AGILENT TECHNOLOGIES INC
Form 10-Q
June 07, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(MARK ONE)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
FOR THE QUARTERLY PERIOD ENDED APRIL 30, 2016
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	95051
(Address of principal executive offices)	(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 x 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 x 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 x	Accelerated filer ¨
Non-accelerated filer ¨ (do not check if a smaller reporting company)	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 x
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 APRIL 30, 2016

COMMON STOCK, $0.01 PAR VALUE	325,521,700

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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 April 30,		Six Months Ended April 30,	
	2016	2015 (As Revised)	2016	2015 (As Revised)
Net revenue:				
Products	$787	$ 750	$1,582	$ 1,559
Services and other	232	213	465	430
Total net revenue	1,019	963	2,047	1,989
Costs and expenses:				
Cost of products	357	359	722	749
Cost of services and other	132	124	258	247
Total costs	489	483	980	996
Research and development	81	81	159	169
Selling, general and administrative	318	292	622	602
Total costs and expenses	888	856	1,761	1,767
Income from operations	131	107	286	222
Interest income	3	2	5	4
Interest expense	(18)	(17)	(36)	(33)
Other income (expense), net	1	4	4	16
Income from continuing operations before taxes	117	96	259	209
Provision for income taxes	26	4	45	24
Income from continuing operations	91	92	214	185
Loss from discontinued operations, net of tax benefit of $0, $0, $0 and $(2)	—	(5)	—	(35)
Net income	$91	$ 87	$214	$ 150
Net income per share - basic:				
Income from continuing operations	$0.28	$ 0.28	$0.65	$ 0.55
Loss from discontinued operations	—	(0.02)	—	(0.10)
Net income per share - basic	$0.28	$ 0.26	$0.65	$ 0.45
Net income per share - diluted:				
Income from continuing operations	$0.28	$ 0.27	$0.65	$ 0.55
Loss from discontinued operations	—	(0.01)	—	(0.10)
Net income per share - diluted	$0.28	$ 0.26	$0.65	$ 0.45
Weighted average shares used in computing net income per share:				
Basic	326	334	327	335
Diluted	328	337	330	337

Cash dividends declared per common share	$ 0.115	$ 0.100	$ 0.230	$ 0.200

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 April 30,		Six Months Ended April 30,	
	2016	2015 (As Revised)	2016	2015 (As Revised)
Net income	$91	$ 87	$214	$ 150
Other comprehensive income (loss):				
Unrealized gain (loss) on derivative instruments, net of tax expense (benefit) of $(4), $(1), $(3) and $2	(9)	(1)	(6)	6
Amounts reclassified into earnings related to derivative instruments, net of tax benefit of $(1), $(2), $(1) and $(3)	—	(5)	(1)	(8)
Foreign currency translation, net of tax expense (benefit) of $8, $(1), $7 and $(7)	145	(6)	89	(271)
Net defined benefit pension cost and post retirement plan costs:				
Change in actuarial net loss, net of tax expense of $3, $2, $7 and $4	6	6	21	10
Change in net prior service benefit, net of tax benefit of $(1), $(1), $(6) and $(3)	(3)	(3)	(11)	(5)
Other comprehensive income (loss)	139	(9)	92	(268)
Total comprehensive income (loss)	$230	$ 78	$306	$ (118)

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)

	April 30, 2016	October 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,139	$ 2,003
Short-term restricted cash and cash equivalents	—	242
Accounts receivable, net	602	606
Inventory	555	541
Other current assets	192	294
Total current assets	3,488	3,686
Property, plant and equipment, net	610	604
Goodwill	2,556	2,366
Other intangible assets, net	490	445
Long-term investments	157	86
Other assets	339	292
Total assets	$ 7,640	$ 7,479
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 220	$ 279
Employee compensation and benefits	211	221
Deferred revenue	279	258
Short-term debt	235	—
Other accrued liabilities	188	218
Total current liabilities	1,133	976
Long-term debt	1,654	1,655
Retirement and post-retirement benefits	242	264
Other long-term liabilities	446	414
Total liabilities	3,475	3,309
Commitments and contingencies (Note 12)		
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; 612 million shares at April 30, 2016 and 611 million shares at October 31, 2015 issued	6	6
Treasury stock at cost; 287 million shares at April 30, 2016 and 279 million shares at October 31, 2015	(10,368)	(10,074)
Additional paid-in-capital	9,103	9,045
Retained earnings	5,720	5,581
Accumulated other comprehensive loss	(299)	(391)
Total stockholders' equity	4,162	4,167
Non-controlling interest	3	3
Total equity	4,165	4,170
Total liabilities and equity	$ 7,640	$ 7,479

