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AGILENT TECHNOLOGIES INC

Form 10-Q

September 02, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

FOR THE QUARTERLY PERIOD ENDED JULY 31, 2015

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 001-15405

AGILENT TECHNOLOGIES, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE

77-0518772

(State or other jurisdiction of
incorporation or organization)

(IRS employer
Identification no.)

5301 STEVENS CREEK BLVD.,

SANTA CLARA, CALIFORNIA

(Address of principal executive offices)

95051

(Zip Code)

Registrant's telephone number, including area code: (408) 345-8886

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the exchange act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS

OUTSTANDING AT AUGUST 31, 2015

COMMON STOCK, \$0.01 PAR VALUE

331,403,231

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PART I — FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

AGILENT TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(in millions, except per share amounts)

(Unaudited)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2015	2014	2015	2014
Net revenue:				
Products	\$798	\$795	\$2,372	\$2,376
Services and other	216	214	631	629
Total net revenue	1,014	1,009	3,003	3,005
Costs and expenses:				
Cost of products	380	384	1,140	1,147
Cost of services and other	121	123	357	361
Total costs	501	507	1,497	1,508
Research and development	79	86	248	261
Selling, general and administrative	290	285	892	887
Total costs and expenses	870	878	2,637	2,656
Income from operations	144	131	366	349
Interest income	2	3	6	7
Interest expense	(17	) (28	) (50	) (87
Other income (expense), net	(1	) (21	) 15	) (18
Income from continuing operations before taxes	128	85	337	251
Provision for income taxes	23	22	42	27
Income from continuing operations	105	63	295	224
Income (loss) from discontinued operations, net of tax expense (benefit) of \$0, \$15, \$(2) and \$53	(2	) 84	(37	) 257
Net income	\$103	\$147	\$258	\$481
Net income per share - basic:				
Income from continuing operations	\$0.32	\$0.19	\$0.88	\$0.67
Income (loss) from discontinued operations	(0.01	) 0.25	(0.11	) 0.77
Net income per share - basic	\$0.31	\$0.44	\$0.77	\$1.44
Net income per share - diluted:				
Income from continuing operations	\$0.31	\$0.19	\$0.88	\$0.66
Income (loss) from discontinued operations	—	0.24	(0.11	) 0.76
Net income per share - diluted	\$0.31	\$0.43	\$0.77	\$1.42
Weighted average shares used in computing net income per share:				
Basic	332	334	334	333
Diluted	334	338	336	338

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Cash dividends declared per common share	\$0.100	\$0.132	\$0.300	\$0.396
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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AGILENT TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(in millions)

(Unaudited)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2015	2014	2015	2014
Net income	\$103	\$147	\$258	\$481
Other comprehensive income (loss):				
Unrealized gain on investments, net of tax expense of \$0, \$(2), \$0 and \$(1)	—	8	—	8
Amounts reclassified into earnings related to investments, net of tax of \$0, \$0, \$0 and \$0	—	(1)	—	(1)
Unrealized gain on derivative instruments, net of tax expense of \$(2), \$(1), \$(4) and \$0	1	2	7	1
Amounts reclassified into earnings related to derivative instruments, net of tax (expense) benefit of \$2, \$0, \$5 and \$(1)	(1)	1	(9)	1
Foreign currency translation, net of tax (expense) benefit of \$1, \$(1), \$8 and \$(1)	(66)	(92)	(337)	(59)
Net defined benefit pension cost and post retirement plan costs:				
Change in actuarial net loss, net of tax expense of \$(2), \$(4), \$(6) and \$(10)	7	11	17	36
Change in net prior service benefit, net of tax benefit of \$1, \$4, \$4 and \$12	(3)	(8)	(8)	(24)
Other comprehensive loss	(62)	(79)	(330)	(38)
Total comprehensive income (loss)	\$41	\$68	\$ (72)	\$443

The accompanying notes are an integral part of these condensed consolidated financial statements.

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AGILENT TECHNOLOGIES, INC.
 CONDENSED CONSOLIDATED BALANCE SHEET
 (in millions, except par value and share amounts)
 (Unaudited)

	July 31, 2015	October 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$2,075	\$2,218
Accounts receivable, net	584	626
Inventory	545	574
Other current assets	274	261
Current assets of discontinued operations	—	1,821
Total current assets	3,478	5,500
Property, plant and equipment, net	587	631
Goodwill	2,366	2,507
Other intangible assets, net	484	649
Long-term investments	88	96
Other assets	248	283
Non-current assets of discontinued operations	—	1,165
Total assets	\$7,251	\$10,831
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$248	\$302
Employee compensation and benefits	186	228
Deferred revenue	265	260
Other accrued liabilities	154	289
Current liabilities of discontinued operations	—	623
Total current liabilities	853	1,702
Long-term debt	1,655	1,663
Retirement and post-retirement benefits	168	209
Other long-term liabilities	469	522
Long-term liabilities of discontinued operations	—	1,434
Total liabilities	3,145	5,530
Commitments and contingencies (Note 13)		
Total equity:		
Stockholders' equity:		
Preferred stock; \$0.01 par value; 125 million shares authorized; none issued and outstanding	—	—
Common stock; \$0.01 par value; 2 billion shares authorized; 611 million shares at July 31, 2015 and 608 million shares at October 31, 2014 issued	6	6
Treasury stock at cost; 279 million shares at July 31, 2015 and 273 million shares at October 31, 2014	(10,074	) (9,807
Additional paid-in-capital	9,029	8,967
Retained earnings	5,474	6,466
Accumulated other comprehensive loss	(332	) (334
Total stockholders' equity	4,103	5,298
Non-controlling interest	3	3
Total equity	4,106	5,301

Total liabilities and equity	\$7,251	\$10,831
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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AGILENT TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions)

(Unaudited)

