantee capacity, the continuation of particular pricing terms or the extension of credit limits. Accordingly, our third-party manufacturers are not obligated to continue to fulfill our supply requirements, which could result in supply shortages, and the prices we are charged for manufacturing services could be increased on short notice. In addition, as a result of fluctuating global financial market conditions, natural disasters or other causes, it is possible that any of our manufacturers could experience interruptions in production, cease operations or alter our current arrangements. If our manufacturers are unable or unwilling to continue manufacturing our products in required volumes, we will be required to identify one or more acceptable alternative manufacturers. Additionally, with the current U.S. trade tariff environment, transition of manufacturers may be required to non-tariff countries. It is time-consuming and costly and could be impractical to begin to use new manufacturers, and changes in our third-party manufacturers may cause significant interruptions in supply if the new manufacturers have difficulty manufacturing products to our specification. As a result, our ability to meet our scheduled product deliveries to our customers could be adversely affected, which could cause the loss of sales to existing or potential customers, delayed revenue or an increase in our costs. Any production interruptions for any reason, such as a natural disaster, epidemic, capacity shortages or quality problems, at one of our manufacturers would negatively affect sales of our product lines manufactured by that manufacturer and adversely affect our business and operating results.

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

For the six months ended June 30, 2018, approximately 43% of our sales were made outside of the United States. In addition, a significant portion of our products are manufactured or assembled in Brazil, Mexico and Taiwan. As a result, we are exposed to risk of international operations, including:

- fluctuations in currency exchange rates;
- inflexible employee contracts or labor laws in the event of business downturns;
- compliance with United States and foreign laws concerning trade and employment practices;
- the challenges inherent in consistently maintaining compliance with the Foreign Corrupt Practice Act and similar laws in other jurisdictions;
- the imposition of government controls;
- 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;
- coordinating communications among and managing international operations;
- currency controls;
- changes in tax and trade laws, including tariffs, that increase our local costs;
- exposure to heightened corruption risks; and
- reduced protection for intellectual property rights.

Political instability and military and terrorist activities may have significant impacts on our customers’ spending in these regions and can further enhance many of the risks identified above. 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 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;
- compliance by our channel partners with our policies and procedures as well as applicable laws; 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.

We depend on cloud computing infrastructure operated by third-parties and any disruption in these operations could adversely affect our business.

For our service offerings, in particular our Wi-Fi-related cloud services, we rely on third-parties to provide cloud computing infrastructure that offers storage capabilities, data processing and other services. We currently operate our cloud-dependent services using Amazon Web Service ("AWS") or Google Compute Engine ("GCE"). We cannot easily switch our AWS or GCE operations to another cloud provider. Any disruption of or interference with our use of these cloud services would impact our operations and our business could be adversely impacted.

Problems faced by our third-party cloud services, with the telecommunications network providers with whom we or they contract, or with the systems by which our telecommunications providers allocate capacity among their customers, including us, could adversely affect the experience of our end customers. If AWS and GCE are unable to keep up with our needs for capacity, this could have an adverse effect on our business. Any changes in third-party cloud services or any errors, defects, disruptions, or other performance problems with our applications could adversely affect our reputation and may damage our end customers' stored files or result in lengthy interruptions in our services. Interruptions in our services might adversely affect our reputation and operating results, cause us to issue refunds or service credits, subject us to potential liabilities, or result in contract terminations.

We and our end customers may be subject to complex and evolving U.S. and foreign laws and regulations regarding privacy, data protection and other matters and violations of these laws and regulations may result in claims, changes to our business practices, monetary penalties, increased costs of operations, and/or other harms to our business.

There has been an increase in laws in Europe, the U.S. and elsewhere imposing requirements for the handling of personal data, including data of employees, consumers and business contacts as well as privacy-related matters. For example, several U.S. states have adopted legislation requiring companies to protect the security of personal information that they collect from consumers over the Internet, and more states have proposed similar legislation in the future. Foreign data protection, privacy, and other laws and regulations can be more restrictive than those in the U.S. In 2016 the EU Parliament approved the EU General Data Protection Regulation ("GDPR"). GDPR was designed to harmonize data privacy laws across Europe, to protect and empower all EU citizens data privacy and to reshape the way organizations across the region approach data privacy. Compliance with the GDPR will require changes to existing products, designs of future products, internal and external software systems, including our web sites, and changes to many company processes and policies. Failure to comply with GDPR, which became effective in May of 2018, could cause significant penalties and loss of business.

In addition, some countries are considering legislation requiring local storage and processing of data that, if enacted, could increase the cost and complexity of offering our solutions or maintaining our business operations in those jurisdictions. The introduction of new solutions or expansion of our activities in certain jurisdictions may subject us to additional laws and regulations. Our channel partners and end customers also may be subject to such laws and regulations in the use of our products and services.

