

AGILENT TECHNOLOGIES INC

Form 10-Q

September 07, 2016

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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, 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 (IRS employer
incorporation or organization) 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 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, 2016

COMMON STOCK, \$0.01 PAR VALUE 324,384,755

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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,	
	2016	2015 (As Revised)	2016	2015 (As Revised)
Net revenue:				
Products	\$798	\$ 787	\$2,380	\$ 2,346
Services and other	246	227	711	657
Total net revenue	1,044	1,014	3,091	3,003
Costs and expenses:				
Cost of products	362	373	1,084	1,122
Cost of services and other	140	128	398	375
Total costs	502	501	1,482	1,497
Research and development	86	79	245	248
Selling, general and administrative	310	290	932	892
Total costs and expenses	898	870	2,659	2,637
Income from operations	146	144	432	366
Interest income	3	2	8	6
Interest expense	(17	) (17	) (53	) (50
Other income (expense), net	2	(1	) 6	15
Income from continuing operations before taxes	134	128	393	337
Provision for income taxes	10	15	57	39
Income from continuing operations	124	113	336	298
Loss from discontinued operations, net of tax benefit of \$0, \$0, \$0 and \$(2)	—	(2	) —	(37
Net income	\$124	\$ 111	\$336	\$ 261
Net income per share - basic:				
Income from continuing operations	\$0.38	\$ 0.34	\$1.03	\$ 0.89
Loss from discontinued operations	—	(0.01	) —	(0.11
Net income per share - basic	\$0.38	\$ 0.33	\$1.03	\$ 0.78
Net income per share - diluted:				
Income from continuing operations	\$0.38	\$ 0.34	\$1.02	\$ 0.89
Loss from discontinued operations	—	(0.01	) —	(0.11
Net income per share - diluted	\$0.38	\$ 0.33	\$1.02	\$ 0.78
Weighted average shares used in computing net income per share:				
Basic	325	332	326	334
Diluted	328	334	329	336

Cash dividends declared per common share	\$0.115	\$0.100	\$0.345	\$0.300
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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, 2015		Nine Months Ended July 31, 2015		
	2016	(As Revised)	2016	(As Revised)	
Net income	\$124	\$ 111	\$336	\$ 261	
Other comprehensive income (loss):					
Unrealized gain (loss) on derivative instruments, net of tax expense (benefit) of \$(4), \$2, \$(7) and \$4	(5	) 1	(11	) 7
Amounts reclassified into earnings related to derivative instruments, net of tax expense (benefit) of \$1, \$(2), \$0 and \$(5)	1	(1) —	(9)
Foreign currency translation, net of tax expense (benefit) of \$(3), \$(1), \$4 and \$(8)	(48) (66) 41	(337)
Net defined benefit pension cost and post retirement plan costs:					
Change in actuarial net loss, net of tax expense of \$2, \$2, \$9 and \$6	8	7	29	17	
Change in net prior service benefit, net of tax benefit of \$(1), \$(1), \$(7) and \$(4)	(2) (3) (13) (8)
Other comprehensive income (loss)	(46) (62) 46	(330)
Total comprehensive income (loss)	\$78	\$ 49	\$382	\$ (69)

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, 2016	October 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$2,199	\$ 2,003
Short-term restricted cash and cash equivalents	—	242
Accounts receivable, net	590	606
Inventory	543	541
Other current assets	198	294
Total current assets	3,530	3,686
Property, plant and equipment, net	623	604
Goodwill	2,525	2,366
Other intangible assets, net	442	445
Long-term investments	155	86
Other assets	459	292
Total assets	\$7,734	\$ 7,479
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$261	\$ 279
Employee compensation and benefits	209	221
Deferred revenue	279	258
Short-term debt	235	—
Other accrued liabilities	167	218
Total current liabilities	1,151	976
Long-term debt	1,652	1,655
Retirement and post-retirement benefits	229	264
Other long-term liabilities	356	414
Total liabilities	3,388	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; 613 million shares at July 31, 2016 and 611 million shares at October 31, 2015 issued	6	6
Treasury stock at cost; 289 million shares at July 31, 2016 and 279 million shares at October 31, 2015	(10,462)	(10,074)
Additional paid-in-capital	9,144	9,045
Retained earnings	6,000	5,581
Accumulated other comprehensive loss	(345)	(391)
Total stockholders' equity	4,343	4,167
Non-controlling interest	3	3
Total equity	4,346	4,170
Total liabilities and equity	\$7,734	\$ 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)

