

AGILENT TECHNOLOGIES INC

Form 10-Q

September 02, 2014

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JULY 31, 2014

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 001-15405

AGILENT TECHNOLOGIES, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE

77-0518772

(State or other jurisdiction of  
incorporation or organization)

(IRS employer  
Identification no.)

5301 STEVENS CREEK BLVD.,

SANTA CLARA, CALIFORNIA

(Address of principal executive offices)

95051

(Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(do not check if a smaller reporting company)

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

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

CLASS

OUTSTANDING AT JULY 31, 2014

COMMON STOCK, \$0.01 PAR VALUE

333,512,738

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## PART I— FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## AGILENT TECHNOLOGIES, INC.

## CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(in millions, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	July 31,		July 31,	
	2014	2013	2014	2013
Net revenue:				
Products	\$1,438	\$1,335	\$4,209	\$4,139
Services and other	328	317	967	925
Total net revenue	1,766	1,652	5,176	5,064
Costs and expenses:				
Cost of products	671	625	1,949	1,936
Cost of services and other	181	171	531	501
Total costs	852	796	2,480	2,437
Research and development	177	171	530	531
Selling, general and administrative	508	449	1,509	1,430
Total costs and expenses	1,537	1,416	4,519	4,398
Income from operations	229	236	657	666
Interest income	3	2	7	5
Interest expense	(28)	(27)	(87)	(77)
Other income (expense), net	(20)	1	(16)	11
Income before taxes	184	212	561	605
Provision for income taxes	37	44	80	92
Net income	\$147	\$168	\$481	\$513
Net income per share:				
Basic	\$0.44	\$0.50	\$1.44	\$1.49
Diluted	\$0.43	\$0.49	\$1.42	\$1.47
Weighted average shares used in computing net income per share:				
Basic	334	339	333	344
Diluted	338	343	338	348
Cash dividends declared per common share	\$0.132	\$0.12	\$0.396	\$0.34

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

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AGILENT TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in millions)

(Unaudited)

	Three Months Ended July 31,		Nine Months Ended July 31,		
	2014	2013	2014	2013	
Net income	\$147	\$168	\$481	\$513	
Other comprehensive income (loss):					
Unrealized gain on investments, net of tax (expense) benefit of \$(2), \$(1), \$(1) and \$(2)	8	4	8	5	
Amounts reclassified into earnings related to investments, net of tax of zero	(1	) —	(1	) —	
Unrealized gain (loss) on derivative instruments, net of tax (expense) benefit of \$(1), \$3, \$0 and \$(2)	2	(4	) 1	7	
Amounts reclassified into earnings related to derivative instruments, net of tax (expense) benefit of \$0, \$1, \$(1) and \$3	1	(3	) 1	(8	)
Foreign currency translation, net of tax (expense) benefit of \$(1), \$9, \$(1) and \$13	(92	) (32	) (59	) (87	)
Net defined benefit pension cost and post retirement plan costs:					
Amortization of actuarial net loss, net of tax (expense) of \$(4), \$(6), \$(10) and \$(16)	11	15	36	45	
Amortization of net prior service benefit, net of tax benefit of \$4, \$4, \$12 and \$12	(8	) (8	) (24	) (24	)
Other comprehensive loss	(79	) (28	) (38	) (62	)
Total comprehensive income	\$68	\$140	\$443	\$451	

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

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

	July 31, 2014	October 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$2,391	\$2,675
Accounts receivable, net	891	899
Inventory	1,099	1,066
Other current assets	453	343
Total current assets	4,834	4,983
Property, plant and equipment, net	1,142	1,134
Goodwill	3,012	3,047
Other intangible assets, net	758	916
Long-term investments	164	139
Other assets	470	467
Total assets	\$10,380	\$10,686
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$402	\$432
Employee compensation and benefits	365	401
Deferred revenue	447	439
Short-term debt	35	—
Other accrued liabilities	330	330
Total current liabilities	1,579	1,602
Long-term debt	2,181	2,699
Retirement and post-retirement benefits	235	294
Other long-term liabilities	745	802
Total liabilities	4,740	5,397
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; 606 million shares at July 31, 2014 and 602 million shares at October 31, 2013 issued	6	6
Treasury stock at cost; 273 million shares at July 31, 2014 and 269 million shares at October 31, 2013	(9,807	) (9,607
Additional paid-in-capital	8,898	8,723
Retained earnings	6,487	6,073
Accumulated other comprehensive income	53	91
Total stockholders' equity	5,637	5,286
Non-controlling interest	3	3
Total equity	5,640	5,289
Total liabilities and equity	\$10,380	\$10,686