These U.S. federal and state and foreign laws and regulations, which often can be enforced by private parties or government entities, are constantly evolving. In addition, the application and interpretation of these laws and regulations are often uncertain and may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices and may be contradictory with each other. For example, a government entity in one jurisdiction may demand the transfer of information forbidden from transfer by a government entity in another jurisdiction. If our actions were determined to be in violation of any of these disparate laws and regulations, in addition to the possibility of fines, we could be ordered to change our data practices, which could have an adverse effect on our business and results of operations and financial condition. There is also a risk that we, directly or as the result of a third-party service provider we use, could be found to have failed to comply with the laws or regulations applicable in a jurisdiction regarding the collection, consent, handling, transfer, or disposal of personal data, which could subject us to fines or other sanctions, as well as adverse reputational impact.

Compliance with these existing and proposed laws and regulations can be costly, increase our operating costs and require significant management time and attention, and failure to comply can result in negative publicity and subject us to inquiries or investigations, claims or other remedies, including fines or demands that we modify or cease existing business practices. Channel partners and end customers may demand or request additional functionality in our products or services that they believe are necessary or appropriate to comply with such laws and regulations, which can cause us to incur significant additional costs and can delay or impede the development of new solutions. In addition, there is a risk that failures in systems designed to protect private, personal or proprietary data held by us or our channel partners and end customers using our solutions will allow such data to be disclosed to or seen by others, resulting in application of regulatory penalties, enforcement actions, remediation obligations, private litigation by parties whose data were improperly disclosed, or claims from our channel partners and end customers for costs or damages they incur.

The planned upgrade of our enterprise resource planning ("ERP") software solution could result in significant disruptions to our operations.

We have initiated the process of upgrading our ERP software solution to a newer, cloud-based version. We expect the upgrade to be completed in 2019. Implementation of the upgraded solution will have a significant impact on our business processes and information systems. The transition will require significant change management, meaningful investment in capital and personnel resources, and coordination of numerous software and system providers and internal business teams. We may experience difficulties as we manage these changes and transitions to the upgraded systems, including loss or corruption of data, delayed shipments, decreases in productivity as personnel implement and become familiar with new systems and processes, unanticipated expenses (including increased costs of implementation or costs of conducting business), and lost revenues. Difficulties in implementing the upgraded solution or significant system failures could disrupt our operations, divert management's attention from key strategic initiatives, and have an adverse effect on our capital resources, financial condition, results of operations, or cash flows. In addition, any delays in completing the upgrade process could exacerbate these transition risks as well as expose us to additional risks in the event that the support for our existing ERP software solution is reduced or eliminated.

The import of our products is subject to trade regulations and could be impacted by orders prohibiting the importation of products.

The import of our products into the United States and certain other countries is subject to the trade regulations in the countries where they are imported. Products may be subject to customs duties that we pay to the applicable government agency and then collect from our customers in connection with the sale of the imported products. The amount of the customs duty owed, if any, is based on classification of the products within the applicable customs regulations. A significant portion of our overall shipments import into the United States, any change to trade regulations may challenge our classifications and the amount of any duty or tax payable. While we believe that our products have been properly classified, the U.S. Customs Agency or other applicable foreign regulatory agencies, may challenge our classifications and the amount of any duty payable. For example, we currently have a case pending in the U.S. Court of International Trade regarding the challenge by the U.S. Customs Agency with respect to certain digital television adapters that we import into the United States and believe are duty free. If it is ultimately determined that a product has been misclassified for customs purposes, we may be required to pay additional duties for products previously imported and we may not be successful in collecting the increased duty from the customer that purchased the products. In addition, we could be required to pay interest and/or fines to the applicable regulator, which amounts could be significant and negatively impact our results of operations. Further, if we do not comply with the applicable trade regulations, delivery of products to customers may be delayed which could negatively impact our sales and results of operations.

From time to time, we, our customers and our suppliers, may be subject to proceedings at the U.S. International Trade Commission (the "ITC") with respect to alleged infringement of U.S. patents. If the ITC finds a party infringed a U.S. patent, it can issue an exclusion order barring importation into the United States of the product that infringes, or includes components, of the product that infringes the identified patents. An exclusion order impacting our products could have a material adverse effect on our revenues and results of operations.

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

Our ordinary shares are traded on The NASDAQ Global Select Market. The trading price of our shares 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;
- variations in operating results from period to period;
- 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 ordinary shares, regardless of our operating performance. Volatility in our stock price will also impact the fair value determination of our outstanding warrants with customers. A significant increase in our stock price while we are required to mark-to-market the fair value of the outstanding warrants to customers may increase the reduction in revenues we are required to record under the required accounting treatment for the warrants which could have a significant impact on our operating results.

