# Third Quarter 2015 Earnings Conference Call

October 28, 2015

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Statements in this presentation, including those related to the outlook for 2015 and beyond, expected revenues and net income, gross margins, operating expenses, income taxes, the proposed acquisition of Pace, acceptance of certain ARRIS products, the general market outlook, and industry trends, are forward-looking statements. These statements involve risks and uncertainties that may cause actual results to differ materially from those set forth in these statements. Among other things, projected results are based on preliminary estimates, assumptions and projections that management believes to be reasonable at this time, but are largely beyond management's control; ARRIS is dependent upon customer decisions to purchase the Company's products - these decisions can be deferred and customers also may select competitor products; completion of the Pace acquisition is subject to satisfaction of a number of conditions outside of ARRIS' control, including receipt of necessary remaining regulatory approvals; any requirements, conditions and limitations imposed by regulatory authorities upon ARRIS and its business after completion of the Pace acquisition, including any required divestiture, failure to realize the expected benefits of the Pace acquisition, negative effects relating to the announcement of the transactions or any further announcements relating to the transaction, significant transaction costs and/or unknown liabilities; and because the market in which ARRIS operates is volatile and actions taken and contemplated may not achieve the desired impact. Other factors that could cause results to differ materially from current expectations include: the uncertain current global economic climate and financial markets, and their impact on our customers' plans and access to capital; the impact of rapidly changing technologies; the impact of competition on product development and pricing; the impact of the strong U.S. dollar; the ability of ARRIS to react to changes in general industry and market conditions; rights to intellectual property and the current trend toward increasing patent litigation, market trends and the adoption of industry standards; possible acquisitions and dispositions; the impact of recently completed and pending M&A transactions within both the customer and supplier base, including the acquisition of DIRECTV by AT&T, the proposed acquisition of Time Warner by Charter, the proposed acquisition by Frontier Communications of several properties owned by Verizon, and the proposed acquisitions of Suddenlink and Cablevision by Altice. These factors are not intended to be an all-encompassing list of risks and uncertainties that may affect the Company's business. Additional information regarding these and other factors can be found in ARRIS reports filed with the Securities and Exchange Commission, including its Form 10-Q for the quarter ended June 30, 2015. In providing forward-looking statements, the Company expressly disclaims any obligation to update publicly or otherwise these statements, whether as a result of new information, future events or otherwise, except as required by law.

# Q3 2015 Earnings Call Agenda

- Q3 Highlights – Bob Stanzione
- Financial Highlights – David Potts
- Customer Premises Equipment Review – Larry Robinson
- Network & Cloud Review – Bruce McClelland
- Pace Update & Business Outlook – Bob Stanzione

# Third Quarter 2015 Highlights

BOB STANZIONE
Chairman & CEO

# Q3 2015 Results - In Line with Guidance

- Revenues of $1.221B down 13.1% year-over-year, down 3.1% sequentially
- Non-GAAP earnings of $0.56* per share, down from the prior year of $0.81 and up from $0.53 in the prior quarter (GAAP EPS of $0.18*)
- International sales of $331M, represented 27.1% of Q3 sales
- Book to bill rate of 0.92, Backlog of $559.0M
- Cash from operating activities of $212.7M

**See reconciliation of GAAP to Non-GAAP measures.*

# Third Quarter 2015 Financial Highlights

DAVE POTTS
Chief Financial Officer

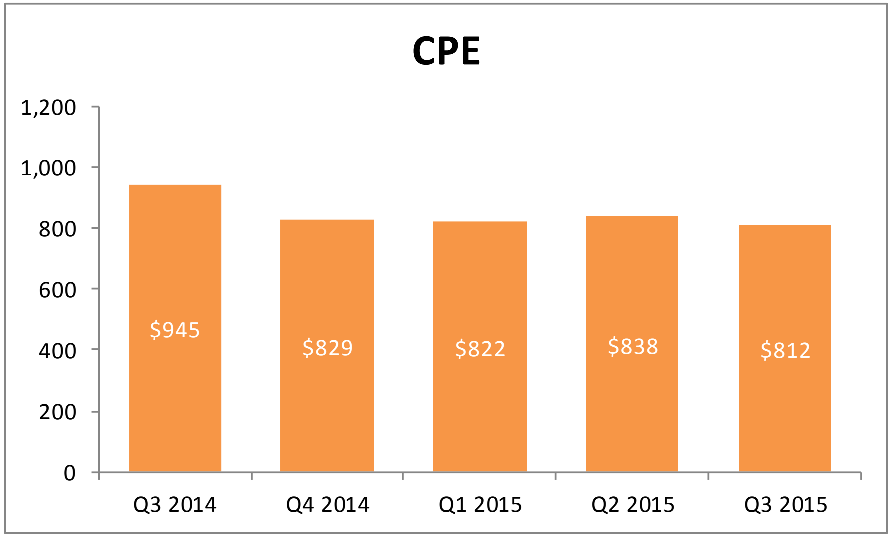
# Financial highlights – Q3 and YTD 2015 (preliminary & unaudited)