	Nine Months Ended July 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$258	\$481
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	193	291
Accelerated amortization of interest rate swap gain (due to early redemption of debt)	—	(8)
Share-based compensation	43	77
Excess tax benefit from share-based plans	(5)	(3)
Deferred taxes	(15)	18
Excess and obsolete inventory related charges	20	39
Other non-cash (income) expense, net	13	(6)
Changes in assets and liabilities:		
Accounts receivable	1	—
Inventory	(18)	(73)
Accounts payable	(47)	(29)
Employee compensation and benefits	(27)	(32)
Other assets and liabilities	(162)	(208)
Net cash provided by operating activities	254	547
Cash flows from investing activities:		
Investments in property, plant and equipment	(71)	(162)
Proceeds from sale of property, plant and equipment	11	14
Payment to acquire equity method investment	(1)	(25)
Payment in exchange for convertible note	(2)	—
Change in restricted cash and cash equivalents, net	1	1
Proceeds from sale of investments	—	1
Proceeds from divestitures	3	2
Acquisitions of businesses and intangible assets, net of cash acquired	(66)	(3)
Net cash used in investing activities	(125)	(172)
Cash flows from financing activities:		
Issuance of common stock under employee stock plans	57	136
Payment of dividends	(100)	(132)
Excess tax benefit from share-based plans	5	3
Net transfer of cash and cash equivalents to Keysight	(734)	—
Proceeds from short-term borrowings	—	35
Proceeds from revolving credit facility	—	50
Repayment of revolving credit facility	—	(50)
Repayment of senior notes	—	(500)
Treasury stock repurchases	(267)	(200)
Net cash used in financing activities	(1,039)	(658)

Effect of exchange rate movements	(43	) (1	)
Net decrease in cash and cash equivalents	(953	) (284	)
Change in cash and cash equivalents within current assets of discontinued operations	810	—	
Cash and cash equivalents at beginning of period	2,218	2,675	
Cash and cash equivalents at end of period	\$2,075	\$2,391	

The accompanying notes are an integral part of these condensed consolidated financial statements.

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AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. OVERVIEW, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overview. Agilent Technologies Inc. ("we", "Agilent" or the "company"), incorporated in Delaware in May 1999, is a global leader in life sciences, diagnostics and applied chemical markets, providing application focused solutions that includes instruments, software, services and consumables for the entire laboratory workflow.

Our fiscal year-end is October 31, and our fiscal quarters end on January 31, April 30 and July 31. Unless otherwise stated, these dates refer to our fiscal year and fiscal quarters.

Keysight Separation. On November 1, 2014, we completed the distribution of 100% of the outstanding common shares of Keysight Technologies, Inc. ("Keysight") to Agilent stockholders who received one share of Keysight common stock for every two shares of Agilent held as of the close of business on the record date, October 22, 2014. The historical results of operations and the financial position of Keysight are included in the consolidated financial statements of Agilent and are reported as discontinued operations within this Form 10-Q. See "Basis of Presentation".

New Segment Structure. In November 2014, we announced a change in organizational structure designed to better serve our customers. Our life sciences business, excluding the nucleic acid solutions division, together with the chemical analysis business combined to form a new segment called life sciences and applied markets business. Our diagnostics and genomics businesses combined with the nucleic acid solutions division from our life sciences business and became the diagnostics and genomics segment. Finally, the Agilent CrossLab segment was formed from the services and consumables businesses previously part of the life sciences and chemicals analysis businesses. Financial reporting under this new structure is included within this report on Form 10-Q and historical financial segment information has been recast to conform to this new presentation within our financial statements.

Basis of Presentation. We have prepared the accompanying financial data for the three and nine months ended July 31, 2015 and 2014 pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("GAAP") in the U.S. have been condensed or omitted pursuant to such rules and regulations. The accompanying financial data and information should be read in conjunction with our Annual Report on Form 10-K.

In the opinion of management, the accompanying condensed consolidated financial statements contain all normal and recurring adjustments necessary for a fair statement of our condensed consolidated balance sheet as of July 31, 2015 and October 31, 2014, condensed consolidated statement of comprehensive income (loss) for the three and nine months ended July 31, 2015 and 2014, condensed consolidated statement of operations for the three and nine months ended July 31, 2015 and 2014, and condensed consolidated statement of cash flows for the nine months ended July 31, 2015 and 2014.

The prior year results of operations and the prior year end financial position of Keysight are included in the consolidated financial statements of Agilent and reported as discontinued operations. The prior year statement of comprehensive income and prior year statement of cash flows have not been adjusted to reflect the effect of the separation of Keysight. Unless indicated otherwise, the information in the Notes to the condensed consolidated financial statements relates to our continuing operations.

Use of Estimates. The preparation of condensed consolidated financial statements in accordance with GAAP in the U.S. requires management to make estimates and assumptions that affect the amounts reported in our condensed consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management's best knowledge of current events and actions that may impact the company in the future, actual results may be different from the estimates. Our critical accounting policies are those that affect our financial statements materially and involve difficult, subjective or complex judgments by management. Those policies are revenue recognition, valuation of goodwill and purchased intangible assets, inventory valuation, share-based compensation, retirement and post-retirement plan assumptions, restructuring and accounting for income taxes.

Update to Significant Accounting Policies. For the stock option and long term performance plan grants in 2015 we are now using a volatility measure derived from a selection of our peer companies. In prior periods, we used Agilent stock historical volatility. We now consider this method to not be reflective of our future volatility due to the separation of Keysight. See Note 4, "Share-based compensation" for additional information. There have been no other material changes to our significant accounting

AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

policies, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2014.

Fair Value of Financial Instruments. The carrying values of certain of our financial instruments including cash and cash equivalents, accounts receivable, accounts payable, accrued compensation and other accrued liabilities approximate fair value because of their short maturities. The fair value of long-term equity investments is determined using quoted market prices for those securities when available. For those long-term equity investments accounted for under the cost or equity method, their carrying value approximates their estimated fair value. Equity method investments are reported at the amount of the company's initial investment and adjusted each period for the company's share of the investee's income or loss and dividend paid. The fair value of our long-term debt, calculated from quoted prices which are primarily Level 1 inputs under the accounting guidance fair value hierarchy, exceeds the carrying value by approximately \$43 million and \$53 million as of July 31, 2015 and October 31, 2014, respectively. The fair value of foreign currency contracts used for hedging purposes is estimated internally by using inputs tied to active markets. These inputs, for example, interest rate yield curves, foreign exchange rates, and forward and spot prices for currencies are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. See also Note 9, "Fair Value Measurements" for additional information on the fair value of financial instruments.