	Nine Months Ended July 31,	
	2015	(As Revised and Adjusted)
	2016	
Cash flows from operating activities:		
Net income	\$ 336	\$ 261
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	190	193
Share-based compensation	47	43
Deferred taxes	34	(16)
Excess and obsolete inventory related charges	16	20
Other non-cash expense, net	16	13
Changes in assets and liabilities:		
Accounts receivable	19	1
Inventory	(11)	(18)
Accounts payable	(27)	(47)
Employee compensation and benefits	(14)	(27)
Other assets and liabilities	(47)	(152)
Net cash provided by operating activities	559	271
Cash flows from investing activities:		
Investments in property, plant and equipment	(87)	(71)
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)	(2)
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)	(66)
Net cash used in investing activities	(160)	(125)
Cash flows from financing activities:		
Issuance of common stock under employee stock plans	59	57
Cash paid to tax authorities for withheld shares from employees	(6)	(12)
Payment of dividends	(112)	(100)
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	(388)	(267)

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Net cash used in financing activities	(212)	(1,056)
Effect of exchange rate movements	9	(43)
Net increase (decrease) in cash and cash equivalents	196	(953)
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	\$2,199	\$ 2,075
Supplemental cash flow information:		
Income tax payments, net	\$54	\$ 121
Interest payments	\$66	\$ 64

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 nine months ended July 31, 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 July 31, 2016 and October 31, 2015, condensed consolidated statement of comprehensive income (loss) for the three and nine months ended July 31, 2016 and 2015, condensed consolidated statement of operations for the three and nine months ended July 31, 2016 and 2015, and condensed consolidated statement of cash flows for the nine months ended July 31, 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 nine months ended July 31, 2015 services and other revenue increased \$11 million and \$26 million and services and other cost of sales increased \$7 million and \$18 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 July 31, 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 nor are we the primary beneficiary. 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 July 31, 2016, the carrying value of our investments in VIE’s was \$101 million with a maximum exposure of \$108 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 nine months ended July 31, 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.

AGILENT TECHNOLOGIES, INC.

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

We have the option to acquire all of the remaining shares of Lasergen until March 2, 2018, for 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 of the nature of the preferred stock of Lasergen that we own, we account for this investment under the cost method. As of July 31, 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 \$102 million and \$30 million as of July 31, 2016 and October 31, 2015, respectively. The change in the excess of fair value over carrying value in the nine months ended July 31, 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 nine months ended July 31, 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

AGILENT TECHNOLOGIES, INC.

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

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. During the three and nine months ended July 31, 2016, we recorded an impairment of \$4 million due to the announced cancellation of a certain IPR&D project. There were no impairments in the three and nine months ended July 31, 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 nine months ended July 31, 2016, we are presenting comparative fiscal 2015 quarterly information. The fiscal 2015 results for the three and nine months ended July 31, 2015 have been revised to reflect the quarterly impact of the out of period adjustments described above. For the three months ended July 31, 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: \$8 million of tax expense related to the correction of the U.S. deferred tax liability for unremitted earnings of foreign subsidiaries. In addition to the aforementioned, for the nine months ended July 31, 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, \$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 July 31, 2015		
	As Reported	Adjustments	As Revised
	(in millions, except per share data)		
Income from continuing operations before taxes	\$128		\$128
Provision for income taxes	23	(8)	15
Income from continuing operations	105		113
Loss from discontinued operations, net of tax benefit of \$0 million	(2)		(2)
Net Income	\$103	\$ 8	\$111
Net income per share - basic			
Income from continuing operations	\$0.32		\$0.34

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Loss from discontinued operations	(0.01)	(0.01)
Net income per share - basic	\$0.31	\$ 0.33
Net income per share - diluted		
Income from continuing operations	\$0.31	\$ 0.34
Loss from discontinued operations	—	(0.01)
Net income per share - diluted	\$0.31	\$ 0.33
Total comprehensive income	\$41 \$ 8	\$ 49

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AGILENT TECHNOLOGIES, INC.

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

	Nine Months Ended July 31, 2015		
	As Reported	Adjustments	As Revised
	(in millions, except per share data)		
Income from continuing operations before taxes	\$337		\$337
Provision for income taxes	42	(3)	39
Income from continuing operations	295		298
Loss from discontinued operations, net of tax benefit of \$(2)	(37)		(37)
Net Income	\$258	\$ 3	\$261
Net income per share - basic			
Income from continuing operations	\$0.88		\$0.89
Loss from discontinued operations	(0.11)		(0.11)
Net income per share - basic	\$0.77		\$0.78
Net income per share - diluted			
Income from continuing operations	\$0.88		\$0.89
Loss from discontinued operations	(0.11)		(0.11)
Net income per share - diluted	\$0.77		\$0.78
Total comprehensive loss	\$(72)	\$ 3	\$(69)

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

	Nine Months Ended July 31, 2015		
	As Reported	Adjustments	As Revised (1)
	(in millions)		
Net income	\$258	\$ 3	\$261
Deferred taxes	\$(15)	\$(1)	\$(16)
Changes in assets and liabilities:			
Other assets and liabilities	\$(162)	\$(2)	\$(164)
Net cash provided by operating activities	\$254	\$ —	\$254

(1) The presentation above of certain amounts from the consolidated statement of cash flow for the nine months ended July 31, 2015 does not include the adjustments related to the early adoption of new guidance which have also been made in the third quarter of fiscal year 2016. See Note 3 "New Accounting Pronouncements" for additional information.