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)

	Six Months Ended April 30, 2016	2015 (As Revised)
Cash flows from operating activities:		
Net income	214	150
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	130	131
Share-based compensation	36	33
Deferred taxes	35	4
Excess and obsolete inventory related charges	12	13
Other non-cash expense, net	8	5
Changes in assets and liabilities:		
Accounts receivable	19	16
Inventory	(13)	(18)
Accounts payable	(53)	(35)
Employee compensation and benefits	(13)	(7)
Other assets and liabilities	(15)	(129)
Net cash provided by operating activities	360	163
Cash flows from investing activities:		
Investments in property, plant and equipment	(63)	(52)
Proceeds from sale of property, plant and equipment	—	11
Payment to acquire equity method investment	—	(1)
Loan to equity method investment	(3)	—
Payment to acquire cost method investment	(80)	—
Payment in exchange for convertible note	(1)	—
Change in restricted cash and cash equivalents, net	245	1
Proceeds from sale of investment securities	1	—
Proceeds from divestitures	—	3
Acquisitions of businesses and intangible assets, net of cash acquired	(235)	—
Net cash used in investing activities	(136)	(38)
Cash flows from financing activities:		
Issuance of common stock under employee stock plans	32	40
Payment of dividends	(75)	(67)
Net transfer of cash and cash equivalents to Keysight	—	(734)
Proceeds from revolving credit facility	255	—
Repayment of revolving credit facility	(20)	—
Treasury stock repurchases	(294)	(168)
Net cash used in financing activities	(102)	(929)
Effect of exchange rate movements	14	(27)

Net increase (decrease) in cash and cash equivalents	136	(831)
Change in cash and cash equivalents related to discontinued operations	—	810
Cash and cash equivalents at beginning of period	2,003	2,218
Cash and cash equivalents at end of period	$2,139	$ 2,197

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 include 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.

Basis of Presentation. We have prepared the accompanying financial data for the three and six months ended April 30, 2016 and 2015 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 for the fiscal year ended October 31, 2015.

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 April 30, 2016 and October 31, 2015, condensed consolidated statement of comprehensive income (loss) for the three and six months ended April 30, 2016 and 2015, condensed consolidated statement of operations for the three and six months ended April 30, 2016 and 2015, and condensed consolidated statement of cash flows for the six months ended April 30, 2016 and 2015.

Revision of Services and Other and Product Net Revenues and related Cost of Sales. In 2015, we revised amounts shown in our condensed consolidated statement of operations to more accurately reflect the character of items delivered to customers. Our diagnostic and genomics segment identified a stream of service revenues that had been presented as product revenue in the prior year. We have now revised prior year's presentation to show the revenue within services and other. The cost of sales associated with these newly identified service revenues has also been revised to align with the new presentation. For the three and six months ended April 30, 2015 services and other revenue increased $9 million and $15 million and services and other cost of sales increased $6 million and $11 million with corresponding reductions in product revenue and cost of sales. These corrections to the classifications are not considered to be material to current or prior periods and had no impact to our results of operations previously reported in our condensed consolidated statement of 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 and accounting for income taxes.

Variable Interest Entities. We make a determination upon entering into an arrangement whether an entity in which we have made an investment is considered a Variable Interest Entity ("VIE"). The company evaluates its investments in privately held companies on an ongoing basis. We have determined that as of April 30, 2016 there were no VIE's required to be consolidated in the company's consolidated financial statements because we do not have a controlling financial interest in any of the VIE's that we have invested in. We account for these investments under either the equity or cost method, depending on the circumstances. We periodically reassess whether we are the primary beneficiary of a VIE. The reassessment process considers whether we have acquired the power to direct the most significant activities of the VIE through changes in governing documents or other circumstances. We also reconsider whether entities previously determined not to be VIEs have become VIEs, based on changes in facts and circumstances including changes in contractual arrangements and capital structure. As of April 30, 2016, the carrying value of our investments in VIE's was $103 million with a maximum exposure of $109 million which includes our loans to our investments. The investments are included on the long term investments line of the condensed consolidated balance sheet.