Goodwill and Purchased Intangible Assets. Under the authoritative guidance we have the option to perform a qualitative assessment to determine whether further impairment testing is necessary. The accounting standard gives an entity the option to first assess qualitative factors to determine whether performing the two-step test is necessary. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not (i.e. greater than 50% chance) that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test will be required. Otherwise, no further testing will be required.

The guidance includes examples of events and circumstances that might indicate that a reporting unit's fair value is less than its carrying amount. These include macro-economic conditions such as deterioration in the entity's operating environment or industry or market considerations; entity-specific events such as increasing costs, declining financial performance, or loss of key personnel; or other events such as an expectation that a reporting unit will be sold or a sustained decrease in the stock price on either an absolute basis or relative to peers.

If it is determined, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the provisions of authoritative guidance require that we perform a two-step impairment test on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. The second step (if necessary) measures the amount of impairment by applying fair-value-based tests to the individual assets and liabilities within each reporting unit. As defined in the authoritative guidance, a reporting unit is an operating segment, or one level below an operating segment. We aggregate components of an operating segment that have similar economic characteristics into our reporting units.

In fiscal year 2014, we assessed goodwill impairment for three reporting units under our previous reporting structure. The chemical analysis segment contained one reporting unit and there were two reporting units under the life sciences and diagnostics segment. Within the life sciences and diagnostic business the first reporting unit related to our life sciences business and the second related to our diagnostics business. We performed a qualitative test for goodwill impairment of our previous three reporting units as of September 30, 2014. Based on the results of our qualitative testing, we believe that it is more-likely-than-not that the fair value of these reporting units are greater than their respective carrying values. Each quarter we review the events and circumstances to determine if goodwill impairment is indicated. In connection with our goodwill impairment testing in 2015, we assess for potential impairment of

goodwill within our three new reporting units resulting from our reorganization. In the three and nine months ended July 31, 2015 and 2014, there was no triggering event that would indicate that there was an impairment of goodwill and therefore there was no impairment of goodwill during the three and nine months ended July 31, 2015 and 2014.

Purchased intangible assets consist primarily of acquired developed technologies, proprietary know-how, trademarks, and customer relationships and are amortized using the best estimate of the asset's useful life that reflect the pattern in which the economic benefits are consumed or used up or a straight-line method ranging from 6 months to 15 years. In-process research and development ("IPR&D") is initially capitalized at fair value as an intangible asset with an indefinite life and assessed for impairment thereafter. When the IPR&D project is complete, it is reclassified as an amortizable purchased intangible asset and is amortized over its estimated useful life. If an IPR&D project is abandoned, Agilent will record a charge for the value of the related intangible asset to Agilent's condensed consolidated statement of operations in the period it is abandoned.

Agilent's indefinite-lived intangible assets are IPR&D intangible assets. The accounting guidance allows a qualitative approach for testing indefinite-lived intangible assets for impairment, similar to the issued impairment testing guidance for goodwill and allows the option to first assess qualitative factors (events and circumstances) that could have affected the significant inputs used in determining the fair value of the indefinite-lived intangible asset to determine whether it is more-likely-than-not (i.e. greater than 50% chance) that the indefinite-lived intangible asset is impaired. An organization may choose to bypass the qualitative

AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

assessment for any indefinite-lived intangible asset in any period and proceed directly to calculating its fair value. We performed a qualitative test for impairment of indefinite-lived intangible assets as of September 30, 2014. Based on the results of our qualitative testing, we believe that it is more-likely-than-not that the fair value of these indefinite-lived intangible assets is greater than their respective carrying values. Each quarter we review the events and circumstances to determine if impairment of indefinite-lived intangible asset is indicated. There was no impairment of indefinite-lived intangible asset during the three and nine months ended July 31, 2015 and 2014.

2. NEW ACCOUNTING PRONOUNCEMENTS

There were no changes to the new accounting pronouncements as described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2014 except for the following:

In April 2014, FASB issued amendments to the guidance on discontinued operations. The guidance changes the criteria for reporting discontinued operations while enhancing disclosures in this area. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. Additionally, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, expenses of discontinued operations and of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. The new guidance is effective for Agilent prospectively for all disposals (or classifications as held for sale) of components of an entity that occur after November 1, 2016.

The disposal of Keysight meets the definition of a discontinued operation under both the existing and amended accounting guidance.

In January 2015, FASB issued guidance on simplifying income statement presentation by eliminating the concept of extraordinary items from U.S. GAAP. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively and retrospectively to all periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. We have evaluated the accounting guidance and determined that there is no impact of this update to our consolidated financial statements.

In February 2015, FASB issued an amendment to the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. All legal entities are subject to reevaluation under the revised consolidation model. The amendments in this update are effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. We do not expect to have an impact to our consolidated financial statements by adopting this amended guidance.

In April 2015, FASB issued an amendment to simplify the presentation of debt issuance costs. The amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs remain unchanged. The amendments in this update are effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Earlier adoption is permitted and we are currently evaluating when we will implement the guidance. We do not expect the impact of adopting this guidance to be material to our consolidated financial statements.

In July 2015, FASB issued guidance to simplify the accounting for inventory and to more closely align their guidance with international accounting standards. The amendments in this update apply to companies which use inventory valuation methods other than last in, first-out and the retail inventory method to change the way that they subsequently measure the value of inventory on their balance sheet. Under the new guidance, inventory should be valued at the lower of cost and net realizable value rather than the lower of cost and market. The amendments in this update are effective for fiscal years beginning after December 15, 2016, and for interim periods beginning after December 15, 2017. We do not expect to have an impact to our consolidated financial statements by adopting this amended guidance, as the new guidance aligns with our current practice of using net realizable value as our estimate of market value.

In July 2015, FASB announced that the implementation date of Topic 606, Revenue from Contracts with Customers, would be delayed by one year. It will now be effective for annual and interim periods beginning after December 15, 2017. Early adoption is now permitted for fiscal years beginning after December 15, 2016. We are evaluating the impact of adopting this guidance to our consolidated financial statements.

AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

Other amendments to GAAP in the U.S. that have been issued by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on our consolidated financial statements upon adoption.

3. DISCONTINUED OPERATIONS

On September 19, 2013, Agilent announced its intention to separate its electronic measurement business, Keysight, which was previously a separate reportable segment, into a stand-alone publicly traded company. Keysight was incorporated in Delaware as a wholly-owned subsidiary of Agilent on December 6, 2013. On November 1, 2014, we completed the distribution of 100% of the outstanding common stock of Keysight to Agilent stockholders, who received one share of Keysight common stock for every two shares of Agilent common stock held as of the close of business on the record date, October 22, 2014. The separation agreement ensured that Keysight had approximately \$700 million of total cash immediately following distribution.

The historical results of operations and statement of financial position of Keysight have been presented as discontinued operations in the condensed consolidated financial statements and prior periods have been restated. Discontinued operations include results of Keysight's business except for certain allocated corporate overhead costs and certain costs associated with transition services provided by Agilent to Keysight. Discontinued operations also includes other costs incurred by Agilent to separate Keysight. These costs include transaction charges, advisory and consulting fees and information system expenses.

The following table summarizes results from discontinued operations of Keysight included in the condensed consolidated statement of operations:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2015	2014	2015	2014
	(in millions)			
Net revenue	\$—	\$757	\$—	\$2,171
Costs and expenses	2	659	39	1,863
Operating income (loss)	(2)	98	(39)	308
Other income (expense), net	—	1	—	2
Income (loss) from discontinued operations before tax	(2)	99	(39)	310
Provision (benefit) for income taxes	—	15	(2)	53
Net income (loss) from discontinued operations	\$(2)	\$84	\$(37)	\$257

Net income (loss) from discontinued operations includes transaction, information systems and other costs to effect the separation of \$2 million and \$39 million for the three and nine months ended July 31, 2015, respectively. Net income (loss) from discontinued operations includes transaction, information systems and other costs to effect the separation of \$58 million and \$115 million for the three and nine months ended July 31, 2014, respectively. In the three and nine months ended July 31, 2015 only those costs incurred to effect the separation have been included. No income or expense has been recorded for the Keysight business after separation from Agilent on November 1, 2014.

AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

The following table presents Agilent's electronic measurement business assets and liabilities removed from the condensed consolidated balance sheet as of November 1, 2014 and presented as discontinued operations as of October 31, 2014:

	October 31, 2014 (in millions)
Assets:	
Cash and cash equivalents	\$810
Accounts receivable, net	357
Inventory	498
Other current assets	156
Current assets of discontinued operations	1,821
Property, plant and equipment, net	470
Goodwill	392
Other intangible assets, net	18
Long-term investments	63
Other assets	222
Non-current assets of discontinued operations	1,165
Total assets of discontinued operations	\$2,986
Liabilities:	
Accounts payable	\$173
Employee compensation and benefits	167
Deferred revenue	175
Other accrued liabilities	108
Current liabilities of discontinued operations	623
Long-term debt	1,099
Retirement and post-retirement benefits	213
Other long-term liabilities	122
Long-term liabilities of discontinued operations	1,434
Total liabilities of discontinued operations	\$2,057

In addition, \$332 million of accumulated other comprehensive loss, net of income taxes, primarily related to pension and other post retirement benefits plans and currency translation was also transferred to Keysight together with \$28 million of additional paid in capital related to share based compensation windfall tax benefits. The removal of Keysight net assets and equity related adjustments is presented as a reduction in Agilent's retained earnings and represents a non cash financing activity excluding cash transferred. See Note 5 "Income Taxes" for tax implications and adjustments due to the distribution and Note 4 "Share Based Compensation" for changes to share based compensation awards as a result of the distribution of Keysight.

In order to effect the separation and govern our relationship with Keysight after the separation, we entered into a Separation and Distribution Agreement and other agreements including a Tax Matters Agreement, an Employee Matters Agreement and a Transition Services Agreement. The Separation and Distribution Agreement governs the separation of the electronic measurement business, the transfer of assets and other matters related to our relationship with Keysight.

The Tax Matters Agreement governs the respective rights, responsibilities and obligations of Keysight and Agilent with respect to taxes, tax attributes, tax returns, tax proceedings and certain other tax matters.

The Employee Matters Agreement governs the compensation and employee benefit obligations with respect to the current and former employees and non-employee directors of Keysight and Agilent, and generally allocates liabilities and responsibilities relating to employee compensation, benefit plans and programs. The Employee Matters Agreement provides that employees of Keysight will no longer participate in benefit plans sponsored or maintained by Agilent. In addition, the Employee Matters

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

Agreement provides that each of the parties will be responsible for their respective former and current employees and compensation plans for such current employees.

Under the terms of the Transition Services Agreement, we agreed to provide administrative, site services, information technology systems and various other corporate and support services to Keysight over the period of 12-18 months after the separation on a cost or cost-plus basis. The most significant component of the service income is the provision of IT services that was completed by the end of the second quarter of 2015. In total we have recorded income for all services provided to Keysight of approximately \$12 million. In addition, Agilent expects to receive lease income from Keysight over the next 4-5 years of approximately \$13 million per year. In the three and nine months ended July 31, 2015 other income (expense), net includes \$3 million and \$21 million, respectively, of income in respect of the provision of services to, and lease income from Keysight.

4. SHARE-BASED COMPENSATION

Agilent accounts for share-based awards in accordance with the provisions of the authoritative accounting guidance which requires the measurement and recognition of compensation expense for all share-based payment awards made to our employees and directors including employee stock option awards, restricted stock units, employee stock purchases made under our employee stock purchase plan ("ESPP") and performance share awards granted to selected members of our senior management under the long-term performance plan ("LTPP") based on estimated fair values.