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 that change the accounting for certain aspects of share-based payments to employees. The new guidance requires excess tax benefits and tax deficiencies to be recorded in the income statement when the awards vest or are settled. In addition, cash flows related to excess tax benefits will no longer be separately classified as a financing activity apart from other income tax cash flows. The standard also allows us to repurchase more of an employee’s shares for tax withholding purposes without triggering liability accounting, clarifies that all cash payments made on an employee’s behalf for withheld shares should be presented as a financing activity on our cash flows statement, and provides an accounting policy election to account for forfeitures as they occur. The amendments also remove the requirement to delay the recognition of an excess tax benefit until it reduces current taxes payable. Under the new guidance the benefit will be recorded when it arises with a cumulative effect adjustment to opening retained earnings for previously unrecognized benefits. The new guidance is effective for us beginning November 1, 2017, with early adoption permitted.

We elected to early adopt the new guidance in the third quarter of fiscal year 2016, on a retrospective basis, which requires us to reflect any adjustments as of November 1, 2015, the beginning of the annual period that includes the interim period of adoption. The impact of adoption on previously reported quarterly results was the recognition of tax shortfalls of \$2 million in

AGILENT TECHNOLOGIES, INC.

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

our provision for income taxes for the first quarter of fiscal year 2016. Additional amendments to the accounting for income taxes on previously reported quarterly results was the recognition of the windfall tax benefits as a cumulative effect adjustment to opening retained earnings of \$195 million together with an increase in deferred tax assets included in other assets of \$97 million, an increase in additional paid in capital of \$4 million, a reduction in other accrued liabilities of \$1 million and a decrease of \$99 million in other long term liabilities. There was no impact from minimum statutory withholding tax requirements to retained earnings as of November 1, 2015. We have elected to continue to estimate forfeitures expected to occur to determine the amount of compensation cost to be recognized in each period.

The adoption of the new guidance did not have a significant impact on the calculation of diluted weighted average shares. The impact of the adoption on our previously reported quarterly results for fiscal year 2016 follows:

	Three Months Ended January 31, 2016		Six Months Ended April 30, 2016	
	As Reported	As Adjusted	As Reported	As Adjusted
Condensed Consolidated Statement of Operations:				
Provision for income taxes	\$ 19	\$ 21	\$ 45	\$ 47
Net income	\$ 123	\$ 121	\$ 214	\$ 212
Net income per share - Basic	\$ 0.37	\$ 0.37	\$ 0.65	\$ 0.65
Net income per share - Diluted	\$ 0.37	\$ 0.36	\$ 0.65	\$ 0.64
Weighted average shares used in computing net income per share - Diluted	332	332	330	330

We elected to apply the presentation requirements for cash flows related to excess tax benefits and employee taxes paid for withheld shares retrospectively to all periods presented which resulted in an increase to both net cash from operations and net cash used in financing of \$1 million and \$6 million for the three and nine months ended July 31, 2016, respectively. The presentation requirements for cash flows also impacted our previously reported quarterly condensed consolidated statement of cash flows for fiscal years 2016 and 2015 as follows:

	Three Months Ended January 31, 2016		Six Months Ended April 30, 2016	
	As Reported	As Adjusted	As Reported	As Adjusted
Condensed Consolidated Statement of Cash Flows:				
Net cash provided by operating activities	\$ 104	\$ 111	\$ 360	\$ 365
Net cash used in financing activities	\$(132)	\$(139)	\$(102)	\$(107)

	Three Months Ended January 31, 2015		Six Months Ended April 30, 2015		Nine Months Ended July 31, 2015	
	As Reported	As Adjusted	As Reported	As Adjusted	As Revised ⁽¹⁾	As Adjusted
(in millions)						

Condensed Consolidated Statement of Cash Flows:

Net cash provided by (used in) operating activities	\$(20)	\$(9)	\$163	\$175	\$254	\$271
Net cash used in financing activities		\$(828)	\$(839)	\$(929)	\$(941)	\$(1,039)
			\$(1,056)			

(1) See Note 2, "Revision of Prior Period Financial Statements" for additional information.

