AGILENT TECHNOLOGIES INC
Form 10-Q
June 07, 2016
Table of Contents

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

Table of Contents

AGILENT TECHNOLOGIES, INC.
TABLE OF CONTENTS

Table of Contents

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.

Table of Contents

AGILENT TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(in millions)
(Unaudited)

	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)
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.

Table of Contents

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.

Table of Contents

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.

6

Table of Contents

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

9

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.

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.

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

6. NET INCOME PER SHARE

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	2016	2015 (As Revised)	2016	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

14

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

8. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents goodwill balances and the movements for each of our reportable segments during the 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.

AGILENT TECHNOLOGIES, INC.
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 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

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

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)

19

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

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
Derivatives not designated as hedging instruments:					
Foreign exchange contracts					
Other current assets	$ 2	$ 2	Other accrued liabilities	$ 2	$ 4
Total derivatives	$ 3	$ 4		$ 13	$ 5

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 April 30,		Six Months Ended April 30,	
	2016	2015	2016	2015
	(in millions)			
Derivatives designated as hedging instruments:				
Cash Flow Hedges				
Foreign exchange contracts:				
Gain (loss) recognized in accumulated other comprehensive income (loss)	$ (10)	$ (2)	$ (6)	$ 8
Gain reclassified from accumulated other comprehensive income (loss) into cost of sales	$ 1	$ 7	$ 2	$ 11
Interest rate swap contracts:				
Loss recognized in accumulated other comprehensive income (loss)	$ (3)	$ —	$ (3)	$ —

Derivatives not designated as hedging instruments:				
Gain (loss) recognized in other income (expense)	$ 5	$ (4)	$ 3	$ (17)

The estimated amount of existing net loss at April 30, 2016 that is expected to be reclassified from other comprehensive income (loss) to cost of sales within the next twelve months is $7 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 six months ended April 30, 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 April 30,					
	2016	2015	2016	2015	2016	2015
	(in millions)					
Service cost—benefits earned during the period	$ 6	$ 6	$ 5	$ 4	$ —	$ 1
Interest cost on benefit obligation	4	3	4	6	1	1
Expected return on plan assets	(6)	(7)	(11)	(10)	(1)	(2)
Amortization:						
Actuarial losses	—	1	7	6	2	1
Prior service cost	(1)	(1)	—	—	(3)	(3)
Total net plan costs	$ 3	$ 2	$ 5	$ 6	$ (1)	$ (2)
Curtailments and settlements	$—					

	Pensions					
	U.S. Plans		Non-U.S. Plans		U.S. Post Retirement Benefit Plans	
	Six Months Ended April 30,					
	2016	2015	2016	2015	2016	2015
	(in millions)					
Service cost—benefits earned during the period	$ 12	$ 12	$ 9	$ 8	$ —	$ 2
Interest cost on benefit obligation	7	7	8	12	2	2
Expected return on plan assets	(12)	(14)	(22)	(21)	(3)	(4)
Amortization:						
Actuarial losses	2	2	14	13	5	2
Prior service cost	(2)	(2)	—	—	(5)	(6)
Total net plan costs	$ 7	$ 5	$ 9	$ 12	$ (1)	$ (4)
Curtailment and settlements	(16)					

We contributed zero to our U.S. defined benefit plans during both the three and six months ended April 30, 2016. We contributed $9 million and $13 million to our non-U.S. defined benefit plans during the three and six months ended April 30, 2016, respectively.

We contributed $15 million to our U.S. defined benefit plans during both the three and six months ended April 30, 2015. We contributed $6 million and $11 million to our non-U.S. defined benefit plans during the three and six months ended April 30, 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 $12 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 will be frozen. Any pension benefit earned in the U.S. Plans through April 30, 2016 will remain fully vested, but there will be 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 six months ended April 30, 2016. In addition, we recognized a settlement gain of $1 million related to the U.S. Supplemental Benefits Retirement Plan during the six months ended April 30, 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:

	Six Months Ended April 30,	
	2016	2015
	(in millions)	
Beginning balance as of November 1	$ 31	$ 30
Accruals for warranties including change in estimate	33	22
Settlements made during the period	(27)	(24)
Ending balance as of April 30	$ 37	$ 28
Accruals for warranties due within one year	$ 36	$ 26
Accruals for warranties due after one year	1	2
Ending balance as of April 30	$ 37	$ 28

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 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 April 30, 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 six months ended April 30, 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:

	April 30, 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	17	516	499	19	518
2022 Senior Notes	399	—	399	399	—	399
2023 Senior Notes	598	—	598	598	—	598
Total	$1,596	$ 18	$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 six months ended April 30, 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 swap contracts have been terminated and amounts to be amortized over the remaining life of the senior notes as of April 30, 2016 and October 31, 2015 are detailed above.