The impact on our results for share-based compensation was as follows:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2015	2014	2015	2014
	(in millions)			
Cost of products and services	\$2	\$2	\$9	\$11
Research and development	1	1	4	6
Selling, general and administrative	7	8	31	31
Share-based compensation expense in continuing operations	\$10	\$11	\$44	\$48
Share-based compensation expense in discontinued operations	—	9	—	31
Total share-based compensation expense	\$10	\$20	\$44	\$79

At July 31, 2015 and October 31, 2014, there was no share-based compensation capitalized within inventory. For the three and nine months ended July 31, 2015, the windfall tax benefit realized from exercised stock options and similar awards was \$5 million and arose due the filing of the U.S. federal tax return for fiscal year 2014 and resulting from return to provision adjustments. For the three and nine months ended July 31, 2014, the windfall tax benefit realized from exercised stock options and similar awards was zero and \$3 million, respectively. During the three months ended July 31, 2014 an out of period adjustment was recorded to reverse previously recognized windfall tax benefits in the amount of \$23 million. Approximately \$11 million of the reversal was related to the favorable settlement of a tax authority examination in the three months ended January 31, 2014. The remainder resulted from the correction of the computation of cash tax benefit realized in prior years. The correction is not considered material to current or prior periods.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

The following assumptions were used to estimate the fair value of the options and LTPP grants.

	Three Months Ended July 31,		Nine Months Ended July 31,		
	2015	2014	2015	2014	
Stock Option Plans:					
Weighted average risk-free interest rate	—	1.7	% 1.7	% 1.7	%
Dividend yield	—	1	% 1	% 1	%
Weighted average volatility	—	38	% 28	% 39	%
Expected life	—	5.8yrs	5.5 yrs	5.8 yrs	
LTPP:					
Volatility of Agilent shares	25	% 36	% 25	% 36	%
Volatility of selected peer-company shares	12%-57%	13%-57%	12%-57%	13%-57%	
Price-wise correlation with selected peers	37	% 47	% 37	% 47	%

In connection with the separation of Keysight on November 1, 2014 and in accordance with the Employee Matters Agreement we made certain adjustments to the exercise price and number of our share-based compensation awards with the intention of preserving the intrinsic value of the awards prior to the separation. Exercisable and non-exercisable stock options converted to those of the entity where the employee is working post-separation. Restricted stock units awards and long-term performance plan grants were adjusted to provide holders restricted stock units and long-term performance plan grants in the company that employs such employee following the separation. These adjustments to our stock-based compensation awards did not have a material impact on compensation expense.

The fair value of share-based awards for employee stock option awards was estimated using the Black-Scholes option pricing model. Shares granted under the LTPP were valued using a Monte Carlo simulation model. Both the Black-Scholes and Monte Carlo simulation fair value models require the use of highly subjective and complex assumptions, including the option's expected life and the price volatility of the underlying stock. Due to the separation of Keysight on November 1, 2014, expected volatility for grants of options in fiscal 2015 was based on a 5.5 year average historical stock price volatility of a group of our peer companies. For the volatility of our 2015 LTPP grants, we used the 3 year average historical stock price volatility of a group of our peer companies. We believe our historical volatility prior to the separation of Keysight is no longer relevant to use. For the grants of options and LTPP prior to November 1, 2014, the expected stock price volatility assumption was determined using the historical volatility of Agilent's stock over the most recent historical period equivalent to the expected life of the stock options and LTPP.

In developing our estimated life of our employees' stock options of 5.5 years, we considered the separation of Keysight and the historical option exercise behavior for our executive employees who were granted the majority of the options in the annual grants made which we believe is representative of future behavior.

The estimated fair value of restricted stock unit awards is determined based on the market price of Agilent's common stock on the date of grant adjusted for expected dividend yield. The ESPP allows eligible employees to purchase shares of our common stock at 85 percent of the purchase price and uses the purchase date to establish the fair market value.

5. INCOME TAXES

The company's effective tax rate from continuing operations was 18.0 percent and 12.5 percent for the three and nine months ended July 31, 2015, respectively. The company's effective tax rate from continuing operations was 25.9 percent and 10.8 percent for the three and nine months ended July 31, 2014, respectively. The income tax expense from continuing operations was \$23 million and \$42 million for the three and nine months ended July 31, 2015, respectively. The income tax expense from continuing operations was \$22 million and \$27 million for the three and nine months ended July 31, 2014, respectively.

The income tax provision from continuing operations for the three and nine months ended July 31, 2015 included net discrete tax expense of \$1 million and net discrete tax benefit of \$21 million, respectively. The net discrete tax expense for the three months ended July 31, 2015 included \$1 million of tax expense related primarily to return to provision adjustments. In addition to the aforementioned, the net discrete tax benefit of the nine months ended July 31, 2015 included \$16 million of tax benefit related to the de-registration of certain foreign branches, \$6 million of tax benefit for the extension of the U.S. research and development tax credit attributable to the company's prior fiscal year and \$5 million of other discrete tax expense primarily related to the accrual of interest expense associated with uncertain tax positions. Also included were out of period adjustments of \$13 million of tax benefit related to a tax rate change in Denmark, \$4 million of tax expense attributable to an error discovered on a

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

prior year U.S. tax return and \$4 million tax expense related to foreign deferred tax assets. The out of period adjustments are not considered to be material to current or prior periods.

The income tax provision for the three and nine months ended July 31, 2014 included a net discrete benefit of \$9 million and net discrete benefit of \$40 million, respectively. The \$9 million net discrete tax benefit for the three months ended July 31, 2014 included a \$4 million tax benefit resulting from a deduction generated by the redemption of senior notes. In addition, we recorded out of period adjustments consisting of a \$9 million tax benefit related to the correction of tax basis of land in the U.K., a \$3 million tax benefit related to corrections to transfer pricing for tax years 2012 and 2013, a \$4 million tax expense related primarily to the return to provision adjustments in the U.S. and a \$3 million tax expense to correct tax related balance sheet accounts.