	January 31, 2016		April 30, 2016	
	As	As	As	As
	Reported	Adjusted	Reported	Adjusted
	(in millions)			

Condensed Consolidated Balance Sheet:

Other assets	\$242	\$ 353	\$339	\$ 436
Other accrued liabilities	\$169	\$ 168	\$188	\$ 187
Other long-term liabilities	\$412	\$ 329	\$446	\$ 347
Additional paid-in-capital	\$9,085	\$ 9,087	\$9,103	\$ 9,107
Retained earnings	\$5,666	\$ 5,859	\$5,720	\$ 5,913

AGILENT TECHNOLOGIES, INC.

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

In August 2016, the FASB issued amendments to address eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments are effective for us beginning November 1, 2018 and interim periods in the following year. Early adoption is permitted. If we decide to early adopt the amendments, we will be required to adopt all of the amendments in the same period. We are evaluating the potential impact of the amendments on our consolidated statement of cash flows and disclosures.

In March 2016, the FASB issued amendments to simplify 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 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 July 31, 2016 condensed consolidated balance sheet reflects the new disclosure requirements but prior periods have not been adjusted.

In May 2014, the FASB issued amendments to the accounting guidance related to revenue recognition. The objective of the amendments was to significantly enhance comparability and clarify principles of revenue recognition practices across entities, industries, jurisdictions and capital markets. In March 2016, the FASB clarified the implementation guidance on principal versus agent considerations. In April 2016, the FASB clarified certain aspects of identifying performance obligations and licensing implementation guidance. In May 2016, the FASB provided additional guidance related to disclosure of remaining performance obligations, as well as other amendments to guidance on collectibility, non-cash consideration and the presentation of sales and other similar taxes collected from customers. The amendments are effective for us beginning November 1, 2018. Early adoption is permitted for us beginning November 1, 2017. The company is currently assessing the potential impact of these amendments on our consolidated

financial statements.

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.

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AGILENT TECHNOLOGIES, INC.

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

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 July 31, 2016		Nine Months Ended July 31, 2015	
	(in millions)			
Cost of products and services	\$2	\$2	\$11	\$9
Research and development	1	1	4	4
Selling, general and administrative	8	7	33	31
Total share-based compensation expense	\$11	\$10	\$48	\$44

At July 31, 2016 and October 31, 2015, there was no share-based compensation capitalized within inventory.

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

	Three Months Ended July 31, 2016		Nine Months Ended July 31, 2015	
Stock Option Plans:				
Weighted average risk-free interest rate	—	—	—	1.7 %
Dividend yield	—	—	—	1 %
Weighted average volatility	—	—	—	28 %

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Expected life	—	—	—	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

AGILENT TECHNOLOGIES, INC.

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

historical volatility prior to the separation of Keysight is no longer relevant to use. For the grants of options and LTTP (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 LTTP (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 nine months ended July 31, 2016.

The ESPP allows eligible employees to purchase shares of our common stock at 85 percent of the price at purchase and uses the purchase date to establish the fair market value.

The estimated fair value of restricted stock unit and LTTP (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 LTTP (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.

In the third quarter of fiscal year 2016, the company elected to early adopt new guidance that changes the accounting for certain aspects of share-based payments to employees. For additional details related to the new guidance see Note 3, "New Accounting Pronouncements."

5. INCOME TAXES

The company's effective tax rate from continuing operations was 7.5 percent and 14.5 percent for the three and nine months ended July 31, 2016, respectively. The company's effective tax rate from continuing operations was 11.7 percent and 11.6 percent for the three and nine months ended July 31, 2015, respectively. The income tax expense from continuing operations was \$10 million and \$57 million for the three and nine months ended July 31, 2016, respectively. The income tax expense from continuing operations was \$15 million and \$39 million for the three and nine months ended July 31, 2015, respectively.

The income tax provision from continuing operations for the three and nine months ended July 31, 2016 included net discrete tax benefits of \$6 million and \$9 million, respectively. The net discrete tax benefit for the three months ended July 31, 2016, included an out-of-period correcting tax benefit of \$11 million associated with a true-up of deferred tax liability for unremitted foreign earnings that should have been recorded in the third quarter of fiscal year 2015 and \$5 million net expense related to other discrete items. In addition to the aforementioned, the net discrete tax benefit for the nine months ended July 31, 2016, included \$5 million of tax benefit for the extension of the U.S. research and development tax credit attributable to the company's prior fiscal year, \$6 million of tax expense related to the curtailment gain recognized with respect to the U.S. retirement plan and Supplemental Benefits Plan, \$8 million tax benefit related to the realization of tax credits that reduce the deferred tax liability for unremitted foreign earnings, and a net \$4 million of other discrete tax expense primarily related to return-to-provision true-ups, including an

out-of-period adjustment recorded in the second quarter of fiscal year 2016 of \$5 million of expense in Germany. The out-of-period corrections were determined to be immaterial to the previously issued and current period financial statements.