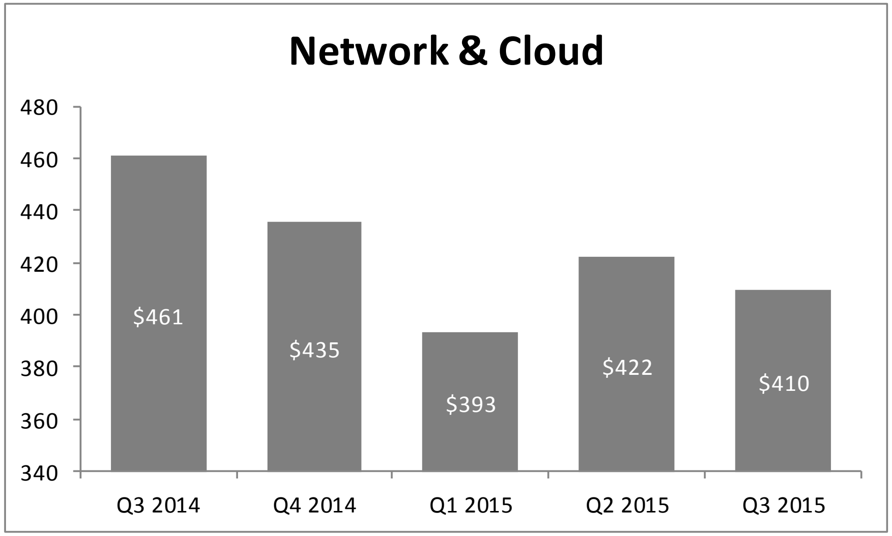
| | Q3 2014 | Q2 2015 | Q3 2015 | Sep YTD 2014 | Sep YTD 2015 |
|---|---|---|---|---|---|
| Sales - $M | 1,405.4 | 1,260.1 | 1,221.4 | 4,059.5 | 3,696.7 |
| Gross Margin - $M | 435.7 | 364.4 | 359.3 | 1,201.9 | 1,060.2 |
| Gross Margin - % | 31.0% | 28.9% | 29.4% | 29.6% | 28.7% |
| Direct Contribution(1) | 189.4 | 120.9 | 125.4 | 465.9 | 350.1 |
| EPS - GAAP | 0.37 | 0.11 | 0.18 | 0.91 | 0.42 |
| Adjusted EPS - Non-GAAP | 0.81 | 0.53 | 0.56 | 1.98 | 1.53 |
| Cash, ST & LT Marketable Securities - $M | 599.1 | 622.8 | 781.1 | 599.1 | 781.1 |
| Cash Provided by Operating Activities - $M | 81.9 | 68.3 | 212.7 | 329.2 | 221.3 |
| Debt Repayment - $M | 13.8 | 15.0 | 12.4 | 195.9 | 41.1 |
| Share Repurchase - $M | - | - | - | - | 25.0 |
| Short-term Bank Debt -$M | 67.1 | 47.9 | 47.9 | 67.1 | 47.9 |
| Long-term Bank Debt -$M | 1,487.6 | 1,478.5 | 1,466.6 | 1,487.6 | 1,466.6 |
| Weighted average common shares - basic - M | 145.0 | 146.3 | 146.8 | 144.1 | 146.1 |
| Weighted average common shares - diluted - M | 148.8 | 149.3 | 149.4 | 148.0 | 149.2 |
| Backlog - $M | 594.1 | 651.3 | 559.0 | 594.1 | 559.0 |
| Book-to-Bill | 0.86 | 0.94 | 0.92 | 1.01 | 0.98 |

(1) Defined as gross margin less direct operating expenses, excluding amortization of intangible assets, restructuring charges, acquisition, integration and other costs.