Other Debt

As of April 30, 2016 and October 31, 2015, we have mortgage debt, secured on buildings in Denmark, in Danish Krone equivalent of $40 million and $38 million, respectively, 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 six months ended April 30, 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 six months ended April 30, 2015, we repurchased 4 million shares for $168 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 six months ended April 30, 2016, upon the completion of our previous repurchase program, we repurchased approximately 2.6 million shares for $94 million and 5.1 million shares for $196 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 April 30, 2016, we had remaining authorization to repurchase up to $944 million of our common stock under this program.

Cash Dividends on Shares of Common Stock

During the three and six months ended April 30, 2016, we paid cash dividends of $0.115 per common share or $37 million and $0.230 per common share or $75 million on the company's common stock. During the three and six months ended April 30, 2015, we paid cash dividends of $0.100 per common share or $33 million and $0.200 per common share or $67 million on the company's common stock.

On May 18, 2016 our board of directors declared a quarterly cash dividend of $0.115 per share of common stock, or approximately $37 million which will be paid on July 27, 2016 to all shareholders of record at close of business on July 5, 2016.

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

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

Accumulated Other Comprehensive Income (Loss)

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

Three Months Ended April 30, 2016	Foreign currency translation	Net defined benefit pension cost and post retirement plan costs: Prior service credits	Actuarial Losses	Unrealized gains (losses) on derivatives	Total
	(in millions)				
As of January 31, 2016	$(245)	$153	$(350)	$4	$(438)
Other comprehensive income (loss) before reclassifications	153	—	—	(13)	140
Amounts reclassified out of accumulated other comprehensive income (loss)	—	(4)	9	(1)	4
Tax (expense) benefit	(8)	1	(3)	5	(5)
Other comprehensive income (loss)	145	(3)	6	(9)	139
As of April 30, 2016	$(100)	$150	$(344)	$(5)	$(299)
Six Months Ended April 30, 2016					
As of October 31, 2015	$(189)	$161	$(365)	$2	$(391)
Other comprehensive income (loss) before reclassifications	96	6	6	(9)	99
Amounts reclassified out of accumulated other comprehensive income (loss)	—	(23)	22	(2)	(3)
Tax (expense) benefit	(7)	6	(7)	4	(4)
Other comprehensive income (loss)	89	(11)	21	(7)	92
As of April 30, 2016	$(100)	$150	$(344)	$(5)	$(299)

24

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

Reclassifications out of accumulated other comprehensive income (loss) for the three and six months ended April 30, 2016 and 2015 were as follows (in millions):

Details about accumulated other comprehensive income (loss) components	Amounts Reclassified from other comprehensive income (loss)				Affected line item in statement of operations
	Three Months Ended April 30,		Six Months Ended April 30,		
	2016	2015	2016	2015	
Unrealized gains and (losses) on derivatives	$1	$ 7	$2	$11	Cost of products
	1	7	2	11	Total before income tax
	(1)	(2)	(1)	(3)	Provision for income tax
	—	5	1	8	Total net of income tax
Net defined benefit pension cost and post retirement plan costs:					
Actuarial net loss	(9)	(8)	(22)	(17)	
Prior service benefit	4	4	23	8	
	(5)	(4)	1	(9)	Total before income tax
	2	1	(2)	1	(Provision) benefit for income tax
	(3)	(3)	(1)	(8)	Total net of income tax
Total reclassifications for the period	$(3)	$ 2	$—	$—	

Amounts in parentheses indicate reductions to income and increases to other comprehensive income (loss).

Reclassifications out of accumulated other comprehensive income (loss) of prior service benefit and actuarial net loss in respect of retirement plans and post retirement pension plans are included in the computation of net periodic cost together with curtailments and settlements (see Note 11 "Retirement Plans and Post Retirement Pension Plans").