The income tax provision from continuing operations for the three and nine months ended July 31, 2015 included net discrete expense of \$1 million and benefit of \$15 million, respectively. The net discrete tax expense for the three months ended July 31, 2015 included \$1 million of tax expense related primarily to interest accruals for uncertain tax positions. In addition to the aforementioned, the net discrete tax benefit for 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 \$6 million of other discrete tax expense primarily related to the accrual of interest expense associated with uncertain tax positions and return to provision adjustments.

In the third quarter of fiscal 2016, the company elected to early adopt Accounting Standard Update (“ASU”) 2016-09 “Improvements to Employees Share-Based Payment Accounting”. For details related to the adoption of this new accounting standard update see Note 3, “New Accounting Pronouncements”. In the three and nine months ended July 31, 2016 we recorded \$3 million and \$1 million of tax benefit, respectively, in respect of share based awards.

AGILENT TECHNOLOGIES, INC.

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

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.

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	
	2016 (As Revised)		2016 (As Revised)	
	(in millions)			
Numerator:				
Income from continuing operations	\$ 124	\$ 113	\$ 336	\$ 298
Loss from discontinued operations	—	(2)	—	(37)
Net income	\$ 124	\$ 111	\$ 336	\$ 261
Denominator:				
Basic weighted-average shares	325	332	326	334
Potential common shares— stock options and other employee stock plans	3	2	3	2
Diluted weighted-average shares	328	334	329	336

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 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 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, 2016, zero and 1.1 million options to purchase shares were excluded from the calculation of diluted earnings per share, respectively. 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. In addition, we exclude from the calculation of diluted earnings per share stock options, ESPP, LTPP and restricted stock awards whose combined exercise price and unamortized fair value were greater than the average

AGILENT TECHNOLOGIES, INC.

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market price of our common stock because their effect would also be anti-dilutive. For the three and nine months ended July 31, 2016, zero and 306,100 additional shares were excluded from the calculation of diluted earnings per share, respectively. 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, respectively.

7. INVENTORY

	July 31, 2016	October 31, 2015
	(in millions)	
Finished goods	\$ 351	\$ 362
Purchased parts and fabricated assemblies	192	179
Inventory	\$ 543	\$ 541

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, 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	14	3	22
Goodwill arising from acquisitions	137	—	—	137
Goodwill as of July 31, 2016:	\$ 792	\$ 1,248	\$ 485	\$ 2,525

The components of other intangibles as of July 31, 2016 and October 31, 2015 are shown in the table below:

	Purchased Other Intangible Assets		
	Gross Carrying Amount	Accumulated Amortization	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 July 31, 2016:			
Purchased technology	\$ 830	\$ 553	\$ 277
Backlog	1	1	—

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Trademark/Tradename	151	59	92
Customer relationships	263	208	55
Total amortizable intangible assets	1,245	821	424
In-Process R&D	18	—	18
Total	\$ 1,263	\$ 821	\$ 442

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. As a result, we recorded additions to goodwill of \$137 million and additions to other intangible assets of \$118 million during the nine months ended July 31, 2016. During the nine months ended July 31, 2016, other intangible assets increased \$3 million, due to the impact of foreign exchange translation.

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

In the three and nine months ended July 31, 2016, we recorded \$4 million of impairments of other intangible assets related to the cancellation of an in-process research and development project. In the three and nine months ended July 31, 2015, there were no impairments of other intangible assets.

Amortization expense of intangible assets was \$37 million and \$120 million for the three and nine months ended July 31, 2016, respectively. Amortization expense of intangible assets was \$38 million and \$119 million for the three and nine months ended July 31, 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	\$32
2017	\$112
2018	\$82
2019	\$58
2020	\$48
2021	\$35
Thereafter	\$57

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

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, 2016 were as follows:

	Fair Value Measurement at July 31, 2016 Using			
	July 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in millions)				
Assets:				
Short-term				
Cash equivalents (money market funds)	\$ 1,398	\$ 1,398	\$ —	\$ —
Derivative instruments (foreign exchange contracts)	5	—	5	—
Long-term				
Trading securities	31	31	—	—
Total assets measured at fair value	\$ 1,434	\$ 1,429	\$ 5	\$ —
Liabilities:				
Short-term				
Derivative instruments (foreign exchange and interest rate swap contracts)	\$ 22	\$ —	\$ 22	\$ —
Long-term				
Deferred compensation liability	31	—	31	—
Total liabilities measured at fair value	\$ 53	\$ —	\$ 53	\$ —

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

	Fair Value Measurement at October 31, 2015 Using			
	October 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant 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				

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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

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

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 nine months ended July 31, 2016 and 2015.