**See GAAP to Non GAAP Reconciliation**

# Sales $M – Q3 2015 (preliminary & unaudited)




| | Q3 2015 | % of Sales |
|---|---|---|
| Domestic Sales | 890 | 73% |
| International Sales | 331 | 27% |

| | Q3 2015 | % of Sales |
|---|---|---|
| Total of two customers greater than 10% | 512 | 42% |

# Sales and direct contribution by segment (preliminary & unaudited)

**($M)**

| | Q3 2015 | | | |
|---|---|---|---|---|
| | **Network & Cloud** | **CPE** | **Corp/ Other** | **Total** |
| Net Sales | 409.6 | 811.7 | 0.1 | 1,221.4 |
| Non GAAP Adjustments | - | - | - | - |
| Adjusted Net Sales | 409.6 | 811.7 | 0.1 | 1,221.4 |
| | | | | |
| Direct Contribution (1) | 121.2 | 141.4 | (137.2) | 125.4 |
| Non GAAP Adjustments (2) | - | - | 16.3 | 16.3 |
| Adjusted Direct Contribution | 121.2 | 141.4 | (120.9) | 141.7 |

**See GAAP to Non GAAP Reconciliation**

(1) Defined as gross margin less direct operating expenses, excluding amortization of intangible assets, restructuring charges, acquisition, integration and other costs.

(2) Stock compensation expense and adjustments related to the acquisition accounting impacts.

# Operating expenses – Q3 and YTD 2015 (preliminary & unaudited)

$M

| | | Qtr 3 2014 | Qtr 2 2015 | Qtr 3 2015 | Sep YTD 2014 | Sep YTD 2015 |
|---|---|---|---|---|---|---|
| R&D | $M | 142.8 | 136.3 | 132.2 | 421.1 | 400.9 |
| | % of Sales | 10.2% | 10.8% | 10.8% | 10.4% | 10.8% |
| SG&A | $M | 103.5 | 107.2 | 101.7 | 315.0 | 309.2 |
| | % of Sales | 7.4% | 8.5% | 8.3% | 7.8% | 8.4% |
| Operating Expenses | $M | 246.3 | 243.5 | 233.9 | 736.1 | 710.2 |
| | % of Sales | 17.5% | 19.3% | 19.1% | 18.1% | 19.2% |
| Integration, Acquisition, Restructuring & Other Costs | $M | 10.2 | 12.6 | 7.5 | 34.2 | 21.0 |
| | % of Sales | 0.7% | 1.0% | 0.6% | 0.8% | 0.6% |
| Amortization of Intangibles | $M | 57.1 | 56.8 | 57.1 | 179.8 | 171.1 |
| | % of Sales | 4.1% | 4.5% | 4.7% | 4.4% | 4.6% |
| Total | $M | 313.6 | 312.8 | 298.6 | 950.1 | 902.2 |
| | % of Sales | 22.3% | 24.8% | 24.4% | 23.4% | 24.4% |
| Equity Compensation Expense Included | | 11.7 | 14.1 | 14.0 | 34.9 | 40.3 |

# Cash & cash flow highlights Q3 2015 (preliminary & unaudited)

| | $M |
|---|---|
| Cash, short term and long term marketable securities | 781.1 |
| Key Operating Activities: | |
| Net income including adjustments | 154.6 |
| Changes in other operating assets and liabilities | 58.1 |
| | 212.7 |
| Key Investing Activities: | |
| Purchase of property, plant & equipment | (12.7) |
| Investments, net | 15.3 |
| Key Financing Activities: | |
| Payments of debt obligations | (12.4) |

# Q4 2015 guidance (preliminary & unaudited)

| | **Q4 2015** |
|---|---|
| Sales - $M | 1,100 - 1,150 |
| EPS - GAAP [1] | $ 0.05 - $ 0.10 |
| Adjusted EPS - Non-GAAP | $ 0.40 - $ 0.45 |
| Non-GAAP Tax Rate | 35% |
| Shares | 150 M |

See reconciliation of GAAP to Non GAAP

# Customer Premises Equipment Review

LARRY ROBINSON
President, Customer Premises Equipment

# Q3 2015 Customer Premises Equipment Highlights

- **Q3 2015 Segment Results**
  - Sales decreased 3% as compared to prior quarter results and 14% versus Q3 2014 due to lower telco revenues
  - Cable CPE sales improved sequentially with robust DOCSIS & video gateway shipments
  - Strong Retail sales performance – Record levels of broadband gateways & modems

**Key Features**

- 24 channel downstream channel bonding
- Integrated voice
- Gigabit router
- MoCA 2.0 network
- 802.11ac Wi-Fi