In the nine months ended July 31, 2014, the \$40 million net discrete tax benefit included a \$4 million tax benefit resulting from a deduction generated by the redemption of senior notes and a \$50 million tax benefit primarily due to the settlement of an Internal Revenue Service ("IRS") audit in the U.S. and the recognition of tax expense related to the repatriation of dividends to the U.S. The remaining \$14 million of discrete tax expense for the nine months ended July 31, 2014 included \$10 million tax expense related to corrections to transfer pricing for tax years 2012 and 2013, a \$9 million tax benefit related to the correction of tax basis of land in the U.K., a \$4 million tax expense related to international tax rate changes and return to provision adjustments, a \$4 million tax expense related primarily to the return to provision adjustments in the U.S., a \$3 million tax expense to correct tax related balance sheet accounts, and a \$2 million tax expense related to a state tax reserve interest adjustment. None of the out of period adjustments are considered to be material to current or prior periods.

On November 1, 2014, Agilent transferred deferred tax assets of \$238 million, deferred tax liabilities of \$37 million, current income tax payable of \$40 million, and other long-term liabilities related to uncertain tax positions totaling \$8 million to Keysight as part of its separation from Agilent. A current prepaid income tax asset of \$19 million and long-term prepaid income tax asset of \$3 million related to sales of intercompany assets was also transferred to Keysight upon separation from Agilent. In addition, in the three months ended July 31, 2015, a \$6 million return to provision adjustment for Keysight associated with bonus depreciation was recognized through retained earnings.

In the U.S., tax years remain open back to the year 2008 for federal income tax purposes and the year 2000 for significant states. On January 29, 2014 we reached an agreement with the IRS for the tax years 2006 through 2007. The settlement resulted in the recognition, within the continuing operations, of previously unrecognized tax benefits of \$111 million, offset by a tax liability on foreign distributions of approximately \$61 million principally related to the repatriation of foreign earnings. Agilent's U.S. federal income tax returns for 2008 through 2011 are currently under audit by the IRS.

In connection with the settlement of the 2006-2007 IRS audit, we identified during the first quarter of fiscal year 2014 an overstatement of approximately \$65 million in our long-term tax liabilities. The overstatement was recorded in 2008 as a cumulative effect of a change in accounting principle when we adopted Accounting Standard Codification 740-10, Income Taxes. Accordingly, we corrected the error by reducing long-term tax liabilities and increasing retained earnings by \$65 million in the first quarter of fiscal 2014. The correction had no impact on net income or cash flows in any prior period and is not considered material to total liabilities or equity in any prior period.

The IRS is expected to complete its examination of our U.S. income tax returns for tax years 2008 through 2011 during the fourth quarter of 2015. We expect to make a payment of approximately \$12 million as part of closing the exam. In the third quarter of 2015 we reclassified \$12 million of other long-term liabilities to other accrued liabilities related to uncertain tax positions of continuing operations that we expect to pay within the next twelve months.

In other major jurisdictions where the company conducts business, the tax years generally remain open back to the year 2003. With these jurisdictions and the U.S., it is reasonably possible that there could be significant changes to our unrecognized tax benefits in the next twelve months due to either the expiration of a statute of limitation or a tax audit settlement which will be partially offset by an anticipated tax liability related to unremitted foreign earnings, where applicable. Given the number of years and numerous matters that remain subject to examination in various tax jurisdictions, management is unable to estimate the range of possible changes to the balance of our unrecognized tax benefits.

On July 27, 2015, the U.S. Tax Court invalidated a U.S. Treasury regulation requiring the inclusion of stock-based compensation in certain intercompany cost-sharing agreements. We are currently evaluating the impact of this decision on our current and historical tax filing positions. We continue to monitor the progress of ongoing income tax controversies and the impact, if any, of the expected tolling of the statutes of limitations in various jurisdictions.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

6. NET INCOME PER SHARE

The following is a reconciliation of the numerator and denominator of the basic and diluted net income per share computations for the periods presented below:

	Three Months Ended July 31, 2015		Nine Months Ended July 31, 2015	
	2014		2014	
	(in millions)			
Numerator:				
Income from continuing operations	\$ 105	\$ 63	295	\$ 224
Income (loss) from discontinued operations	(2	) 84	(37	) 257
Net income	\$ 103	\$ 147	\$ 258	\$ 481
Denominator:				
Basic weighted-average shares	332	334	334	333
Potential common shares— stock options and other employee stock plans	2	4	2	5
Diluted weighted-average shares	334	338	336	338

In connection with the separation of Keysight on November 1, 2014 and in accordance with the Employee Matters Agreement we made certain adjustments to the exercise price and number of our share-based compensation awards. These adjustments to our share-based awards did not have a material impact on our dilutive weighted average shares.

The dilutive effect of share-based awards is reflected in diluted net income per share by application of the treasury stock method, which includes consideration of unamortized share-based compensation expense, the tax benefits or shortfalls recorded to additional paid-in capital and the dilutive effect of in-the-money options and non-vested restricted stock units. Under the treasury stock method, the amount the employee must pay for exercising stock options and unamortized share-based compensation expense and tax benefits or shortfalls collectively are assumed proceeds to be used to repurchase hypothetical shares. An increase in the fair market value of the company's common stock can result in a greater dilutive effect from potentially dilutive awards.

We exclude stock options with exercise prices greater than the average market price of our common stock from the calculation of diluted earnings per share because their effect would be anti-dilutive. For the three and nine months ended July 31, 2015, 1.2 million and 856,900 options to purchase shares were excluded from the calculation of diluted earnings per share, respectively. For the three and nine months ended July 31, 2014, no options to purchase shares were excluded from the calculation of diluted earnings per share for both periods. In addition, we also exclude from the calculation of diluted earnings per share, stock options, ESPP, LTPP and restricted stock awards whose combined exercise price, unamortized fair value and excess tax benefits or shortfalls collectively were greater than the average market price of our common stock because their effect would also be anti-dilutive. For the three and nine months ended July 31, 2015, 80,900 and 487,100 additional shares were excluded from the calculation of diluted earnings per share. For the three and nine months ended July 31, 2014, 125,900 and 480,300 additional shares were excluded from the calculation of diluted earnings per share, respectively.