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



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AGILENT TECHNOLOGIES, INC.  
 CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
 (in millions)  
 (Unaudited)

	Nine Months Ended July 31,	
	2014	2013
Cash flows from operating activities:		
Net income	\$481	\$513
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	291	277
Accelerated amortization of interest rate swap gain (due to early redemption of debt)	(8	) —
Share-based compensation	77	66
Excess tax benefit from share-based plans	(3	) (2
Deferred taxes	18	1
Excess and obsolete inventory related charges	39	36
Other non-cash expenses, net	(6	) 8
Changes in assets and liabilities:		
Accounts receivable	—	31
Inventory	(73	) (81
Accounts payable	(29	) (47
Employee compensation and benefits	(32	) (37
Other assets and liabilities	(208	) 10
Net cash provided by operating activities	547	775
Cash flows from investing activities:		
Investments in property, plant and equipment	(162	) (163
Proceeds from sale of property, plant and equipment	14	2
Payment to acquire equity method investment	(25	) (21
Change in restricted cash and cash equivalents, net	1	—
Purchase of other investments	—	(15
Proceeds from sale of investments	1	11
Proceeds from divestitures	2	—
Acquisitions of businesses and intangible assets, net of cash acquired	(3	) (11
Net cash used in investing activities	(172	) (197
Cash flows from financing activities:		
Issuance of common stock under employee stock plans	136	116
Payment of dividends	(132	) (117
Purchase of non-controlling interest	—	(3
Excess tax benefit from share-based plans	3	2
Issuance of senior notes	—	597
Debt issuance costs	—	(5
Proceeds from short-term borrowings	35	—
Proceeds from revolving credit facility	50	—
Repayment of revolving credit facility	(50	) —
Repayment of senior notes	(500	) (250



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Treasury stock repurchases	(200	) (900	)
Net cash used in financing activities	(658	) (560	)
Effect of exchange rate movements	(1	) (39	)
Net decrease in cash and cash equivalents	(284	) (21	)
Cash and cash equivalents at beginning of period	2,675	2,351	
Cash and cash equivalents at end of period	\$2,391	\$2,330	

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

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

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

Overview. Agilent Technologies, Inc. ("we", "Agilent" or the "company"), incorporated in Delaware in May 1999, is a measurement company, providing core bio-analytical and electronic measurement solutions to the life sciences, diagnostics and genomics, chemical analysis, communications and electronics industries.

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.

Agilent Separation. On September 19, 2013, Agilent announced plans to separate into two publicly traded companies, one comprising of the life sciences, diagnostics and chemical analysis businesses that will retain the Agilent name, and the other one that will be comprised of the electronic measurement business that will be renamed Keysight Technologies, Inc. ("Keysight"). Keysight was incorporated in Delaware as a wholly-owned subsidiary of Agilent on December 6, 2013. As the next part of the separation, Agilent transferred substantially all of the assets, liabilities and operations of the electronic measurement business to Keysight as of August 1, 2014. The separation is expected to occur through a tax-free pro rata distribution of Keysight shares to Agilent shareholders and is expected to be completed early in November 2014.

Basis of Presentation. We have prepared the accompanying financial data for the three and nine months ended July 31, 2014 and 2013 pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("GAAP") in the U.S. have been condensed or omitted pursuant to such rules and regulations. The accompanying financial data and information should be read in conjunction with our Annual Report on Form 10-K.

In the opinion of management, the accompanying condensed consolidated financial statements contain all normal and recurring adjustments necessary to present fairly our condensed consolidated balance sheet as of July 31, 2014 and October 31, 2013, condensed consolidated statement of comprehensive income for the three and nine months ended July 31, 2014 and 2013, condensed consolidated statement of operations for the three and nine months ended July 31, 2014 and 2013, and condensed consolidated statement of cash flows for the nine months ended July 31, 2014 and 2013.