Our business is subject to the risks of earthquakes, fire, floods and other natural catastrophic events, and to interruption by manmade problems such as network security breaches, computer software or system errors or viruses or terrorism.

We and our contract manufacturers maintain facilities in many areas known for seismic activity including the San Francisco Bay area and eastern Asia. A significant natural disaster, such as an earthquake, a fire or a flood, occurring near any of our major facilities, or near the facilities of our contract manufacturers, could have a material adverse impact on our business, operating results and financial condition. In addition, we have major development and support operations concentrated in India. A natural disaster in this location could have a material adverse impact on our support operations. In addition, natural disasters, acts of terrorism or war could cause disruptions in our or our customers' businesses, our suppliers' or manufacturers' operations or the economy as a whole. We also rely on IT systems to operate our business and to communicate among our workforce and with third parties. For example, we use business management and communication software products provided by third parties, such as Oracle, Microsoft Online, SAP and salesforce.com, and security flaws or outages in such products would adversely affect our operations. Any disruption to these systems, whether caused by a natural disaster or by manmade problems, such as power disruptions, could adversely affect our business. To the extent that any such disruptions result in delays or cancellations of customer orders or impede our suppliers' and/or our manufacturers' ability to timely deliver our products and product components, or the deployment of our products, our business, operating results and financial condition would be adversely affected.

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.

In addition, defects in the hardware or software we develop and sell, or in their implementation by our customers, could also result in unauthorized access to our customers' and/or consumers' networks. Any security breach involving the misappropriation, loss or other unauthorized disclosure or use of confidential information of our customers 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 customers, 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. We expect the U.S. and other countries to adopt additional cyber-security legislation that, if enacted, could impose additional obligations upon us that may negatively impact our operating results.

Regulations related to conflict minerals may adversely affect us.

We are subject to the SEC disclosure obligations relating to our use of so-called "conflict minerals"—columbite-tantalite, cassiterite (tin), wolframite (tungsten) and gold. These minerals are present in substantially all 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 have not historically paid cash dividends.

We have not historically paid cash dividends on our ordinary shares. In addition, our ability to pay dividends is limited by the terms of our 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.

As a result of shareholder voting requirements in the United Kingdom, we have less flexibility with respect to certain aspects of capital management.

Under English law, our directors may issue new ordinary shares up to a maximum amount equal to the allotment authority granted to the directors under our articles of association or by an ordinary resolution of our shareholders, subject to a five-year limit on such authority. Additionally, subject to specified exceptions, English law grants preemptive rights to existing shareholders to subscribe for new issuances of shares for cash but allows shareholders to waive these rights by way of a special resolution with respect to any particular allotment of shares or generally, subject to a five-year limit on such waiver. Our articles of association contain, as permitted by English law, a provision authorizing our Board to issue new shares for cash without preemptive rights. The authorization of the directors to issue shares without further shareholder approval and the authorization of the waiver of the statutory preemption rights must both be renewed by the shareholders at least every five years, and we cannot provide any assurance that these authorizations always will be approved, which could limit our ability to issue equity and, thereby, adversely affect the holders of our ordinary shares. While we do not believe that English laws relating to our capital management will have a material adverse effect on us, situations may arise where the flexibility to provide certain benefits to our shareholders is not available under English law.

Any attempted takeovers of us will be governed by English law.

As a U.K. incorporated company, we are subject to English law. An English public limited company is potentially subject to the protections afforded by the U.K. Takeover Code if, among other factors, a majority of its directors are resident within the U.K., the Channel Islands or the Isle of Man. We do not believe that the U.K. Takeover Code applies to us, and, as a result, our articles of association include measures similar to what may be found in the charters of U.S. companies, including the power for our Board to allot shares where in the opinion of the Board it is necessary to do so in the context of an acquisition of 20% or more of the issued voting shares in specified circumstances (this power is subject to renewal by our shareholders at least every five years and will cease to be applicable if the U.K. Takeover Code is subsequently deemed to be applicable to ARRIS). Further, it could be more difficult for us to obtain shareholder approval for a merger or negotiated transaction because the shareholder approval requirements for certain types of transactions differ, and in some cases, are greater under English law. The provisions of our articles of association and English law may have an anti-takeover impact on us and our ordinary shares.

Transfers of our ordinary shares, other than one effected by means of the transfer of book-entry interests in the Depository Trust Company ("DTC"), may be subject to U.K. stamp duty.