16. SEGMENT INFORMATION

Description of segments. We are 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.
Agilent has three business segments comprised of the life sciences and applied markets business, diagnostics and genomics business and the Agilent CrossLab business each of which comprises a reportable segment. The three operating segments were determined based primarily on how the chief operating decision maker views and evaluates our operations. Operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Other factors, including market separation and customer specific applications, go-to-market channels, products and services and manufacturing are

considered in determining the formation of these operating segments.
A description of our three reportable segments is as follows:
Our life sciences and applied markets business provides application-focused solutions that include instruments and software that enable customers to identify, quantify and analyze the physical and biological properties of substances and products, as well as enable customers in the clinical and life sciences research areas to interrogate samples at the molecular level. Key product categories include: liquid chromatography ("LC") systems and components; liquid chromatography mass spectrometry ("LCMS") systems; gas chromatography ("GC") systems and components; gas chromatography mass spectrometry ("GCMS") systems; inductively coupled plasma mass spectrometry ("ICP-MS") instruments; atomic absorption ("AA") instruments; microwave plasma-atomic emission spectrometry (“MP-AES”) instruments; inductively coupled plasma optical emission spectrometry ("ICP-

OES") instruments; cell analysis plate based assays; laboratory software and informatics systems; laboratory automation and robotic systems; dissolution testing; vacuum pumps and measurement technologies.

Our diagnostics and genomics business is comprised of three areas of activity providing solutions that include reagents, instruments, software and consumables, which enable customers in the clinical and life sciences research areas to interrogate samples at the cellular and molecular level. First, our genomics business includes arrays for DNA mutation detection, genotyping, gene copy number determination, identification of gene rearrangements, DNA methylation profiling, gene expression profiling, as well as next generation sequencing ("NGS") target enrichment. Second, our nucleic acid solutions business provides equipment and expertise focused on production of synthesized oligonucleotides under pharmaceutical good manufacturing practices ("GMP") conditions for use as active pharmaceutical ingredients ("API") in an emerging class of drugs that utilize nucleic acid molecules for disease therapy. Finally, our pathology solutions business is focused on product offerings to cancer diagnostics and anatomic pathology workflows. The broad portfolio of offerings includes immunohistochemistry (“IHC”), in situ hybridization (“ISH”), hematoxylin and eosin (“H&E”) staining and special staining. We also collaborate with a number of major pharmaceutical companies to develop new potential pharmacodiagnostics, also known as companion diagnostics, which may be used to identify patients most likely to benefit from a specific targeted therapy.

The Agilent CrossLab business spans the entire lab with its extensive consumables and services portfolio, which is designed to improve customer outcomes. The majority of the portfolio is vendor neutral, meaning Agilent can serve and supply customers regardless of their instrument purchase choices. Solutions range from chemistries and supplies to services and software helping to connect the entire lab. Key product categories in consumables include GC and LC columns, sample preparation products, custom chemistries, and a large selection of laboratory instrument supplies. Services include startup, operational, training and compliance support, as well as asset management and consultative services that help increase customer productivity. Custom service and consumable bundles are tailored to meet the specific application needs of various industries and to keep instruments fully operational and compliant with the respective industry requirements.

A significant portion of the segments' expenses arise from shared services and infrastructure that we have historically provided to the segments in order to realize economies of scale and to efficiently use resources. These expenses, collectively called corporate charges, include legal, accounting, tax, real estate, insurance services, information technology services, treasury, other corporate infrastructure expenses and costs of centralized research and development. Charges are allocated to the segments, and the allocations have been determined on a basis that we consider to be a reasonable reflection of the utilization of services provided to or benefits received by the segments. In addition, we do not allocate amortization and impairment of acquisition-related intangible assets, pension curtailment gain, restructuring and transformational expenses, acquisition and integration costs and certain other charges to the operating margin for each segment because management does not include this information in its measurement of the performance of the operating segments.

The following tables reflect the results of our reportable segments under our management reporting system. The performance of each segment is measured based on several metrics, including segment income from operations. These results are used, in part, by the chief operating decision maker in evaluating the performance of, and in allocating resources to, each of the segments.

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

The profitability of each of the segments is measured after excluding restructuring and asset impairment charges, investment gains and losses, interest income, interest expense, acquisition and integration costs, non-cash amortization and other items as noted in the reconciliations below.