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

Update to Significant Accounting Policies. There have been no material changes to our significant accounting policies, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2013.

In the first quarter of 2014, we adopted the authoritative guidance for reporting of amounts reclassified out of accumulated other comprehensive income. For additional details related to the updated authoritative guidance, see Note 2, "New Accounting Pronouncements".

**Fair Value of Financial Instruments.** The carrying values of certain of our financial instruments including cash and cash equivalents, accounts receivable, accounts payable, short-term debt, 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 \$88 million and \$112 million as of July 31, 2014 and October 31, 2013, respectively. The fair value of foreign currency contracts used for hedging purposes is estimated internally by

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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 8, "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 October 2013, we combined the life sciences and diagnostics and genomics segments to form the life sciences and diagnostics segment. As a result, Agilent has three segments, life sciences and diagnostics, chemical analysis, and electronic measurement segments.

In fiscal year 2013, we assessed goodwill impairment for our four reporting units which consisted of two segments: chemical analysis and electronic measurement; and two reporting units under the life sciences and diagnostics segment. The first of these two reporting units related to our life sciences business and the second related to our diagnostics business. We performed a qualitative test for goodwill impairment of the following three reporting units, as of September 30, 2013: the chemical analysis segment, the electronic measurement segment, and the reporting unit relating to life sciences. Based on the results of our qualitative testing, we believe that it is more-likely-than-not that the fair value of these reporting units are greater than their respective carrying values. We performed a quantitative test for goodwill impairment of the reporting unit related to our diagnostics business as of September 30, 2013. Based on the results of our quantitative testing, the fair value was significantly in excess of the carrying value. Each quarter we review the events and circumstances to determine if goodwill impairment is indicated. There was no impairment of goodwill during the three and nine months ended July 31, 2014 and 2013.

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.

In July 2012, the Financial Accounting Standards Board ("FASB") simplified the guidance for testing impairment of indefinite-lived intangible assets other than goodwill. The changes are to reduce compliance costs. Agilent's indefinite-lived intangible assets are IPR&D intangible assets. The revised guidance allows a qualitative approach for testing indefinite-lived intangible assets for impairment, similar to the issued impairment testing guidance for goodwill and allowed 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, 2013. Based on the results of our qualitative testing, we believe that it is more-likely-than-not that the fair value of these indefinite-lived intangible assets is greater than their respective carrying values. Each quarter we review the events and circumstances to determine if impairment of indefinite-lived intangible asset is indicated. There was no impairment of indefinite-lived intangible asset during the three and nine months ended July 31, 2014. In the three and nine months ended July 31, 2013, we recorded an impairment of zero and \$1 million, respectively, due to the cancellation of an IPR&D project within our electronic measurement business.

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2. NEW ACCOUNTING PRONOUNCEMENTS

In December 2011, the FASB issued guidance related to the enhanced disclosures that will enable the users of financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position. The amendments require improved information about financial instruments and derivative instruments that are either offset or subject to enforceable master netting arrangements or similar agreement. The guidance is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. We adopted this guidance in the first quarter of 2014. There was no impact to our consolidated financial statements due to the adoption of this guidance.

In February 2013, the FASB issued an amendment to the accounting guidance for reporting of amounts reclassified out of accumulated other comprehensive income. The amended guidance requires reporting the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required to be reclassified in its entirety to net income. For other amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures that provide additional detail about these amounts. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. The guidance is effective prospectively for annual reporting periods beginning after December 15, 2012 and interim periods within those years. We adopted this guidance in the first quarter of 2014 and have presented the requisite disclosures in the condensed consolidated statement of comprehensive income and in the notes to the financial statements.

In March 2013, the FASB issued an amendment to the accounting guidance on foreign currency matters in order to clarify the guidance for the release of cumulative translation adjustment. The guidance requires that a parent deconsolidate a subsidiary or derecognize a group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) if the parent ceases to have a controlling financial interest in that group of assets. The guidance is effective for interim and annual periods beginning on or after December 15, 2013. We do not expect a material impact to our consolidated financial statements due to the adoption of this guidance.