7. INVENTORY

July 31, 2015	October 31, 2014
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	(in millions)	
Finished goods	\$361	\$366
Purchased parts and fabricated assemblies	184	208
Inventory	\$545	\$574

AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

8. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents goodwill balances and the movements for each of our reportable segments during the nine months ended July 31, 2015:

	Life Sciences and Applied Markets (in millions)	Diagnostics and Genomics	Agilent CrossLab	Total
Goodwill as of October 31, 2014	\$668	\$1,345	\$494	\$2,507
Foreign currency translation impact	(16)	(169)	(11)	(196)
Goodwill arising from acquisitions	—	55	—	55
Goodwill as of July 31, 2015	\$652	\$1,231	\$483	\$2,366

The components of other intangibles as of July 31, 2015 and October 31, 2014 are shown in the table below:

	Purchased Other Intangible Assets		
	Gross Carrying Amount	Accumulated Amortization and Impairments	Net Book Value
	(in millions)		
As of October 31, 2014:			
Purchased technology	\$880	\$475	\$405
Trademark/Tradename	167	52	115
Customer relationships	368	257	111
Total amortizable intangible assets	1,415	784	631
In-Process R&D	18	—	18
Total	\$1,433	\$784	\$649
As of July 31, 2015:			
Purchased technology	844	551	293
Trademark/Tradename	155	61	94
Customer relationships	363	291	72
Total amortizable intangible assets	1,362	903	459
In-Process R&D	25	—	25
Total	\$1,387	\$903	\$484

During the nine months ended July 31, 2015, we recorded additions to goodwill of \$55 million and to other intangible assets of \$13 million related to the single acquisition of the company, Cartagenia, a leading provider of software and services for clinical genetics and molecular pathology laboratories for €60 million, which closed in May. During the nine months ended July 31, 2015, other intangible assets decreased \$59 million, due to the impact of foreign exchange translation.

Amortization expense of intangible assets was \$38 million and \$119 million for the three and nine months ended July 31, 2015, respectively. Amortization expense of intangible assets was \$46 million and \$144 million for the three and nine months ended July 31, 2014, respectively.

Future amortization expense related to existing finite-lived purchased intangible assets for the remainder of fiscal year 2015 and for each of the five succeeding fiscal years and thereafter is estimated below:

Estimated future amortization expense:

(in millions)

Remainder of 2015	\$37
2016	\$131
2017	\$92
2018	\$61
2019	\$46
2020	\$36
Thereafter	\$56

AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

9. FAIR VALUE MEASUREMENTS

The authoritative guidance defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, we consider the principal or most advantageous market and assumptions that market participants would use when pricing the asset or liability.

Fair Value Hierarchy

The guidance establishes a fair value hierarchy that prioritizes the use of inputs used in valuation techniques into three levels. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. There are three levels of inputs that may be used to measure fair value:

Level 1- applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2- applies to assets or liabilities for which there are inputs other than quoted prices included within level 1 that are observable, either directly or indirectly, for the asset or liability such as: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in less active markets; or other inputs that can be derived principally from, or corroborated by, observable market data.

Level 3- applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis

Financial assets and liabilities measured at fair value on a recurring basis as of July 31, 2015 were as follows:

	July 31, 2015	Fair Value Measurement at July 31, 2015 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in millions)			
Assets:				
Short-term				
Cash equivalents (money market funds)	\$1,465	\$1,465	\$—	\$—
Derivative instruments (foreign exchange contracts)	10	—	10	—
Long-term				
Trading securities	35	35	—	—
Total assets measured at fair value	\$1,510	\$1,500	\$10	\$—
Liabilities:				
Short-term				
Derivative instruments (foreign exchange contracts)	\$8	\$—	\$8	\$—

Long-term

Deferred compensation liability	35	—	35	—
Total liabilities measured at fair value	\$43	\$—	\$43	\$—

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

Financial assets and liabilities measured at fair value on a recurring basis as of October 31, 2014 were as follows:

	October 31, 2014	Fair Value Measurement at October 31, 2014 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in millions)			
Assets:				
Short-term				
Cash equivalents (money market funds)	\$1,117	\$1,117	\$—	\$—
Derivative instruments (foreign exchange contracts)	10	—	10	—
Long-term				
Trading securities	35	35	—	—
Total assets measured at fair value	\$1,162	\$1,152	\$10	\$—
Liabilities:				
Short-term				
Derivative instruments (foreign exchange contracts)	\$4	\$—	\$4	\$—
Long-term				
Deferred compensation liability	35	—	35	—
Total liabilities measured at fair value	\$39	\$—	\$39	\$—

Our money market funds and trading securities investments are generally valued using quoted market prices and therefore are classified within level 1 of the fair value hierarchy. Our derivative financial instruments are classified within level 2, as there is not an active market for each hedge contract, but the inputs used to calculate the value of the instruments are tied to active markets. Our deferred compensation liability is classified as level 2 because, although the values are not directly based on quoted market prices, the inputs used in the calculations are observable.

Trading securities and deferred compensation liability are reported at fair value, with gains or losses resulting from changes in fair value recognized currently in net income. Certain derivative instruments are reported at fair value, with unrealized gains and losses, net of tax, included in other comprehensive income.

Impairment of Investments. There were no impairments for investments for the three and nine months ended July 31, 2015 and 2014.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

For the three and nine months ended July 31, 2015 and 2014, there were no impairments of long-lived assets held and used. For the three and nine months ended July 31, 2015 and 2014, there were no impairments of long-lived assets held for sale.

10. DERIVATIVES

We are exposed to foreign currency exchange rate fluctuations and interest rate changes in the normal course of our business. As part of risk management strategy, we use derivative instruments, primarily forward contracts, purchased

options to hedge economic and/or accounting exposures resulting from changes in foreign currency exchange rates.

Fair Value Hedges

We are exposed to interest rate risk due to the mismatch between the interest expense we pay on our loans at fixed rates and the variable rates of interest we receive from cash, cash equivalents and other short-term investments. We have issued long-term debt in U.S. dollars at fixed interest rates based on the market conditions at the time of financing. The fair value of our fixed rate debt changes when the underlying market rates of interest change, and, in the past, we have used interest rate swaps to change our fixed interest rate payments to U.S. dollar LIBOR-based variable interest expense to match the floating interest income from our cash, cash equivalents and other short term investments. As of July 31, 2015, all interest rate swap contracts had either been terminated or had expired.