	Life Sciences and Applied Markets	Diagnostics and Genomics	Agilent CrossLab	Total
	(in millions)			
Three months ended April 30, 2016:				
Total net revenue	$495	$ 178	$ 346	$1,019
Segment income from operations	$94	$ 27	$ 74	$195
Three months ended April 30, 2015:				
Total net revenue	$473	$ 169	$ 321	$963
Segment income from operations	$75	$ 25	$ 69	$169

	Life Sciences and Applied Markets	Diagnostics and Genomics	Agilent CrossLab	Total
	(in millions)			
Six months ended April 30, 2016:				
Total net revenue	$1,021	$ 336	$ 690	$2,047
Segment income from operations	$208	$ 42	$ 150	$400
Six months ended April 30, 2015:				
Total net revenue	$1,020	$ 317	$ 652	$1,989
Segment income from operations	$182	$ 26	$ 137	$345

The following table reconciles reportable segments' income from operations to Agilent's total enterprise income before taxes:

	Three Months Ended		Six Months Ended	
	April 30,		April 30,	
	2016	2015	2016	2015
	(in millions)			
Total reportable segments' income from operations	$195	$169	$400	$345
Acceleration of share-based compensation related to workforce reduction	—	(1)	—	(2)
Transformational initiatives	(10)	(17)	(21)	(29)
Amortization of intangibles	(40)	(38)	(83)	(81)
Acquisition and integration costs	(12)	(1)	(17)	(2)
Business exit and divestiture costs (primarily our NMR business)	(1)	(8)	(6)	(11)
Pension curtailment gain	—	—	16	—
Other	(1)	3	(3)	2
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, as reported	$117	$96	$259	$209

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

The following table reflects segment assets under our management reporting system. Segment assets include allocations of corporate assets, including deferred tax assets, goodwill, net other intangibles and other assets. Unallocated assets primarily consist of cash, cash equivalents, the valuation allowance relating to deferred tax assets and other assets.

	Life Sciences and Applied Markets	Diagnostics and Genomics	Agilent CrossLab	Total
	(in millions)			
Assets:				
As of April 30, 2016	$1,699	$ 2,052	$ 1,062	$4,813
As of October 31, 2015	$1,539	$ 2,027	$ 1,008	$4,574

Table of Contents

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (UNAUDITED)

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto included elsewhere in this Form 10-Q and our Annual Report on Form 10-K. This report contains forward-looking statements including, without limitation, statements regarding trends, seasonality and growth in, and drivers of, the markets we sell into, our strategic direction, our future effective tax rate and tax valuation allowance, earnings from our foreign subsidiaries, lease and site services income from Keysight, the impact of foreign currency movements on our performance, remediation activities, indemnification, new product and service introductions, the ability of our products to meet market needs, adoption of our products, changes to our manufacturing processes, the use of contract manufacturers and out sourcing, source and supply of materials used in our products, the impact of local government regulations on our ability to pay vendors or conduct operations, our liquidity position and cash availability, our ability to generate cash from operations, growth in our businesses, our investments, including in research and development, the potential impact of adopting new accounting pronouncements, our financial results, our operating margin, our sales, our purchase commitments, our capital expenditures, our contributions to our pension and other defined benefit plans, our strategic initiatives, our cost-control activities and other cost saving initiatives, uncertainties relating to Food and Drug Administration ("FDA") and other regulatory approvals, the integration of our acquisitions and other transactions, impairment of goodwill and other intangible assets, remediation of our material weakness, our stock repurchase program, our declared dividends, our transition to lower-cost regions, and the existence of economic instability, that involve risks and uncertainties. Our actual results could differ materially from the results contemplated by these forward-looking statements due to various factors, including those discussed in Part II Item 1A and elsewhere in this Form 10-Q.

Basis of Presentation

The financial information presented in this Form 10-Q is not audited and is not necessarily indicative of our future consolidated financial position, results of operations, comprehensive income (loss) or cash flows. 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 periods.

Executive Summary

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.

In November 2015, we completed the acquisition of Seahorse Bioscience ("Seahorse"), a leader in providing instruments and assay kits for measuring cell metabolism and bioenergetics for $242 million in cash. Seahorse's technology enables researchers to better understand cell health, function and signaling, and how the cell may be impacted by the introduction of a specific drug, by providing real-time kinetics to unlock essential cellular bioenergetics data. The financial results of Seahorse have been included within Agilent's consolidated financial statements for the three and six months ended April 30, 2016.