**XB3**
*ARRIS Advanced DOCSIS Gateway*

- **Broadband CPE**
  - Broadband device & accessory unit volumes (DOCSIS & DSL) declined 4% sequentially and 11% as compared to Q3 2014
  - 73% of broadband devices shipped during Q3 2015 were Wi-Fi enabled
  - Formally announced the deployment of the ARRIS XB3 platform with Comcast
  - Secured position with Tier 1 customer on next-generation DSL gateway
  - Announced initial DOCSIS 3.1 CPE solutions portfolio at recent SCTE Show

# Q3 2015 Customer Premises Equipment Highlights

- **Video CPE (Set-Tops / Video Gateways)**
  - Video CPE unit volumes increased 5% sequentially and declined 11% as compared to Q3 2014
  - Launched next generation video gateway platform with Shaw Communications
  - Initiated production on DCX3635 video gateway and IP815 IP client solutions
  - Selected to supply the VIP1113 set-top to Telefonica – Delivering next-gen IPTV services, including HDTV, TV Everywhere and OTT offerings, to Movistar+ TV subs
  - Windstream selected ARRIS Wireless video gateways & set-tops to power Its Kinetic TV Service

**DCX3635**
*ARRIS Video Gateway*

**IP815**
*ARRIS Video IP Client*

# Network & Cloud Review

BRUCE McCLELLAND
President, Network and Cloud

# Q3 2015 Network & Cloud Highlights

- Q3 2015 Results
  - Sales down 3% and direct operating profit increased 3% QoQ
  - Sales and direct operating profit decreased by 11% and 10% respectively year-over-year
  - Strong gross margin and direct operating profit resulting from increased E6000 capacity license shipments
  - Strong demand for Access and Transport HFC products as operators expand Broadband capacity
  - Full quarter of ActiveVideo joint venture
  - Closed sale of Telewire Supplies division to Technetix

# Q3 2015 Network & Cloud Highlights

ARRIS

- CMTS/CCAP
  - E6000 sales down from 1H15 levels as expected, as previous shipments were being installed and deployed
  - Significant quantity of E6000 capacity license shipments into installed base
  - New E6000 CCAP customer: Shaw Communications
  - DOCSIS3.1 demonstrations at recent SCTE show highlighted 1.8Gbps throughput with simultaneous D3.0 high speed data and MPEG Video services
    - On track for 4Q15 customer field trials
    - Expect formal Cablelabs certification testing to start in 4Q15
- Access and Transport
  - Strong Q3 sales as operators add capacity and drive fiber deeper
  - Deployments of FTTP using Hybrid PON AgileMax solution accelerate

**E6000™**
*ARRIS CCAP*

**OM6000™**
*1.2GHz Optical Node*

# Q3 2015 Network & Cloud Highlights



- Video Systems
  - Increased sales of nDVR S420 Recorder platform along with strong CherryPicker® video processing shipments underpin consistent sales of Video Systems equipment in 3Q
- Cloud
  - Announced Eastlink deployment of ServAssure™ Alarm Central Software-as-a-Service to automate broadband network fault management to improve customer experience
  - TDS Telecommunications Corp announced deployment of ARRIS MOXI® Whole Home Solution in 11 markets in southwestern U.S.
  - Received acceptance on major WorkForce mgmt. upgrade project in South America
- Global Services
  - Good progress on multiple major services projects; expect strong Q4 as acceptance is reached on several programs
  - Announced Service Provider Wi-Fi project with Suddenlink to deliver carrier grade Wi-Fi to commercial customers throughout 17-state area

**M3 S420**
*ARRIS nDVR Recorder*

**MOXI**
*Whole Home Solution*

# Business Outlook

BOB STANZIONE
Chairman & CEO

# ARRIS and Pace:

## Combination enhances shareholder value:

- Significantly enhances ARRIS international presence
- Provides large scale entry into satellite segment
- Highly accretive transaction

## Acquisition update:

- Anticipate close late 2015, first quarter 2016
- Received ARRIS shareholder approval 10/21/15
- Received Pace shareholder approval 10/22/15
- Integration planning continuing
- Regulatory approval process continues
  - Received approval in Germany, South Africa, and Portugal

# Business Outlook

- Q4 2015
  - Anticipate lower U.S. revenue
  - International growth tempered by strong dollar
  - Near-term M&A uncertainty