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

For the three and nine months ended July 31, 2016, long-lived assets held and used relating to IPR&D projects with a carrying amount of \$4 million were written down to their fair value of zero, resulting in an impairment charge of \$4 million, which was included in net income. For the three and nine months ended July 31, 2015, there were no impairments of long-lived assets held and used. For the three and nine months ended July 31, 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 July 31, 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 July 31, 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 July 31, 2016 was \$16 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 nine months ended July 31, 2016 and 2015 was not significant. For the three and nine months ended July 31, 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

AGILENT TECHNOLOGIES, INC.

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

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, 2016 was \$2 million.

In February 2016, Agilent executed three forward-starting pay fixed/receive variable interest rate swaps for the notional amount of \$300 million in connection with future interest payments associated with the planned issuance of debt in the form of senior notes later this fiscal year. The contract term allows us to hedge the interest rate risk and lock-in a benchmark 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). If the benchmark interest rates increase between the date of entry into the swap arrangement and termination, then the fair value of the swap increases. Conversely if benchmark interest rates decrease between the date of entry into the swap arrangement and termination, then the fair value of the swap decreases. For the three and nine months ended July 31, 2016, the change in fair value of the swap was classified as a loss in accumulated other comprehensive income (loss) of \$11 million and \$14 million, respectively. 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 senior notes occur. The coupon (interest rate payable) of the senior notes at issue will be comprised of the benchmark interest rate (which has been fixed by the swap) and the yield spread.

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, 2016, was \$19 million. The credit-risk-related contingent features underlying these agreements had not been triggered as of July 31, 2016.

AGILENT TECHNOLOGIES, INC.

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

There were 73 foreign exchange forward contracts open as of July 31, 2016 and designated as cash flow hedges. There were 156 foreign exchange forward contracts open as of July 31, 2016 not designated as hedging instruments. The aggregated notional amounts by currency and designation as of July 31, 2016 were as follows:

Currency	Derivatives		
	Derivatives as Cash Flow Hedges	Derivatives Designated as Hedging Instruments	Derivatives Not Designated as Hedging Instruments
	Forward Contract USD	Forward Contract USD	Forward Contracts DKK
	Buy/(Sell)	Buy/(Sell)	Buy/(Sell)
	(in millions)		
Euro	\$ (46)	\$ 105	\$ (64)
British Pound	(34)	—	(4)
Canadian Dollar	(26)	—	(2)
Australian Dollar	4	12	(4)
Malaysian Ringgit	—	(2)	—
Japanese Yen	(75)	21	(3)
American Dollar	—	—	50
Other	(6)	31	(15)
Totals	\$ (183)	\$ 167	\$ (42)

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, 2016 and October 31, 2015 were as follows:

Fair Values of Derivative Instruments

Asset Derivatives	Fair Value		Liability Derivatives	Fair Value	
	July 31, 2016	October 31, 2015		Balance Sheet Location	July 31, 2016	October 31, 2015
Balance Sheet Location					
(in millions)					
Derivatives designated as hedging instruments:					
Cash flow hedges					
Foreign exchange forward contracts	\$ 3	\$ 2		\$ 7	\$ 1
Interest rate swap contracts	—	—		14	—
Other current assets	\$ 3	\$ 2	Other accrued liabilities	\$ 21	\$ 1
Derivatives not designated as hedging instruments:					
Foreign exchange contracts					
Other current assets	\$ 2	\$ 2	Other accrued liabilities	\$ 1	\$ 4
Total derivatives	\$ 5	\$ 4		\$ 22	\$ 5

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, 2016		Nine Months Ended July 31, 2015	
	(in millions)			
Derivatives designated as hedging instruments:				
Cash Flow Hedges				
Foreign exchange contracts:				
Gain (loss) recognized in accumulated other comprehensive income (loss)	\$2	\$3	\$(4)	\$11
Gain (loss) reclassified from accumulated other comprehensive income (loss) into cost of sales	\$(2)	\$3	\$—	\$14
Interest rate swap contracts:				
Loss recognized in accumulated other comprehensive income (loss)	\$(11)	\$—	\$(14)	\$—
Derivatives not designated as hedging instruments:				
Gain (loss) recognized in other income (expense)	\$(2)	\$(3)	\$3	\$(20)

The estimated amount of existing net loss at July 31, 2016 that is expected to be reclassified from other comprehensive income (loss) to cost of sales within the next twelve months is \$3 million.

AGILENT TECHNOLOGIES, INC.