On November 25, 2008, we terminated two interest rate swap contracts associated with our 2017 senior notes that represented the notional amount of \$400 million. On October 20, 2014 we prepaid \$500 million out of \$600 million principal of

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

our 2017 senior notes and fully amortized the associated proportionate deferred gain to other income (expense). The remaining gain to be amortized related to the \$100 million of 2017 senior notes at July 31, 2015 was \$2 million. On August 9, 2011, we terminated five interest rate swap contracts related to our 2020 senior notes that represented the notional amount of \$500 million. The gain to be amortized at July 31, 2015 was \$20 million. All deferred gains from terminated interest rate swaps are being amortized over the remaining life of the respective senior notes.

Cash Flow Hedges

We enter into foreign exchange contracts to hedge our forecasted operational cash flow exposures resulting from changes in foreign currency exchange rates. These foreign exchange contracts, carried at fair value, have maturities between one and twelve months. These derivative instruments are designated and qualify as cash flow hedges under the criteria prescribed in the authoritative guidance. The changes in fair value of the effective portion of the derivative instrument are recognized in accumulated other comprehensive income (loss). Amounts associated with cash flow hedges are reclassified to cost of sales in the condensed consolidated statement of operations when the forecasted transaction occurs. If it becomes probable that the forecasted transaction will not occur, the hedge relationship will be de-designated and amounts accumulated in other comprehensive income (loss) will be reclassified to other income (expense) in the current period. Changes in the fair value of the ineffective portion of derivative instruments are recognized in other income (expense) in the condensed consolidated statement of operations in the current period. We record the premium paid (time value) of an option on the date of purchase as an asset. For options designated as cash flow hedges, changes in the time value are excluded from the assessment of hedge effectiveness and are recognized in other income (expense) over the life of the option contract. Ineffectiveness in the three and nine months ended July 31, 2015 and 2014 was not significant. For the three and nine months ended July 31, 2015 and 2014 gains and losses recognized in other income (expense) due to de-designation of cash flow hedge contracts were not significant.

In July 2012, Agilent executed treasury lock agreements for \$400 million in connection with future interest payments to be made on our 2022 senior notes issued on September 10, 2012. We designated the treasury lock as a cash flow hedge. The treasury lock contracts were terminated on September 10, 2012 and we recognized a deferred gain in accumulated other comprehensive income which is being amortized to interest expense over the life of the 2022 senior notes. The remaining gain to be amortized related to the treasury lock agreements at July 31, 2015 was \$2 million.

Other Hedges

Additionally, we enter into foreign exchange contracts to hedge monetary assets and liabilities that are denominated in currencies other than the functional currency of our subsidiaries. These foreign exchange contracts are carried at fair value and do not qualify for hedge accounting treatment and are not designated as hedging instruments. Changes in value of the derivative are recognized in other income (expense) in the condensed consolidated statement of operations, in the current period, along with the offsetting foreign currency gain or loss on the underlying assets or liabilities.

Our use of derivative instruments exposes us to credit risk to the extent that the counterparties may be unable to meet the terms of the agreement. We do, however, seek to mitigate such risks by limiting our counterparties to major financial institutions which are selected based on their credit ratings and other factors. We have established policies and procedures for mitigating credit risk that include establishing counterparty credit limits, monitoring credit exposures, and continually assessing the creditworthiness of counterparties.

A number of our derivative agreements contain threshold limits to the net liability position with counterparties and are dependent on our corporate credit rating determined by the major credit rating agencies. The counterparties to the

derivative instruments may request collateralization, in accordance with derivative agreements, on derivative instruments in net liability positions.

The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position as of July 31, 2015, was \$3 million. The credit-risk-related contingent features underlying these agreements had not been triggered as of July 31, 2015.

AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

There were 58 foreign exchange forward contracts open as of July 31, 2015 and designated as cash flow hedges. There were 159 foreign exchange forward contracts open as of July 31, 2015 not designated as hedging instruments. The aggregated notional amounts by currency and designation as of July 31, 2015 were as follows:

Currency	Derivatives as Cash Flow Hedges	Derivatives Not Designated as Hedging Instruments	Forward Contracts USD	Forward Contracts USD	Forward Contracts DKK
	Buy/(Sell) (in millions)	Buy/(Sell) (in millions)	Buy/(Sell) (in millions)	Buy/(Sell) (in millions)	Buy/(Sell) (in millions)
Euro	\$(36)	\$169	\$(59)		
British Pound	(25)	(6)	(4)		
Canadian Dollar	(29)	—	(2)		
Australian Dollar	6	14	(3)		
Malaysian Ringgit	—	(2)	—		
Japanese Yen	(69)	4	(1)		
American Dollar	—	—	31		
Other	—	4	3		
Totals	\$(153)	\$183	\$(35)		

Derivative instruments are subject to master netting arrangements and are disclosed gross in the balance sheet in accordance with the authoritative guidance. The gross fair values and balance sheet location of derivative instruments held in the consolidated balance sheet as of July 31, 2015 and October 31, 2014 were as follows:

Fair Values of Derivative Instruments

Asset Derivatives			Liability Derivatives		
Balance Sheet Location	Fair Value July 31, 2015	October 31, 2014	Balance Sheet Location	Fair Value July 31, 2015	October 31, 2014
(in millions)					
Derivatives designated as hedging instruments:					
Cash flow hedges					
Foreign exchange contracts					
Other current assets	\$7	\$9	Other accrued liabilities	\$1	\$1
Derivatives not designated as hedging instruments:					
Foreign exchange contracts					
Other current assets	\$3	\$1	Other accrued liabilities	\$7	\$3
Total derivatives	\$10	\$10		\$8	\$4

AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

The effect of derivative instruments for foreign exchange contracts designated as hedging instruments and not designated as hedging instruments in our consolidated statement of operations were as follows:

	Three Months Ended July 31, 2015 2014 (in millions)		Nine Months Ended July 31, 2015 2014	
Derivatives designated as hedging instruments:				
Cash Flow Hedges				
Foreign exchange contracts:				
Gain recognized in accumulated other comprehensive income (loss)	\$3	\$3	\$11	