During the three months ended April 30, 2016, Agilent made a preferred stock investment in Lasergen for $80 million. Agilent's initial ownership stake was 48 percent and we have also joined the board of Lasergen and signed a collaboration agreement. We have the option to acquire all of the remaining shares of Lasergen until March 2, 2018, for an additional consideration of $105

million. Lasergen is a VIE, however, we do not consolidate the entity in our financial statements because we do not have the power to direct the activities of the VIE that most significantly impact the VIE's economic performance. Because Agilent owns preferred stock of Lasergen, we account for this investment under the cost method. As of April 30, 2016, both the carrying value and maximum exposure of the Lasergen investment was $80 million. The maximum exposure is equal to the carrying value because we do not have future funding commitments.
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 $87 million and $30 million as of April 30, 2016 and October 31, 2015, respectively. The change in the excess of fair value over carrying value in the six months ended April 30, 2016 is due to fluctuations in market interest rates. 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 2015, we assessed goodwill impairment for our three reporting units which consisted of three segments: life sciences and applied markets, diagnostics and genomics and Agilent CrossLab. We performed a quantitative test for goodwill impairment of the three reporting units, as of September 30, 2015. Based on the results of our testing, 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. There was no impairment of goodwill during the three and six months ended April 30, 2016 and 2015.

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 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, 2015. 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 assets is indicated. There were no indicators of impairment of indefinite-lived intangible assets during the three and six months ended April 30, 2016 and 2015.

2. REVISION OF PRIOR PERIOD FINANCIAL STATEMENTS

During the years ended October 31, 2014 and 2015, the company identified and recorded various out of period income tax adjustments. We determined that the errors were not material to the previously issued financial statements and disclosures included in our Annual Report on Form 10-K for the year ended October 31, 2014 or for any quarterly periods included therein or through our Quarterly Report on Form 10-Q for the nine months ended July 31, 2015. However, as a result of the company presenting continuing operations and discontinued operations for the first time in our Annual Report on Form 10-K for the year ended October 31, 2015, we determined that the effect of the errors is significant to our financial results for the year ending October 31, 2014 and 2013. Accordingly, we revised our historical financial statements presented in our Form 10-K for the year ended October 31, 2015.

For the three and six months ended April 30, 2016, we are presenting comparative fiscal 2015 quarterly information. The fiscal 2015 results for the three and six months ended April 30, 2015 have been revised to reflect the quarterly impact of the out of period adjustments described above. For the three months ended April 30, 2015 the following out of period adjustments were included in the as-reported column in the revision adjustment table and have been removed in the adjustments column: $4 million of tax expense related to the increase of foreign deferred tax liabilities for a prior year. In addition to the aforementioned, for the six months ended April 30, 2015, the following out of period adjustments were included in the as-reported column in the revision adjustment table and have been removed in the adjustments column: $13 million of tax benefit from the reduction in deferred tax liabilities due to tax rate changes in Denmark occurring in a prior year and $4 million of tax expense attributable to an error discovered on a prior year U.S. tax return.

	Three Months Ended April 30, 2015		
	As Reported	Adjustments	As Revised
	(in millions, except per share data)		
Income from continuing operations before taxes	$96		$ 96
Provision for income taxes	8	(4)	4
Income from continuing operations	88		92
Loss from discontinued operations, net of tax benefit of $0 million	(5)		(5)
Net Income	$83	$ 4	$ 87
Net income per share - basic			
Income from continuing operations	$0.26		$ 0.28
Loss from discontinued operations	(0.01)		(0.02)
Net income per share - basic	$0.25		$ 0.26

Net income per share - diluted			
Income from continuing operations	$0.26		$ 0.27
Loss from discontinued operations	(0.01)		(0.01)
Net income per share - diluted	$0.25		$ 0.26
Total comprehensive income	$74	$ 4	$ 78

AGILENT TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

	Six Months Ended April 30, 2015		
	As Reported	Adjustments	As Revised
	(in millions, except per share data)		
Income from continuing operations before taxes	$209		$ 209
Provision for income taxes	19	5	24
Income from continuing operations	190		185
Loss from discontinued operations, net of tax benefit of $2	(35)		(35)
Net Income	$155	$ (5)	$ 150
Net income per share - basic			
Income from continuing operations	$0.57		$ 0.55
Loss from discontinued operations	(0.11)		(0.10)
Net income per share - basic	$0.46		$ 0.45
Net income per share - diluted			
Income from continuing operations	$0.56		$ 0.55
Loss from discontinued operations	(0.10)		(0.10)
Net income per share - diluted	$0.46		$ 0.45
Total comprehensive loss	$(113)	$ (5)	$ (118)

The adjustments resulted in the following revisions to our condensed consolidated statement of cash flow.