- 2016 – Promising growth prospects
  - Increasing OTT services
  - Expanding Gigabit services
  - Increasing demand for Wi-Fi solutions
  - Fiber deep
  - DOCSIS 3.1 refresh cycle
  - Ramping projects with Liberty Global and nbn
  - New projects with Shaw, Suddenlink, Charter, Telstra, and others
  - More visibility to capital investment as announced industry M&A completes

# Thank you

# GAAP to adjusted Non-GAAP EPS guidance reconciliation

| | Q4 2015 Guidance |
|---|---|
| Estimated GAAP EPS | \$ 0.05 - \$ 0.10 |
| Reconciling items (after tax): | |
| Amortization of intangibles | 0.24 |
| Stock compensation expense | 0.07 |
| Integration, Acquisition and Other Costs | 0.04 |
| Subtotal | 0.35 |
| Estimated adjusted (non-GAAP) EPS | \$ 0.40 - \$ 0.45 |

# GAAP EPS/adjusted EPS reconciliation Q3 and YTD 2015 (preliminary & unaudited)

ARRIS

| (in thousands, except per share data) | Q3 2014 | | Q2 2015 | | Q3 2015 | | Sep YTD 2014 | Sep YTD 2015 |
|---|---|---|---|---|---|---|---|---|
| | Amount | Per Diluted Share | Amount | Per Diluted Share | Amount | Per Diluted Share | Amount | Amount |
| Sales | $ 1,405,446 | | $ 1,260,077 | | $ 1,221,416 | | $ 4,059,533 | $ 3,696,651 |
| Highlighted items: | | | | | | | | |
| Acquisition accounting impacts of deferred revenue | 780 | | - | | - | | $ 4,475 | $ - |
| Sales excluding highlighted items | $ 1,406,226 | | $ 1,260,077 | | $ 1,221,416 | | $ 4,064,008 | $ 3,696,651 |

| | Q3 2014 | | Q2 2015 | | Q3 2015 | | Sep YTD 2014 | | Sep YTD 2015 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | Per Diluted Share | Amount | Per Diluted Share | Amount | Per Diluted Share | Amount | Per Diluted Share | Amount | Per Diluted Share |
| Net income attributable to ARRIS Group, Inc. | $ 54,626 | $ 0.37 | $ 16,758 | $ 0.11 | $ 26,257 | $ 0.18 | $ 134,451 | $ 0.91 | $ 62,139 | $ 0.42 |
| Highlighted items: | | | | | | | | | | |
| *Impacting gross margin:* | | | | | | | | | | |
| Stock compensation expense | 1,824 | 0.01 | 2,214 | 0.01 | 2,284 | 0.02 | 4,934 | 0.03 | 6,289 | 0.04 |
| Acquisition accounting impacts of deferred revenue | 47 | - | - | - | - | - | 3,048 | 0.02 | - | - |
| *Impacting operating expenses:* | | | | | | | | | | |
| Integration, acquisition, restructuring and other costs | 10,226 | 0.07 | 12,566 | 0.08 | 7,531 | 0.05 | 34,246 | 0.23 | 20,995 | 0.14 |
| Amortization of intangible assets | 57,100 | 0.38 | 56,783 | 0.38 | 57,132 | 0.38 | 179,836 | 1.22 | 171,062 | 1.15 |
| Stock compensation expense | 11,671 | 0.08 | 14,079 | 0.09 | 14,005 | 0.09 | 34,878 | 0.24 | 40,267 | 0.27 |
| Non GAAP items included in Noncontrolling interest | - | - | (799) | (0.01) | (791) | (0.01) | - | - | (1,590) | (0.01) |
| *Impacting other (income) / expense:* | | | | | | | | | | |
| Impairment on Investments | 4,000 | 0.03 | 150 | - | - | - | 7,000 | 0.05 | 150 | - |
| Debt amendement fees | - | - | 14,382 | 0.10 | 669 | - | - | - | 15,051 | 0.10 |
| Credit facility - ticking fees | - | - | - | - | 678 | - | - | - | 678 | - |
| Asset held for sale impairment | - | - | - | - | - | - | 2,125 | 0.01 | - | - |
| Foreign exchange contract (gains) losses related to cash consideration of Pace acquisition | - | - | (6,845) | (0.05) | 15,429 | 0.10 | - | - | 8,584 | 0.06 |
| Adjustment to liability related to foreign tax credit benefits | - | - | - | - | (3,669) | (0.02) | - | - | (3,669) | (0.02) |
| Loss on sale of building | - | - | - | - | - | - | - | - | 5,142 | 0.03 |
| *Impacting income tax expense:* | | | | | | | | | | |
| *Net tax items* | (19,375) | (0.13) | (30,122) | (0.20) | (35,845) | (0.24) | (107,429) | (0.73) | (96,500) | (0.65) |
| Total highlighted items | 65,493 | 0.44 | 62,408 | 0.42 | 57,423 | 0.38 | 158,638 | 1.07 | 166,459 | 1.12 |
| Net income excluding highlighted items | $ 120,119 | $ 0.81 | $ 79,166 | $ 0.53 | $ 83,680 | $ 0.56 | $ 293,089 | $ 1.98 | $ 228,598 | $ 1.53 |
| Weighted average common shares - basic | | | | | | | | | | |
| Weighted average common shares - diluted | | 148,753 | | 149,276 | | 149,422 | | 147,995 | | 149,232 |