On March 2, 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 Variable Interest Entity (“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.

Net revenue of $1,019 million for the three months ended April 30, 2016 increased 6 percent when compared to the same period last year. Net revenue of $2,047 million for the six months ended April 30, 2016 increased 3 percent when compared to the same period last year. Foreign currency movements for the three and six months ended April 30, 2016 had an unfavorable impact on revenue of approximately 1 percentage point and 3 percentage points, respectively, when compared to the same periods last year.

Revenue in the life sciences and applied markets business for the three and six months ended April 30, 2016, increased 5 percent and was flat respectively, when compared to the same periods last year. Foreign currency movements had an unfavorable impact of approximately 1 percentage point and 3 percentage points in the three and six months ended April 30, 2016, respectively. In addition, an unfavorable impact on revenue of approximately 2 percentage points in both the three and six months ended April 30, 2016, was due to the revenue reduction from the NMR business, which we are exiting, divestitures and the exclusion of revenue related to an acquisition, when compared to the same periods last year. For the three and six months ended April 30, 2016 and

Table of Contents

excluding the impact of currency movements, the NMR business and acquisitions, our performance within the life sciences market continued to show strength with strong revenue growth from the pharmaceutical and biotechnology market. Within the applied markets, and excluding the impact of foreign currency movements, the NMR business and acquisitions, there was strong revenue growth in both the environmental and food markets, but revenue from sales to other applied markets was weak with a decline in revenue from sales to the chemical and energy markets in the three and six months ended April 30, 2016, when compared to the same periods last year.

Revenue in the diagnostics and genomics business for the three and six months ended April 30, 2016, increased 5 percent and 6 percent, respectively, when compared to the same periods last year. Foreign currency movements had an unfavorable impact of 1 percentage point and 3 percentage points in the three and six months ended April 30, 2016, respectively. Excluding the impact of foreign currency movements, revenue increase was led by demand from the diagnostics and clinical research market which reported strong growth in the three and six months ended April 30, 2016.

Revenue generated by Agilent CrossLab in the three and six months ended April 30, 2016, increased 8 percent and 6 percent respectively, when compared to the same periods last year. Foreign currency movements had an unfavorable impact of 2 percentage points and 4 percentage points in the three and six months ended April 30, 2016, respectively. Excluding the impact of foreign currency movements, revenue grew strongly in the pharmaceutical and biotechnology market as well as in the food and clinical and diagnostics markets in the three and six months ended April 30, 2016 when compared to the same periods last year.

Net income from continuing operations for the three and six months ended April 30, 2016 was $91 million and $214 million, respectively compared to $92 million and $185 million for the corresponding period last year. In the six months ended April 30, 2016, cash generated from operations was $360 million.

For the six months ended April 30, 2016 and 2015, cash dividends of $75 million and $67 million, respectively, were paid on the company's outstanding common stock. The timing and amounts of any future dividends are subject to determination and approval by our board of directors.

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 six months ended April 30, 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 six months ended April 30, 2015, we repurchased 4 million shares for $168 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 six months ended April 30, 2016, upon the completion of our previous repurchase program, we repurchased approximately 5.1 million shares for $196 million, under this authorization. All such shares and related costs are held as treasury stock and accounted for using the cost method. As of April 30, 2016, we had remaining authorization to repurchase $944 million of our common stock under this program

Looking forward, we expect to focus on the growth of operating margin in our businesses by simplifying our operations, differentiating product solutions and improving our customers' experience. In addition, we anticipate returning a significant proportion of our cash flow to shareholders through our dividend and share repurchase programs. The unfavorable effects of changes in foreign currency exchange rates decreased revenue by approximately 3 percentage points in the six months ended April 30, 2016. Costs and expenses, incurred in local currency, were subject to the favorable effects due to changes in foreign currency exchange rates in the six months ended April 30, 2016, reducing our overall net exposure. The impact of foreign currency exchange rates movements can be positive or negative in any period and is calculated by applying the prior period foreign currency exchange rates to the current year period. We anticipate that changes in foreign currency exchange rates will begin to have a favorable impact on our performance for the near future.