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

11. RETIREMENT PLANS AND POST RETIREMENT PENSION PLANS

Components of net periodic costs. For the three and nine months ended July 31, 2016 and 2015, our net pension and post retirement benefit costs were comprised of the following:

	Pensions					
	U.S. Plans		Non-U.S. Plans		U.S. Post Retirement Benefit Plans	
	Three Months Ended July 31,		Three Months Ended July 31,		Three Months Ended July 31,	
	2016	2015	2016	2015	2016	2015
	(in millions)					
Service cost—benefits earned during the period	\$—	\$ 6	\$ 5	\$ 4	\$ —	\$ 1
Interest cost on benefit obligation	4	3	4	6	1	1
Expected return on plan assets	(6)	(7)	(11)	(10)	(2)	(2)
Amortization:						
Actuarial losses	—	2	7	6	3	1
Prior service cost	—	(1)	—	—	(3)	(3)
Total net plan costs	\$(2)	\$ 3	\$ 5	\$ 6	\$ (1)	\$ (2)
Curtailments and settlements	\$—					

	Pensions					
	U.S. Plans		Non-U.S. Plans		U.S. Post Retirement Benefit Plans	
	Nine Months Ended July 31,		Nine Months Ended July 31,		Nine Months Ended July 31,	
	2016	2015	2016	2015	2016	2015
	(in millions)					
Service cost—benefits earned during the period	\$ 12	\$ 18	\$ 14	\$ 12	\$ —	\$ 3
Interest cost on benefit obligation	11	10	12	18	3	3
Expected return on plan assets	(18)	(21)	(33)	(31)	(5)	(6)
Amortization:						
Actuarial losses	2	4	21	19	8	3
Prior service cost	(2)	(3)	—	—	(8)	(9)
Total net plan costs	\$ 5	\$ 8	\$ 14	\$ 18	\$ (2)	\$ (6)
Curtailment and settlements	\$(16)					

We made no contribution to our U.S. defined benefit plans during both the three and nine months ended July 31, 2016. We contributed \$6 million and \$19 million to our non-U.S. defined benefit plans during the three and nine months ended July 31, 2016, respectively.

We made no contribution to our U.S. defined benefit plans during the three months ended July 31, 2015. We contributed \$15 million to our U.S. defined benefit plans during the nine months ended July 31, 2015. We contributed \$9 million and \$20 million to our non-U.S. defined benefit plans during the three and nine months ended July 31, 2015, respectively.

We do not expect to contribute to our U.S. defined benefit plans during the remainder of 2016 and we expect to contribute \$6 million to our non-U.S. defined benefit plans during the remainder of 2016.

Plan Amendments. During the three months ended January 31, 2016, we made changes to our U.S. Retirement Plan and Supplemental Benefits Retirement Plan ("U.S. Plans"). Effective April 30, 2016, benefit accruals under the U.S. Plans were frozen. Any pension benefit earned in the U.S. Plans through April 30, 2016 remained fully vested, and there were no additional benefit accruals after April 30, 2016. In addition, active employees who have not met the eligibility requirement for the Retiree Medical Account (RMA) under the U.S. Post Retirement Benefit Plan - 55 years old with at least 15 years of Agilent service - as of April 30, 2016 - will only be eligible for 50 percent of the current RMA reimbursement amount upon retirement.

Due to these plan amendments, we recorded a curtailment gain of \$15 million in the U.S. Plans during the nine months ended July 31, 2016. In addition, we recognized a settlement gain of \$1 million related to the U.S. Supplemental Benefits Retirement Plan during the nine months ended July 31, 2016.

AGILENT TECHNOLOGIES, INC.

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

12. WARRANTIES AND CONTINGENCIES

Warranties

We accrue for standard warranty costs based on historical trends in warranty charges as a percentage of net product shipments. The accrual is reviewed regularly and periodically adjusted to reflect changes in warranty cost estimates. Estimated warranty charges are recorded within cost of products at the time products are sold. The standard warranty accrual balances are held in other accrued and other long-term liabilities on our condensed consolidated balance sheet. Our standard warranty terms typically extend to one year from the date of delivery, depending on the product.

A summary of the standard warranty accrual activity is shown in the table below:

	Nine Months Ended July 31, 2016 2015 (in millions)	
Beginning balance as of November 1	\$ 31	\$ 30
Accruals for warranties including change in estimate	41	38
Settlements made during the period	(36)	(39)
Ending balance as of July 31,	\$ 36	\$ 29
Accruals for warranties due within one year	\$ 35	\$ 27
Accruals for warranties due after one year	1	2
Ending balance as of July 31,	\$ 36	\$ 29

Contingencies

We are involved in lawsuits, claims, investigations and proceedings, including, but not limited to, intellectual property, commercial and employment matters, which arise in the ordinary course of business. There are no matters pending that we currently believe are probable and reasonably possible of having a material impact to our business, consolidated financial condition, results of operations or cash flows.

13. SHORT-TERM DEBT

Credit Facilities

On September 15, 2014, Agilent entered into a credit agreement with a group of financial institutions which provides for a \$400 million five-year unsecured credit facility that will expire on September 15, 2019. On June 9, 2015, the commitments under the existing credit facility were increased by \$300 million so that the aggregate commitments under the facility now total \$700 million. As of July 31, 2016, the company had borrowings of \$235 million outstanding under the facility. We were in compliance with the covenants for the credit facility during the three and nine months ended July 31, 2016.