	Six Months Ended April 30, 2015		
	As Reported	Adjustments	As Revised
	(in millions)		
Net income	$155	$ (5)	$150
Deferred taxes	$(3)	$ 7	$4
Changes in assets and liabilities:			
Other assets and liabilities	$(127)	$ (2)	$(129)
Net cash provided by operating activities	$163	$ —	$163

3. 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, 2015 except for the following:

In March 2016, the Financial Accounting Standards Board (“FASB”) issued amendments which aim to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, classification of certain items on the statement of cash flows and accounting for forfeitures. The amendments are effective for us beginning November 1, 2017 with early adoption permitted. We are evaluating the timing and the impact of adopting this guidance on our consolidated financial statements and disclosures.

In March 2016, the FASB issued updates related to Revenue from Contracts with Customers: Principal versus Agent Considerations. The amendments are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. The effective date for us is fiscal 2019 with early adoption permitted for us beginning November 1, 2017. The company is currently assessing the potential impact of these amendments on our consolidated financial statements.

In March 2016, the FASB issued amendments for simplifying the transition to the equity method of accounting. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The amendments are effective for us beginning November 1, 2017 and interim periods in the following year. We are evaluating the potential impact of this amendment on our consolidated financial statements.

In February 2016, the FASB issued guidance which amends the existing accounting standards for leases. Consistent with existing guidance, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification. Under the new guidance, a lessee will be required to recognize right-of-use assets and lease liabilities on the balance sheet. The new guidance is effective for us beginning November 1, 2020, and interim periods in the following year. Early adoption of this guidance is permitted and we will be required to adopt using a modified retrospective approach. We are evaluating the timing and the impact of adopting this guidance on our consolidated financial statements and disclosures.

In January 2016, the FASB issued amendments to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The standard requires entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income. The provisions under this amendment are effective for us beginning November 1, 2018, and for interim periods in the following year and early adoption is not permitted. We are evaluating the impact of adopting this guidance to our consolidated financial statements.

In November 2015, the FASB issued guidance intended to simplify accounting for deferred taxes. Beginning on November 1, 2017 and including the interim periods following that date, we will be required to present all deferred tax balances as non-current. Existing GAAP guidance requires us to record deferred tax balances as either current or non-current in accordance with the classification of the underlying attributes. Early adoption of this guidance is permitted and may be applied either prospectively or retrospectively to all periods presented. We adopted this guidance at the end of the period ended April 30, 2016 prospectively and therefore, the April 30, 2016 condensed consolidated balance sheet reflects the new disclosure requirements but prior periods have not been adjusted.

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.

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.

Participants in the LTPP are entitled to receive unrestricted shares of the company's stock after the end of a three-year period, if specified performance targets are met. Certain LTPP awards are generally designed to meet the criteria of a performance award with the performance metrics and peer group comparison based on the Total Stockholders’ Return (“TSR”) set at the beginning of the performance period. Effective November 1, 2015, the Compensation Committee of the Board of Directors approved another type of performance stock award, for the company's executive officers and other key employees. Participants in this program are also entitled to receive unrestricted shares of the company's stock after the end of a three-year period, if specified performance targets based on Operating Margin (“OM”) over the three- year period are met. All LTPP awards granted after November 1, 2015, are subject to a one year post-vest holding period.

Based on the performance metrics the final LTPP award may vary from zero to 200 percent of the target award. The maximum award value cannot exceed 300 percent of the grant date target value. We consider the dilutive impact of these programs in our diluted net income per share calculation only to the extent that the performance conditions are expected to be met.

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	2016	2015	2016	2015
	(in millions)			
Cost of products and services	$3	$ 2	$9	$ 7
Research and development	1	1	3	3
Selling, general and administrative	10	9	25	24
Total share-based compensation expense	$14	$ 12	$37	$ 34

AGILENT TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

At April 30, 2016 and October 31, 2015, there was no share-based compensation capitalized within inventory. For the six months ended April 30, 2016 and 2015, the windfall tax benefit realized from exercised stock options and similar awards was zero for both periods.