Table of Contents

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles ("GAAP") in the U.S. The preparation of condensed consolidated financial statements in conformity with GAAP in the U.S. requires management to make estimates, judgments and assumptions that affect the amounts reported in our condensed consolidated financial statements and accompanying notes. 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, inventory valuation, restructuring, share-based compensation, retirement and post-retirement benefit plan assumptions, goodwill and purchased intangible assets and accounting for income taxes. There have been no significant changes to our critical accounting policies as described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2015. 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.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used or changes in the accounting estimate that are reasonably likely to occur could materially change the financial statements.

Adoption of New Pronouncements

See Note 3, "New Accounting Pronouncements," to the condensed consolidated financial statements for a description of new accounting pronouncements.

Foreign Currency

Our revenues, costs and expenses, and monetary assets and liabilities are exposed to changes in foreign currency exchange rates as a result of our global operating and financing activities. The unfavorable effects of changes in foreign currency exchange rates has decreased revenue by approximately 3 percentage points in the six months ended April 30, 2016. Costs and expenses, incurred in local currency, were subject to the favorable effects due to changes in foreign currency exchange rates in the six months ended April 30, 2016, reducing our overall net exposure. The impact of foreign currency exchange rates movements can be positive or negative in any period and is calculated by applying the prior period foreign currency exchange rates to the current year period. We hedge revenues, expenses and balance sheet exposures that are not denominated in the functional currencies of our subsidiaries on a short term and anticipated basis. We do experience some fluctuations within individual lines of the condensed consolidated statement of operations and balance sheet because our hedging program is not designed to offset the currency movements in each category of revenues, expenses, monetary assets and liabilities. Our hedging program is designed to hedge currency movements on a relatively short-term basis (up to a rolling twelve month period). Therefore, we are exposed to currency fluctuations over the longer term. To the extent that we are required to pay for all, or portions, of an acquisition price in foreign currencies, Agilent may enter into foreign exchange contracts to reduce the risk that currency movements will impact the U.S. dollar cost of the transaction.

Results from Operations

Net Revenue

Year over Year Change

	Three Months Ended		Six Months Ended			
	April 30,		April 30,		Three	Six
	2016	2015	2016	2015	Months	Months
	(in millions)					
Net revenue:						
Products	$787	$750	$1,582	$1,559	5%	1%
Services and other	232	213	465	430	9%	8%
Total net revenue	$1,019	$963	$2,047	$1,989	6%	3%

Net revenue of $1,019 million for the three months ended April 30, 2016 increased 6 percent when compared to the same period last year. Net revenue of $2,047 million for the six months ended April 30, 2016 increased 3 percent when compared to the same period last year. Foreign currency movements for the three and six months ended April 30, 2016 had an unfavorable

Table of Contents

impact on revenue of approximately 1 percentage point and 3 percentage points, respectively, when compared to the same periods last year.

Services and other revenue include revenue generated from servicing our installed base of products, warranty extensions and consulting including companion diagnostics. Services and other revenue increased 9 percent and 8 percent in the three and six months ended April 30, 2016 compared to the same periods last year. The service and other revenue growth was impacted by a portion of the revenue being driven by both the current and the previously installed product base. Excluding the impact of foreign currency movements, service and other revenue increased in the three and six months ended April 30, 2016 when compared to the same periods last year due to increased instrument service contract renewals, laboratory productivity services and companion diagnostics revenue.

Net Revenue By Segment

	Three Months Ended		Six Months Ended		Year over Year Change	
	April 30,		April 30,		Three Months	Six Months
	2016	2015	2016	2015		
	(in millions)					
Net revenue by segment:						
Life sciences and applied markets	$495	$473	$1,021	$1,020	5%	—
Diagnostics and genomics	178	169	336	317	5%	6%
Agilent Crosslab	346	321	690	652	8%	6%
Total net revenue	$1,019	$963	$2,047	$1,989	6%	3%

Revenue in the life sciences and applied markets business for the three and six months ended April 30, 2016 increased 5 percent and was flat respectively, when compared to the same periods last year. Foreign currency movements had an unfavorable impact of approximately 1 percentage point and 3 percentage points in the three and six months ended April 30, 2016, respectively. In addition, an unfavorable impact on revenue of approximately 2 percentage points in both the three and six months ended April 30, 2016, was due to the revenue reduction from the NMR business, which we are exiting, divestitures and the exclusion of revenue related to an acquisition, when compared to the same periods last year. For the three and six months ended April 30, 2016 and excluding the impact of currency movements, the NMR business and acquisitions, our performance within the life sciences market continued to show strength with strong revenue growth from the pharmaceutical and biotechnology market. Within the applied markets, and excluding the impact of foreign currency movements, the NMR business and acquisitions, there was strong revenue growth in both the environmental and food markets, but revenue from sales to other applied markets was weak with a decline in revenue from sales to the chemical and energy markets in the three and six months ended April 30, 2016, when compared to the same periods last year.