AGILENT TECHNOLOGIES, INC.

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

14. LONG-TERM DEBT

Senior Notes

The following table summarizes the company's long-term senior notes and the related interest rate swaps:

	July 31, 2016			October 31, 2015		
	Amortized Principal	Swap	Total	Amortized Principal	Swap	Total
	(in millions)					
2017 Senior Notes	\$ 100	\$ 1	\$ 101	\$ 100	\$ 2	\$ 102
2020 Senior Notes	499	16	515	499	19	518
2022 Senior Notes	400	—	400	399	—	399
2023 Senior Notes	598	—	598	598	—	598
Total	\$ 1,597	\$ 17	\$ 1,614	\$ 1,596	\$ 21	\$ 1,617

All outstanding notes listed above are unsecured and rank equally in right of payment with all of Agilent's other senior unsecured indebtedness. There have been no changes to the principal, maturity, interest rates and interest payment terms of the Agilent senior notes, detailed in the table above, in the nine months ended July 31, 2016 as compared to the senior notes described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2015. All interest rate swap contracts have been terminated and amounts to be amortized over the remaining life of the senior notes as of July 31, 2016 and October 31, 2015 are detailed above.

Other Debt

As of July 31, 2016 and October 31, 2015, we have mortgage debt, secured on buildings in Denmark, in Danish Krone equivalent of \$38 million in both periods, aggregate principal, outstanding with a Danish financial institution.

15. STOCKHOLDERS' EQUITY

Stock Repurchase Program

On November 22, 2013 we announced that our board of directors had authorized a share repurchase program effective in the first quarter of fiscal year 2014, upon the conclusion of the company's previous \$1 billion repurchase program. The program was designed to reduce or eliminate dilution resulting from issuance of stock under the company's employee equity incentive programs to target maintaining a weighted average share count of approximately 335 million diluted shares. During the nine months ended July 31, 2016, we repurchased approximately 2.4 million shares for \$98 million, which completed the purchases under this authorization. All such shares and related costs are held as treasury stock and accounted for using the cost method. For the nine months ended July 31, 2015, we repurchased 6 million shares for \$267 million under this plan.

On May 28, 2015 we announced that our board of directors had approved a new share repurchase program (the "2015 repurchase program"). The 2015 repurchase program authorizes the purchase of up to \$1.14 billion of our common stock through and including November 1, 2018. The 2015 repurchase program does not require the company to acquire a specific number of shares and may be suspended or discontinued at any time. During the three and nine months ended July 31, 2016, upon the completion of our previous repurchase program, we repurchased approximately 2.2 million shares for \$94 million and 7.3 million shares for \$290 million, respectively, under this authorization. All

such shares and related costs are held as treasury stock and accounted for using the cost method. As of July 31, 2016, we had remaining authorization to repurchase up to \$850 million of our common stock under this program.

Cash Dividends on Shares of Common Stock

During the three and nine months ended July 31, 2016, we paid cash dividends of \$0.115 per common share or \$37 million and \$0.345 per common share or \$112 million on the company's common stock. During the three and nine months ended July 31, 2015, we paid cash dividends of \$0.100 per common share or \$33 million and \$0.300 per common share or \$100 million on the company's common stock.

The timing and amounts of any future dividends are subject to determination and approval by our board of directors.

AGILENT TECHNOLOGIES, INC.

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

Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) by component and related tax effects were as follows (in millions):

			Net defined benefit pension cost and post retirement plan costs	Unrealized gains (losses) on derivatives	Total
	Foreign currency translation	Prior service credits	Actuarial Losses		
	(in millions)				
Three Months Ended July 31, 2016					
As of April 30, 2016	\$(100)	\$150	\$(344)	\$(5)	\$(299)
Other comprehensive loss before reclassifications	(51)	—	—	(9)	(60)
Amounts reclassified out of accumulated other comprehensive income (loss)	—	(3)	10	2	9
Tax (expense) benefit	3	1	(2)	3	5
Other comprehensive income (loss)	(48)	(2)	8	(4)	(46)
As of July 31, 2016	\$(148)	\$148	\$(336)	\$(9)	\$(345)
Nine Months Ended July 31, 2016					
As of October 31, 2015	\$(189)	\$161	\$(365)	\$2	\$(391)
Other comprehensive income (loss) before reclassifications	45	6	6	(18)	39
Amounts reclassified out of accumulated other comprehensive income (loss)	—	(26)	32	—	6
Tax (expense) benefit	(4)	7	(9)	7	1
Other comprehensive income (loss)	41	(13)	29	(11)	46