# Notes to GAAP/adjusted non-GAAP financial measures (preliminary & unaudited)

**Notes to GAAP to Adjusted Non-GAAP Financial Measures**

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

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

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

<u>Integration, Acquisition, Restructuring and Other Costs:</u> We have excluded the effect of acquisition, integration, and other expenses and the effect of restructuring expenses in calculating our non-GAAP operating expenses and net income measures. We incurred expenses in connection with the Active Video Joint Venture, the Motorola Home acquisition, the anticipated Pace acquisition and, 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 and other costs consist of employee severance, abandoned facilities, product line disposition and other exit costs. We believe it is useful to understand the effects of these items on our total operating expenses.

<u>Amortization of Intangible Assets:</u> We have excluded the effect of amortization of intangible assets in calculating our non-GAAP operating expenses and net income 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.

<u>Noncontrolling Interest share of Non-GAAP Adjustments:</u> In the second quarter of 2015, ARRIS and Charter formed a joint venture that acquired Active Video Networks, Inc.. ARRIS and Charter own 65% and 35%, respectively, of the joint venture. The joint venture is accounted for by ARRIS under the consolidation method. As a result, the consolidated statement of operations include the revenues, expenses, and gains and losses of the noncontolling interest. The amount of net income (loss) related to the noncontrolling interest are 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 joint venture, as we believe it is useful to understand the effect of excluding this item when evaluating our ongoing performance.

# Notes to GAAP/adjusted non-GAAP financial measures (preliminary & unaudited)

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

Debt Amendment Fees: In the second quarter of 2015, 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 certain loan facilities, increase the amount of the revolving credit facility, and add a new term A-1 loan facility. It is our intent that the new term A-1 loan facility be funded upon the closing of the Pace Acquisition. If the Pace acquisition does not close, the entire facility is available to ARRIS so long as the first $400 million drawn is used to reduce other debt; the remaining $400 million can be used for general corporate purposes. Certain fees related to the debt modification have already been paid, and other fees related to the new term A-1 loan facility will be paid upon funding. We believe it is useful to understand the effect of this on our other expense (income).

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

Adjustment to Liability Related to Foreign Tax Credit Benefits: In connection with our acquisition of Motorola Home, we have obtained certain foreign tax credit benefits for which we have recorded a liability to Google resulting from certain provisions in the acquisition agreement. The expense and subsequent adjustments related to this liability has been recorded as part of other expense (income). We have excluded the effect of the expense in the calculation of our non-GAAP financial measures. We believe it is useful to understand the effects of this item on our total other expense (income).

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

Foreign Exchange Contract (Gains) Losses Related to Cash Consideration of Pace Acquisition: In the second quarter of 2015, the Company announced its intent to acquire Pace plc in exchange for stock and cash. We subsequently entered into foreign exchange forward contracts in order to hedge the foreign currency risk associated with the cash consideration of the Pace Acquisition. These foreign exchange forward contracts were not designated as hedges, and accordingly, all changes in the fair value of these instruments are recognized as a loss (gain) on foreign currency in the Consolidated Statements of Operations. We believe it is useful to understand the effect of this on our other expense (income).

Loss on Sale of Building: In the first quarter of 2015, the Company sold land and a building that qualified for sale-leaseback accounting and was classified as an operating lease. A loss has been recorded on the sale. We have excluded the effect of the loss on sale of property in calculating our non-GAAP financial measures. We believe it is useful to understand the effect of excluding this item when evaluating our ongoing performance.

Income Tax Expense (Benefit): We have excluded the tax effect of the non-GAAP items mentioned above. Additionally, we have excluded the effects of certain tax adjustments related to tax and legal restructuring, state valuation allowances, research and development tax credits and provision to return differences.