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	2016	2015	2016	2015
Stock Option Plans:				
Weighted average risk-free interest rate	—	1.5%	—	1.7 %
Dividend yield	—	1%	—	1 %
Weighted average volatility	—	29%	—	28 %
Expected life	—	5.5yrs	—	5.5yrs
LTPP:				
Volatility of Agilent shares	24%	25%	24 %	25 %
Volatility of selected peer-company shares	14%-50%	12%-57%	14%-50%	12%-57%
Price-wise correlation with selected peers	35%	37%	35 %	37 %

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 (TSR) 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 2016 and 2015 LTPP (TSR) 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 (TSR) 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 (TSR).

In developing our estimated life assumption 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. No stock options were granted during the three and six months ended April 30, 2016.

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.

The estimated fair value of restricted stock unit and LTPP (OM) awards is determined based on the market price of Agilent's common stock on the date of grant adjusted for expected dividend yield. The compensation cost for LTPP (OM) reflects the cost of awards that are probable to vest at the end of the performance period.

All awards granted in 2016 to our senior management employees have a one year post-vest holding restriction. The estimated discount associated with post-vest holding restrictions is calculated using the Finnerty model. The model calculates the potential lost value if the employee were able to sell the shares during the lack of marketability period, instead of being required to hold the shares. The model used the 3 year average historical stock price volatility of a group of our peer companies and an expected dividend yield to compute the discount. The grants made during 2016 have a discount of 5.5 percent while computing the fair value.

5. INCOME TAXES

The company's effective tax rate from continuing operations was 22.2 percent and 17.4 percent for the three and six months ended April 30, 2016, respectively. The company's effective tax rate from continuing operations was 4.2 percent and 11.5 percent for the three and six months ended April 30, 2015, respectively. The income tax expense from continuing operations was $26 million and $45 million for the three and six months ended April 30, 2016, respectively. The income tax expense from continuing operations was $4 million and $24 million for the three and six months ended April 30, 2015, respectively.

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The income tax provision from continuing operations for the three and six months ended April 30, 2016 included net discrete tax expense of $3 million and tax benefit of $3 million, respectively. The net discrete tax expense for the three months ended April 30, 2016 included a tax expense of $7 million for return-to-provision adjustments associated with the filing of the return in Germany, $5 million of which was determined to be out of period. The remaining discrete items in the quarter include an $8 million tax benefit related to the realization of tax credits that reduce the deferred tax liability for unremitted foreign earnings, $2 million tax expense of other miscellaneous return-to-provision adjustments in other foreign jurisdictions and $2 million of miscellaneous other discrete tax expense. The out of period adjustment is a true up of a deferred tax asset related to a net operating loss carryover that was recorded in 2006 using an incorrect income tax rate. In addition to the aforementioned, the net discrete tax benefit for the six months ended April 30, 2016 included $5 million of tax benefit for the extension, which occurred in the first quarter of 2016, of the U.S. research and development tax credit attributable to the company's prior fiscal year, and $6 million of tax expense related to the curtailment gain recognized with respect to the U.S. retirement plan and Supplemental Benefits Plan. The net discrete tax benefit for the six months ended April 30, 2016 also included $9 million of tax benefit related primarily to return-to-provision adjustments in Singapore and $2 million of other discrete tax expense items. The out of period adjustment is not considered to be material to current or prior periods.

The income tax provision from continuing operations for the three and six months ended April 30, 2015 included net discrete benefits of $13 million and $16 million, respectively. The net discrete tax benefit for the three months ended April 30, 2015 included $16 million of tax benefit related to the de-registration of certain foreign branches, and $3 million of other discrete tax expense. In addition to the aforementioned, the net discrete tax benefit for the six months ended April 30, 2015 included $6 million of tax benefit for the extension, which occurred in the first quarter of 2015, of the U.S. research and development tax credit attributable to the company's prior fiscal year and $3 million of other discrete tax expense items.

In the U.S., tax years remain open back to the year 2012 for federal income tax purposes and the year 2000 for significant states. On September 22, 2015, we reached an agreement with the Internal Revenue Service ("IRS") for the tax years 2008 through 2011. During the first quarter of 2016, we made a payment of approximately $9 million of tax plus interest as part of closing the exam. In 2015, we reclassified a portion of other long-term liabilities to other accrued liabilities related to uncertain tax positions of continuing operations that we expected to pay within the next twelve months. This amount was partially offset by a prepaid tax account of approximately $3 million that the IRS allowed as an offset to the $12 million in incremental taxes. The settlement resulted in the recognition, within the continuing operations, of previously unrecognized tax benefits of $119 million, offset by a tax liability on foreign distributions of approximately $99 million principally related to the repatriation of foreign earnings.