Revenue in the diagnostics and genomics business for the three and six months ended April 30, 2016, increased 5 percent and 6 percent, respectively, when compared to the same periods last year. Foreign currency movements had an unfavorable impact of 1 percentage point and 3 percentage points in the three and six months ended April 30, 2016, respectively. Excluding the impact of foreign currency movements, revenue increase was led by demand from the diagnostics and clinical research market which reported strong growth in the three and six months ended April 30, 2016.

Revenue generated by Agilent CrossLab in the three and six months ended April 30, 2016, increased 8 percent and 6 percent respectively, when compared to the same periods last year. Foreign currency movements had an unfavorable impact of 2 percentage points and 4 percentage points in the three and six months ended April 30, 2016, respectively.

Excluding the impact of foreign currency movements, revenue grew strongly in the pharmaceutical and biotechnology market as well as in the food and clinical and diagnostics markets in the three and six months ended April 30, 2016 when compared to the same periods last year.

Table of Contents

Operating Results

	Three Months Ended		Six Months Ended		Year over Year Change	
	April 30,		April 30,		Three	Six
	2016	2015	2016	2015	Months	Months
Total gross margin	52.0 %	49.8 %	52.1 %	49.9 %	2 ppts	2 ppts
Operating margin	12.9 %	11.1 %	14.0 %	11.2 %	2 ppts	3 ppts
(in millions)						
Research and development	$81	$81	$159	$169	—	(6)%
Selling, general and administrative	$318	$292	$622	$602	9%	3%

Total gross margins for the three and six months ended April 30, 2016 increased 2 percentage points in both periods when compared to the same periods last year. In the three and six months ended April 30, 2016 gross margins within our life sciences and applied markets business increased 2 percentage points and 3 percentage points, declined 1 percentage point and improved 1 percentage point in diagnostics and genomics and were flat in both periods in Agilent CrossLab, respectively, when compared to the same periods last year. Increases in total gross margins for the three and six months ended April 30, 2016 were as a result of the impact of an employee pension curtailment gain, the exit from the NMR business, lower costs incurred to address the now lifted FDA warning letter together with lower logistics costs. Total operating margins increased 2 percentage points and 3 percentage points in the three and six months ended April 30, 2016, when compared to the same periods last year. In the three and six months ended April 30, 2016 operating margins within our life sciences and applied markets business increased 3 percentage points in both periods, was flat and improved 4 percentage points in diagnostics and genomics and was flat and increased 1 percent in Agilent CrossLab, respectively, when compared to the same periods last year. In the three months ended April 30, 2016 total operating margins increased primarily due to improvements in gross margins. In the six months ended April 30, 2016 total operating margins increased due to improvements in gross margins plus the impact of an employee pension curtailment gain and reductions in research and development costs.

Research and development expenses was flat and decreased 6 percent in the three and six months ended April 30, 2016, when compared to the same periods last year. R&D expenditures decreased due to savings initiatives, the impact of an employee pension curtailment gain, the impact of foreign currency movements and savings from the exit from the NMR business offset by wage increases and acquisition costs related to the Cartagenia acquisition. We remain committed to invest significantly in research and development and have focused our development efforts on key strategic opportunities in order to align our business with available markets and position ourselves to capture market share.

Selling, general and administrative expenses increased 9 percent and 3 percent for the three and six months ended April 30, 2016 when compared to the same periods last year. Selling, general and administrative expenditure increased due to wage increases, higher variable pay, impact of foreign currency movements and acquisition costs offset by the impact of an employee pension curtailment gain recognized in the first quarter and the decline in NMR expenses due to the exiting of that business.

At April 30, 2016, our headcount was approximately 12,200 as compared to approximately 11,600 at April 30, 2015.

Other income (expense), net

In the three and six months ended April 30, 2016 other income (expense), net includes $3 million and $6 million of income in respect of the provision of site service costs to, and lease income from, Keysight. The costs associated with these services are reported within income from operations. Agilent expects to receive lease and site service income from Keysight over the next 4-5 years of approximately $12 million per year. In the three and six months ended April 30, 2015 other income (expense), net includes $7 million and $18 million of income, respectively, in respect of the provision of certain IT services together with site service costs to, and lease income from, Keysight.