In July 2013, the FASB issued an amendment to the accounting guidance related to the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. The guidance requires an unrecognized tax benefit to be presented as a decrease in a deferred tax asset where a net operating loss, a similar tax loss, or a tax credit carryforward exists and certain criteria are met. This guidance is effective prospectively for annual periods beginning after December 15, 2013 and interim periods within those years. This guidance is consistent with our current practice.

In April 2014, the FASB issued amendments to the guidance on discontinued operations. The guidance changes the criteria for reporting discontinued operations while enhancing disclosures in this area. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. Additionally, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, expenses of discontinued operations and of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. The new guidance is effective prospectively for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. We are evaluating the impact of adopting this prospective guidance to our consolidated financial statements.

In May 2014, the FASB issued an amendment to the accounting guidance related to revenue recognition. The amendment was the result of a joint project between the FASB and the International Accounting Standards Board ("IASB") to clarify the principles for recognizing revenue and to develop common revenue standards for U.S. GAAP and International Financial Reporting Standards ("IFRS"). To meet those objectives, the FASB is amending the FASB Accounting Standards Codification and creating a new Topic 606, Revenue from Contracts with Customers, and the IASB is issuing IFRS 15, Revenue from Contracts with Customers. The new guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those years. Early application is not permitted. We are evaluating the impact of adopting this guidance to our consolidated financial statements.

In June 2014, the FASB issued an amendment to the accounting guidance relating to share-based compensation to resolve what it saw as diverse accounting treatment of certain awards. With this amendment, the FASB has given explicit guidance to treat a performance target that could be achieved after the requisite service period as a performance condition that affects vesting rather than as a non-vesting condition that affects the grant-date fair value of an award. The new guidance is effective for annual periods beginning after December 15, 2015 and for the interim periods within those annual periods. Earlier adoption is permitted. We are evaluating the impact of adopting this prospective guidance to our consolidated financial statements.

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

### 3. SHARE-BASED COMPENSATION

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

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

	Three Months Ended		Nine Months Ended	
	July 31,		July 31,	
	2014	2013	2014	2013
	(in millions)			
Cost of products and services	\$5	\$4	\$19	\$15
Research and development	2	3	11	10
Selling, general and administrative	13	11	49	43
Total share-based compensation expense	\$20	\$18	\$79	\$68

At July 31, 2014 and October 31, 2013, there was no share-based compensation capitalized within inventory. For the three and nine months ended July 31, 2014, the windfall tax benefit realized from exercised stock options and similar awards was zero and \$3 million, respectively. For the three and nine months ended July 31, 2013, the windfall tax benefit realized from exercised stock options and similar awards was zero and \$2 million. During the three months ended July 31, 2014 an out of period adjustment was recorded to reverse previously recognized windfall tax benefits in the amount of \$23 million. Approximately \$11 million of the reversal was related to the favorable settlement of a tax authority examination in the three months ended January 31, 2014. The remainder resulted from the correction of the computation of cash tax benefit realized in prior years. The correction is not considered material to current or prior periods.

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

	Three Months Ended		Nine Months Ended		
	July 31,		July 31,		
	2014	2013	2014	2013	
Stock Option Plans:					
Weighted average risk-free interest rate	1.7	% —	1.7	% 0.9	%
Dividend yield	1	% —	1	% 1	%
Weighted average volatility	38	% —	39	% 39	%
Expected life	5.8 yrs	—	5.8 yrs	5.8 yrs	
LTPP:					
Volatility of Agilent shares	36	% 37	% 36	% 37	%
Volatility of selected peer-company shares	13%-57%	6%-64%	13%-57%	6%-64%	
Price-wise correlation with selected peers	47	% 49	% 47	% 49	%



The fair value of share-based awards for employee stock option awards was estimated using the Black-Scholes option pricing model. Shares granted under the LTPP were valued using a Monte Carlo simulation model. Both the Black-Scholes and Monte Carlo simulation fair value models require the use of highly subjective and complex assumptions, including the option's expected life and the price volatility of the underlying stock. The estimated fair value of restricted stock unit awards is determined based on the market price of Agilent's common stock on the date of grant adjusted for expected dividend yield. The ESPP allows eligible employees to purchase shares of our common stock at 85 percent of the purchase price and uses the purchase date to establish the fair market value.