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 issued an opinion in Altera Corp. v. Commissioner related to the treatment of stock-based compensation expense in an intercompany cost-sharing arrangement. A final decision was entered by the U.S. Tax Court on December 1, 2015. At this time, the U.S. Department of the Treasury has not withdrawn the requirement from its regulations to include stock-based compensation in an intercompany cost-sharing arrangement. The IRS notified the U.S. Court of Appeals for the Ninth Circuit on February 19, 2016 of its intent to appeal the Tax

Court's decision in the case. We concluded that no adjustment to our consolidated financial statements is appropriate at this time due to the uncertainties with respect to the ultimate resolution of this case.

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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 April 30, 2016	Three Months Ended April 30, 2015 (As Revised)	Six Months Ended April 30, 2016	Six Months Ended April 30, 2015 (As Revised)
	(in millions)			
Numerator:				
Income from continuing operations	$91	$ 92	$214	$ 185
Loss from discontinued operations	—	(5)	—	(35)
Net income	$91	$ 87	$214	$ 150
Denominator:				
Basic weighted-average shares	326	334	327	335
Potential common shares— stock options and other employee stock plans	2	3	3	2
Diluted weighted-average shares	328	337	330	337

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 six months ended April 30, 2016, 2.1 million and 1.7 million options to purchase shares were excluded from the calculation of diluted earnings per share, respectively. For the three and six months ended April 30, 2015, 66,200 and 672,500 options to purchase shares were excluded from the calculation of diluted earnings per share, respectively. In addition, we 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 six months ended April 30, 2016, 2,600 and 3,500 additional shares were excluded from the calculation of diluted earnings per share, respectively. For the three and six months ended April 30, 2015, 1.4 million and 690,200 additional shares were excluded from the calculation of diluted earnings per share, respectively.

7. INVENTORY

	April 30, 2016	October 31, 2015
	(in millions)	
Finished goods	$367	$ 362

Purchased parts and fabricated assemblies	188	179
Inventory	$ 555	$ 541

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8. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents goodwill balances and the movements for each of our reportable segments during the six months ended April 30, 2016:

	Life Sciences and Applied Markets	Diagnostics and Genomics	Agilent CrossLab	Total
	(in millions)			
Goodwill as of October 31, 2015	$650	$ 1,234	$ 482	$2,366
Foreign currency translation impact	5	44	4	53
Goodwill arising from acquisitions	137	—	—	137
Goodwill as of April 30, 2016	$792	$ 1,278	$ 486	$2,556

The components of other intangibles as of April 30, 2016 and October 31, 2015 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, 2015:			
Purchased technology	$ 746	$ 476	$ 270
Trademark/Tradename	141	50	91
Customer relationships	230	168	62
Total amortizable intangible assets	1,117	694	423
In-Process R&D	22	—	22
Total	$ 1,139	$ 694	$ 445
As of April 30, 2016:			
Purchased technology	840	535	305
Backlog	1	1	—
Trademark/Tradename	154	57	97
Customer relationships	266	200	66
Total amortizable intangible assets	1,261	793	468
In-Process R&D	22	—	22
Total	$ 1,283	$ 793	$ 490

On November 1, 2015, we acquired Seahorse Bioscience, a leader in providing instruments and assay kits for measuring cell metabolism and bioenergetics, for $242 million. The acquisition accounting for Seahorse was completed in the second quarter resulting in a $3 million adjustment to decrease goodwill. As a result, we recorded additions to goodwill of $137 million and additions to other intangible assets of $118 million during the six months ended April 30, 2016. During the six months ended April 30, 2016, other intangible assets increased $10 million, due to the impact of foreign exchange translation.

Amortization expense of intangible assets was $40 million and $83 million for the three and six months ended April 30, 2016, respectively. Amortization expense of intangible assets was $38 million and $81 million for the three and six months ended April 30, 2015, respectively.

Future amortization expense related to existing finite-lived purchased intangible assets for the remainder of fiscal year 2016 and for each of the five succeeding fiscal years and thereafter is estimated below:

Estimated future amortization expense:	
(in millions)	
Remainder of 2016	$69
2017	$113
2018	$83
2019	$59
2020	$48
2021	$36
Thereafter	$60

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.