Substantially all of our outstanding shares are currently represented by book-entry interests in DTC. Transfers of our ordinary shares within DTC should not be subject to stamp duty or stamp duty reserve tax ("SDRT") provided no instrument of transfer is entered into and no election that applies to our ordinary shares is made or has been made by DTC or Cede, its nominee, under Section 97A of the U.K. Finance Act 1986. In this regard DTC has confirmed that neither DTC nor Cede (its nominee) has made an election under Section 97A of the Finance Act that would affect our shares issued to Cede. If such an election is or has been made, transfers of our ordinary shares within DTC generally will be subject to SDRT at the rate of 0.5% of the amount or value of the consideration. Transfers of our ordinary shares held in certificated form generally will be subject to stamp duty at the rate of 0.5% of the consideration given (rounded up to the nearest £5). SDRT will also be chargeable on an agreement to transfer such shares, although such liability would be discharged if stamp duty is duly paid on the instrument of transfer implementing such agreement within a period of six years from the agreement. Subsequent transfer of our ordinary shares to an issuer of depository receipts or into a clearance system (including DTC) may be subject to SDRT at a rate of 1.5% of the consideration given or received or, in certain cases, the value of our ordinary shares transferred. The purchaser or transferee of the ordinary shares generally will be responsible for paying any stamp duty or SDRT payable.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth information regarding the purchases of our equity securities made by us during the three months ended June 30, 2018:

Period	Total Number of Shares Purchased [1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in thousands)
April 2018	894,627	$26.64	894,627	476,169
May 2018	393,080	$25.50	393,080	466,145
June 2018 [2]	2,663,531	$24.81	2,663,403	400,057

(1) An aggregate of 128 shares shown in the table above were subject to equity awards that were cancelled for cash to satisfy employee minimum tax withholding obligations that arose on the vesting of the applicable shares of restricted stock units.

(2) Includes an aggregate of 557,715 shares (approximately $13.7 million) pending settlement as of June 30, 2018.

Upon completing the Pace combination, ARRIS International plc conducted a court-approved process in accordance with section 641(1)(b) of the U.K. Companies Act 2006, pursuant to which we reduced our stated share capital and thereby increased our distributable reserves or excess capital out of which we may legally pay dividends or repurchase shares. Distributable reserves are not linked to a U.S. GAAP reported amount.

In 2016, our Board of Directors approved a $300 million share repurchase authorization replacing all prior programs. In March 2017, the Board authorized an additional $300 million for share repurchases, and authorized an additional $300 million for repurchases again in March 2018.

During the first quarter of 2018, ARRIS repurchased 1.0 million shares of the Company's ordinary shares at an average price of $25.35 per share, for aggregate consideration of approximately $25.0 million. During the second quarter of 2018, ARRIS repurchased 4.0 million shares of the Company's ordinary shares at an average price of $25.29 per share, for aggregate consideration of approximately $99.9 million. The remaining authorized amount for stock repurchases under these plans was $400.1 million as of June 30, 2018. Since the end of the second quarter through August 1, 2018, we have repurchased an additional 2.0. million ordinary shares for approximately $50.0 million. The remaining authorized amount for share repurchases under this plan was $350.0 million as of August 1, 2018. In August 2018, we announced that we intend to purchase a minimum of $400 million of our ordinary shares in 2018, subject to market conditions.

Unless terminated earlier by a Board resolution, these new plans will expire when ARRIS has used all authorized funds for repurchase. However, U.K. law also generally prohibits a company from repurchasing its own shares through "off market purchases" without prior approval of shareholders if such company is not traded on a recognized investment exchange in the U.K. This shareholder approval lasts for a maximum period of five years. Prior to and in connection with the Pace combination, we obtained approval to purchase our own shares. This authority to repurchase shares terminates in January 2021, unless otherwise reapproved by our shareholders.

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 INTERNATIONAL PLC

/s/ DAVID B. POTTS

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

Dated: August 8, 2018

Exhibit 31.1

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

I, Bruce W. McClelland, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ARRIS International plc;

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 external 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: August 8, 2018

/s/ BRUCE MCCLELLAND

Bruce W. McClelland
Chief Executive Officer

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 International plc;
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 external 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: August 8, 2018

/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 International plc, certifies that to the best of his knowledge the Quarterly Report on Form 10-Q for the period ended June 30, 2018, 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 International plc 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 8th day of August 2018

/s/ BRUCE MCCLELLAND

Bruce W. McClelland
Chief Executive Officer

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 International plc, certifies that to the best of his knowledge the Quarterly Report on Form 10-Q for the period ended June 30, 2018, 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 International plc 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 8th day of August 2018

/s/ DAVID B. POTTS

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