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We use historical volatility to estimate the expected stock price volatility assumption for employee stock option awards. In reaching the conclusion, we have considered many factors including the extent to which our options are currently traded and our ability to find traded options in the current market with similar terms and prices to the options we are valuing. In estimating the expected life of our options granted we considered the historical option exercise behavior of our executives, which we believe is representative of future behavior.

4. INCOME TAXES

The company's effective tax rate was 20 percent and 14 percent for the three and nine months ended July 31, 2014, respectively. The company's effective tax rate was 21 percent and 15 percent for the three and nine months ended July 31, 2013, respectively.

The income tax provision for the three months and nine months ended July 31, 2014 included a net discrete expense of \$1 million and a net discrete benefit of \$13 million, respectively. The net discrete tax expense for the three months ended July 31, 2014 included \$7 million of tax expense related to non-deductible pre-separation costs for the spin-off of Keysight, \$4 million of tax expense related primarily to the return to provision adjustments in the U.S., and a \$4 million tax benefit resulting from a deduction generated by the redemption of senior notes. In addition, we recorded out of period adjustments consisting of a \$9 million tax benefit related to the correction of tax basis of land in the U.K. and a \$3 million tax expense to correct tax related balance sheet accounts.

In the nine months ended July 31, 2014, the net discrete tax benefit included \$15 million of tax expense related to non-deductible pre-separation costs for the spin-off of Keysight, \$35 million tax benefit primarily due to the settlement of an Internal Revenue Service ("IRS") audit in the U.S. and the recognition of tax expense related to the repatriation of dividends to the U.S. There were out of period adjustments totaling \$6 million of net tax expense composed of \$12 million tax expense recorded in the second quarter of fiscal 2014 for corrections to transfer pricing for tax years 2012 and 2013 in addition to the out of period adjustments totaling \$6 million net tax benefit mentioned in the paragraph above. The corrections are not considered material to current or prior periods.

The income tax provision for the three and nine months ended July 31, 2013 included net discrete tax expense of \$18 million and \$22 million, respectively. The net discrete tax expense for the three months ended July 31, 2013 was primarily driven by a \$7 million decrease in deferred tax assets due to a reduction in the statutory tax rate in the U.K. and \$7 million additional tax expense due to return to provision adjustments associated with the filing of the 2012 tax returns in various jurisdictions. The net discrete tax expense for the nine months ended July 31, 2013 was primarily driven by the above mentioned \$18 million discrete charges recognized in the third quarter of 2013 and a \$12 million out of period adjustment to tax expense, recognized in the second quarter of 2013, associated with the write off of deferred tax assets related to foreign tax credits incorrectly claimed in prior years; partially offset by a \$7 million discrete tax benefit, recognized in the first quarter of 2013, due to research and development tax credits relating to the company's prior fiscal year.

In the U.S., tax years remain open back to the year 2008 for federal income tax purposes and the year 2000 for significant states. On January 29, 2014 we reached an agreement with the IRS for the tax years 2006 through 2007. The settlement resulted in the recognition of previously unrecognized tax benefits of \$160 million, offset by a tax liability on foreign distributions of approximately \$125 million principally related to additional foreign earnings that was recognized in conjunction with the settlement. Agilent's U.S. federal income tax returns for 2008 through 2011 are currently under audit by the IRS.

In connection with the settlement of the 2006-2007 IRS audit, we identified during the first quarter of fiscal year 2014 an overstatement of approximately \$65 million in our long-term tax liabilities. The overstatement was recorded in 2008 as a cumulative effect of a change in accounting principle when we adopted Accounting Standard Codification

740-10, Income Taxes. Accordingly, we corrected the error by reducing long-term tax liabilities and increasing retained earnings by \$65 million in the first quarter of fiscal 2014. The correction had no impact on net income or cash flows in any prior period and is not considered material to total liabilities or equity in any prior period.

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. 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.