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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 April 30, 2016 were as follows:

	April 30, 2016	Fair Value Measurement at April 30, 2016 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)	$1,454	$1,454	$ —	$ —
Derivative instruments (foreign exchange contracts)	3	—	3	—
Long-term				
Trading securities	30	30	—	—
Total assets measured at fair value	$1,487	$1,484	$ 3	$ —
Liabilities:				
Short-term				
Derivative instruments (foreign exchange and interest rate swap contracts)	$13	$—	$ 13	$ —
Long-term				
Deferred compensation liability	30	—	30	—
Total liabilities measured at fair value	$43	$—	$ 43	$ —

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

	October 31, 2015	Fair Value Measurement at October 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)	$1,411	$1,411	$ —	$ —
Derivative instruments (foreign exchange contracts)	4	—	4	—
Long-term				
Trading securities	35	35	—	—
Total assets measured at fair value	$1,450	$1,446	$ 4	$ —
Liabilities:				

Short-term				
Derivative instruments (foreign exchange contracts)	$5	$—	$ 5	$ —
Long-term				
Deferred compensation liability	35	—	35	—
Total liabilities measured at fair value	$40	$—	$ 40	$ —

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, which is comprised of mutual funds, bonds and other similar instruments, 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 accumulated other comprehensive loss within stockholders' equity. Realized gains and losses from the sale of these instruments are recorded in net income.

Impairment of Investments. There were no impairments of investments for the three and six months ended April 30, 2016 and 2015.

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

For the three and six months ended April 30, 2016 and 2015, there were no impairments of long-lived assets held and used. For the three and six months ended April 30, 2016 and 2015, 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 our 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 April 30, 2016, 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 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 April 30, 2016 was $1 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 remaining gain to be amortized at April 30, 2016 was $17 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 and are assessed for effectiveness against the underlying exposure every reporting period. Changes in the time value of the foreign exchange contract are excluded from the assessment of hedge effectiveness and are recognized in other income (expense) each period. 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 six months ended April 30, 2016 and 2015 was not significant. For the three and six months ended April 30, 2016 and 2015 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

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be amortized related to the treasury lock agreements at April 30, 2016 was $2 million.

In February 2016, Agilent executed three forward-starting interest rate swaps for the notional amount of $300 million in connection with future interest payments associated with the planned issuance of debt later this fiscal year. The contract term allows us to lock-in a treasury rate on our anticipated debt issuance. 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 these derivative instruments will be recognized in accumulated other comprehensive income (loss). For both the three months and six months ended April 30, 2016, a loss of $3 million was recognized in accumulated other comprehensive income (loss). Amounts associated with these cash flow hedges will be reclassified to interest expense in the condensed consolidated statement of operations when the forecasted future interest payments on the debt occur.

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 April 30, 2016, was $10 million. The credit-risk-related contingent features underlying these agreements had not been triggered as of April 30, 2016.

There were 62 foreign exchange forward contracts open as of April 30, 2016 and designated as cash flow hedges. There were 158 foreign exchange forward contracts open as of April 30, 2016 not designated as hedging instruments. The aggregated notional amounts by currency and designation as of April 30, 2016 were as follows:

Derivatives Designated as Cash Flow Hedges	Derivatives Not Designated as Hedging Instruments	
Forward Contracts USD	Forward Contracts USD	Forward Contracts DKK

Currency	Buy/(Sell)	Buy/(Sell)	Buy/(Sell)
	(in millions)		
Euro	$ (31)	$ 116	$ (56)
British Pound	(31)	(4)	(4)
Canadian Dollar	(27)	(2)	(3)
Australian Dollar	3	14	(4)
Malaysian Ringgit	—	(2)	—
Japanese Yen	(65)	21	(1)
American Dollar	—	—	44
Other	(5)	39	(14)
Totals	$ (156)	$ 182	$ (38)

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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 April 30, 2016 and October 31, 2015 were as follows:

Fair Values of Derivative Instruments

Asset Derivatives			Liability Derivatives		
	Fair Value			Fair Value	
Balance Sheet Location	April 30, 2016	October 31, 2015	Balance Sheet Location	April 30, 2016	October 31, 2015
(in millions)					
Derivatives designated as hedging instruments:					
Cash flow hedges					
Foreign exchange forward contracts	$ 1	$ 2		$ 8	$ 1
Interest rate swap contracts	—	—		3	—
Other current assets	$ 1	$ 2	Other accrued liabilities	$ 11	$ 1