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.

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.

Life Sciences and Applied Markets

Our life sciences and applied markets business provides application-focused solutions that include instruments and software that enable customers to identify, quantify and analyze the physical and biological properties of substances and products, as well as enable customers in the clinical and life sciences research areas to interrogate samples at the molecular level. Key product categories include: liquid chromatography ("LC") systems and components; liquid chromatography mass spectrometry ("LCMS") systems; gas chromatography ("GC") systems and components; gas chromatography mass spectrometry ("GCMS") systems; inductively coupled plasma mass spectrometry ("ICP-MS") instruments; atomic absorption ("AA") instruments; microwave plasma-atomic emission spectrometry (“MP-AES”) instruments; inductively coupled plasma optical emission spectrometry ("ICP-OES") instruments; cell analysis plate based assays; laboratory software and informatics systems; laboratory automation and robotic systems; dissolution testing; vacuum pumps and measurement technologies.

Table of Contents

Net Revenue

	Three Months Ended		Six Months Ended		Year over Year Change	
	April 30,		April 30,		Three Months	Six Months
	2016	2015	2016	2015		
	(in millions)					
Net revenue	$495	$473	$1,021	$1,020	5%	—

Life sciences and applied markets business revenue for the three and six months ended April 30, 2016 increased 5 percent and was flat, respectively, when compared to the same periods last year. Foreign currency movements for the three and six months ended April 30, 2016, had an unfavorable impact on revenue of 1 percentage point and 3 percentage points, respectively. The impact of acquisitions, divestitures and the NMR business had an unfavorable impact of 2 percentage points in both the three and six months ended April 30, 2016 over the same periods last year. Revenue performance, adjusted for the impact of foreign currency movements, reflected differing performance by geography and end market for the three months ended April 30, 2016. Geographically, revenue declined 4 percent in the Americas with a 1 percentage point unfavorable currency impact, increased 23 percent in Asia Pacific excluding Japan with a 2 percentage point unfavorable currency impact, declined 9 percent in Europe with a 1 percentage point unfavorable currency impact, and declined 2 percent in Japan with a 2 percentage point favorable currency impact for the three months ended April 30, 2016 compared to the same period last year. For the six months ended April 30, 2016, revenue grew 15 percent in Asia Pacific excluding Japan with a 1 percentage point unfavorable currency impact, but declined 5 percent in the Americas with a 2 percentage point unfavorable currency impact. Europe declined 11 percent with a 5 percentage point unfavorable current impact and Japan declined 4 percent with a neutral currency impact. Performance in the Americas was assisted by revenue growth in the U.S. pharmaceutical market offset by a slowdown in sales to the chemical and energy markets and the impact of the NMR business. Growth in Asia Pacific excluding Japan reflected broad growth in China. European sales were down on weakness in sales to energy and applied markets along with negative impacts from foreign currency movements.

Our life sciences markets continued to see strength in the pharmaceutical and biotechnology markets led by growth in technology refresh deals, new product acceptance, and ongoing demand across the spectrum of specialty, mid and large size pharmaceutical companies. Growth in life science research picked up during the three and six months ended April 30, 2016 with strong demand in China and an uptick in US business driven by stable National Institutes of Health funding. Chemical and energy end-market revenue performance continued to decline in the three months ended April 30, 2016. Macroeconomic factors continue to apply pressure to this segment with reduced investments in oil exploration and production. Food was very strong for the three and six months ended April 30, 2016 within the applied markets with strong sales in the Americas and continued demand in China from government and privatized testing labs. Continued government spending in China for environmental initiatives helped drive market performance in the segment. Our revenue in the forensics market declined due to a tough compare with unusually large GC-MS instrument sales in the same period prior year.

Looking forward, we are optimistic about our growth opportunities in the life sciences and applied markets as our broad portfolio of products and solutions are well suited to address customer needs. We expect our sales funnels to continue to strengthen, given a number of significant new product introductions in the next few quarters as we continue to invest in expanding and improving our applications and solutions portfolio. We remain concerned about short term prospects in chemical and energy markets, but are confident in our product portfolio to address customer needs when the market does recover.

Table of Contents

Operating Results