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## 5. 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		Nine Months Ended	
	July 31, 2014	2013	July 31, 2014	2013
	(in millions)			
Numerator:				
Net income	\$147	\$168	\$481	\$513
Denominator:				
Basic weighted-average shares	334	339	333	344
Potential common shares— stock options and other employee stock plans	4	4	5	4
Diluted weighted-average shares	338	343	338	348

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

We exclude stock options with exercise prices greater than the average market price of our common stock from the calculation of diluted earnings per share because their effect would be anti-dilutive. For the three and nine months ended July 31, 2014, no options to purchase shares were excluded from the calculation of diluted earnings per share as compared to 5,600 shares for the three and nine months ended July 31, 2013. In addition, we also exclude from the calculation of diluted earnings per share, stock options, ESPP, LTTP and restricted stock awards whose combined exercise price, unamortized fair value and excess tax benefits or shortfalls collectively were greater than the average market price of our common stock because their effect would also be anti-dilutive. For the three and nine months ended July 31, 2014 we excluded an additional 125,900 shares and 480,300 shares as compared to 15,500 and 22,500 additional shares excluded for the three and nine months ended July 31, 2013, respectively.

## 6. INVENTORY

	July 31,	October 31,
	2014	2013
	(in millions)	
Finished goods	\$576	\$552
Purchased parts and fabricated assemblies	523	514
Inventory	\$1,099	\$1,066

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## 7. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents goodwill balances and the movements for each of our reportable segments during the nine months ended July 31, 2014:

	Life Sciences and Diagnostics (in millions)	Chemical Analysis	Electronic Measurement	Total
Goodwill as of October 31, 2013	\$1,883	\$745	\$419	\$3,047
Foreign currency translation impact	(19)	(2)	(14)	(35)
Goodwill arising from acquisitions/adjustments	—	—	—	—
Goodwill as of July 31, 2014	\$1,864	\$743	\$405	\$3,012

The components of other intangibles as of July 31, 2014 and October 31, 2013 are shown in the table below:

	Gross Carrying Amount (in millions)	Purchased Other Intangible Assets Accumulated Amortization and Impairments	Net Book Value
As of October 31, 2013:			
Purchased technology	\$1,019	\$460	\$559
Backlog	14	14	—
Trademark/Tradename	176	40	136
Customer relationships	401	215	186
Total amortizable intangible assets	1,610	729	881
In-Process R&D	35	—	35
Total	\$1,645	\$729	\$916
As of July 31, 2014:			
Purchased technology	1,026	556	470
Backlog	14	14	—
Trademark/Tradename	175	50	125
Customer relationships	399	259	140
Total amortizable intangible assets	1,614	879	735
In-Process R&D	23	—	23
Total	\$1,637	\$879	\$758

During the nine months ended July 31, 2014, there were no additions to goodwill and there were no additions to other intangible assets. During the nine months ended July 31, 2014, other intangible assets decreased \$8 million, due to the impact of foreign exchange translation. We also transferred \$11 million excluding currency movements from in-process R&D to purchased technology in the nine months ended July 31, 2014, as projects were completed.

During the nine months ended July 31, 2013, we recorded additions to goodwill of \$10 million and additions to other intangible assets of \$1 million primarily related to the acquisition of two businesses. We also transferred \$148 million from in-process R&D to purchased technology in the nine months ended July 31, 2013, as projects were completed. We recorded an impairment of \$1 million in the nine months ended July 31, 2013 due to the cancellation

of an IPR&D project.

Amortization of intangible assets was \$48 million and \$150 million for the three and nine months ended July 31, 2014, respectively. Amortization of intangible assets was \$48 million and \$149 million for the three and nine months ended July 31, 2013, respectively. Future amortization expense related to existing finite-lived purchased intangible assets is estimated to be \$47 million for the remainder of 2014, \$183 million for 2015, \$156 million for 2016, \$107 million for 2017, \$72 million for 2018, \$56 million for 2019, and \$114 million thereafter.

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## 8. 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 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.

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

Assets and liabilities measured at fair value on a recurring basis as of July 31, 2014 were as follows:

	July 31, 2014	Fair Value Measurement at July 31, 2014 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in millions)			
Assets:				
Short-term				
Cash equivalents (money market funds)	\$1,582	\$1,582	\$—	\$—
Derivative instruments (foreign exchange contracts)	6	—	6	—
Long-term				
Trading securities	49	49	—	—
Available-for-sale investments	33	33	—	—
Total assets measured at fair value	\$1,670	\$1,664	\$6	\$—
Liabilities:				
Short-term				
Derivative instruments (foreign exchange contracts)	\$9	\$—	\$9	\$—
Long-term				

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Deferred compensation liability	49	—	49	—
Total liabilities measured at fair value	\$58	\$—	\$58	\$—



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Assets and liabilities measured at fair value on a recurring basis as of October 31, 2013 were as follows:

	October 31, 2013	Fair Value Measurement at October 31, 2013 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in millions)			
<b>Assets:</b>				
<b>Short-term</b>				
Cash equivalents (money market funds)	\$1,968	\$1,968	\$—	\$—
Derivative instruments (foreign exchange contracts)	7	—	7	—
<b>Long-term</b>				
Trading securities	51	51	—	—
Available-for-sale investments	25	25	—	—
Total assets measured at fair value	\$2,051	\$2,044	\$7	\$—
<b>Liabilities:</b>				
<b>Short-term</b>				
Derivative instruments (foreign exchange contracts)	\$6	\$—	\$6	\$—
<b>Long-term</b>				
Deferred compensation liability	51	—	51	—
Total liabilities measured at fair value	\$57	\$—	\$57	\$—

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

Trading securities and deferred compensation liability are reported at fair value, with gains or losses resulting from changes in fair value recognized currently in net income. Investments designated as available-for-sale and certain derivative instruments are reported at fair value, with unrealized gains and losses, net of tax, included in other comprehensive income. Realized gains and losses from the sale of these instruments are recorded in net income.

Impairment of Investments. There were no impairments for investments for the three and nine months ended July 31, 2014 and 2013.

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

##### Long-Lived Assets

For assets measured at fair value on a non-recurring basis, the following table summarizes the impairments included in net income during the three and nine months ended July 31, 2014 and 2013:

	Three Months Ended July 31,	Nine Months Ended July 31,
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	2014	2013	2014	2013
	(in millions)			
Long-lived assets held and used	\$—	\$1	\$—	\$2
Long-lived assets held for sale	\$—	\$—	\$—	\$1

For the three and nine months ended July 31, 2014, there were no impairments of long-lived assets held and used. For the three and nine months ended July 31, 2013, long-lived assets held and used with a carrying value of \$1 million and \$2 million, respectively, were written down to their fair value of zero. For the three and nine months ended July 31, 2014, there were no impairments of long-lived assets held for sale. For the three months ended July 31, 2013, there were no impairments of long-lived assets held for sale. For the nine months ended July 31, 2013, long-lived assets held for sale with a carrying value of \$3 million

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were written down to their fair value of \$2 million. Fair value for the impaired long-lived assets was measured using level 2 inputs and impairments were included in net income for the period stated.

### 9. DERIVATIVES

We are exposed to foreign currency exchange rate fluctuations and interest rate changes in the normal course of our business. As part of risk management strategy, we use derivative instruments, primarily forward contracts, purchased options to hedge economic and/or accounting exposures resulting from changes in foreign currency exchange rates.

#### Fair Value Hedges

We are exposed to interest rate risk due to the mismatch between the interest expense we pay on our loans at fixed rates and the variable rates of interest we receive from cash, cash equivalents and other short-term investments. We have issued long-term debt in U.S. dollars at fixed interest rates based on the market conditions at the time of financing. The fair value of our fixed rate debt changes when the underlying market rates of interest change, and, in the past, we have used interest rate swaps to change our fixed interest rate payments to U.S. dollar LIBOR-based variable interest expense to match the floating interest income from our cash, cash equivalents and other short term investments. As of July 31, 2014, 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. The gain to be amortized at July 31, 2014 was \$18 million. On August 9, 2011, we terminated five interest rate swap contracts related to our 2020 senior notes that represented the notional amount of \$500 million. The gain to be amortized at July 31, 2014 was \$23 million. All deferred gains from terminated interest rate swaps are being amortized over the remaining life of the respective senior notes. On July 14, 2014 we prepaid our 2015 senior notes and amortized the remaining \$8 million of deferred gain on the terminated interest rate swap related to those senior notes to other income (expense), net. For more information see note 14, "Long-term debt".

#### Cash Flow Hedges

We enter into foreign exchange contracts to hedge our forecasted operational cash flow exposures resulting from changes in foreign currency exchange rates. These foreign exchange contracts, carried at fair value, have maturities between one and twelve months. These derivative instruments are designated and qualify as cash flow hedges under the criteria prescribed in the authoritative guidance. The changes in fair value of the effective portion of the derivative instrument are recognized in accumulated other comprehensive income. 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 will be reclassified to other income (expense) in the current period. Changes in the fair value of the ineffective portion of derivative instruments are recognized in other income (expense) in the condensed consolidated statement of operations in the current period. We record the premium paid (time value) of an option on the date of purchase as an asset. For options designated as cash flow hedges, changes in the time value are excluded from the assessment of hedge effectiveness and are recognized in other income (expense) over the life of the option contract. Ineffectiveness in the three and nine months ended July 31, 2014 and 2013 was not significant. For the three and nine months ended July 31, 2014 and 2013 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 of \$3 million which is being amortized to interest expense over the life of the 2022 senior notes.

#### 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

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which are selected based on their credit ratings and other factors. We have established policies and procedures for mitigating credit risk that include establishing counterparty credit limits, monitoring credit exposures, and continually assessing the creditworthiness of counterparties.

A number of our derivative agreements contain threshold limits to the net liability position with counterparties and are dependent on our corporate credit rating determined by the major credit rating agencies. The counterparties to the derivative instruments may request collateralization, in accordance with derivative agreements, on derivative instruments in net liability positions.

The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position as of July 31, 2014, was \$6 million. The credit-risk-related contingent features underlying these agreements had not been triggered as of July 31, 2014.

There were 117 foreign exchange forward contracts and 10 foreign exchange option contracts open as of July 31, 2014 and designated as cash flow hedges. There were 128 foreign exchange forward contracts open as of July 31, 2014 not designated as hedging instruments. The aggregated notional amounts by currency and designation as of July 31, 2014 were as follows:

Currency	Derivatives in Cash Flow Hedging Relationships		Derivatives Not Designated as Hedging Instruments
	Forward Contracts Buy/(Sell) (in millions)	Option Contracts Buy/(Sell)	Forward Contracts Buy/(Sell)
Euro	\$35	\$—	\$(259 )
British Pound	12	—	(2 )
Canadian Dollar	30	—	—
Australian Dollar	(9 )	—	(3 )
Malaysian Ringgit	(95 )	—	—
Japanese Yen	125	68	5
Other	25	—	(18 )
Totals	\$123	\$68	\$(277 )

The notional amounts within derivatives not designated as hedging instruments include forward cross currency contracts of Danish Krone equivalent of \$61 million to sell Euro.

Derivative instruments are subject to master netting arrangements and are disclosed gross in the balance sheet in accordance with the authoritative guidance. The gross fair values and balance sheet location of derivative instruments held in the consolidated balance sheet as of July 31, 2014 and October 31, 2013 were as follows:

Fair Values of Derivative Instruments

Balance Sheet Location (in millions)	Asset Derivatives		Liability Derivatives	
	Fair Value July 31, 2014	Fair Value October 31, 2013	Fair Value July 31, 2014	Fair Value October 31, 2013

Derivatives designated as hedging instruments:

Cash flow hedges

Foreign exchange contracts

Other current assets	\$4	\$4	Other accrued liabilities	\$2	\$4
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Derivatives not designated as hedging instruments:

Foreign exchange contracts

Other current assets	\$2	\$3	Other accrued liabilities	\$7	\$2
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Total derivatives	\$6	\$7		\$9	\$6
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The effect of derivative instruments for foreign exchange contracts designated as hedging instruments and not designated as hedging instruments in our consolidated statement of operations were as follows:

	Three Months Ended July 31, 2014		Nine Months Ended July 31, 2014	
	2013		2013	
	(in millions)			
Derivatives designated as hedging instruments:				
Cash Flow Hedges				
Foreign exchange contracts:				
Gain (loss) recognized in accumulated other comprehensive income	\$3	\$(7	) \$1	\$9
Gain (loss) reclassified from accumulated other comprehensive income into cost of sales	\$(1	) \$4	\$(2	) \$11
Derivatives not designated as hedging instruments:				
Gain (loss) recognized in other income (expense)	\$(9	) \$2	\$(6	) \$—

The estimated amount of existing net loss at July 31, 2014 that is expected to be reclassified from other comprehensive income to cost of sales within the next twelve months is \$2 million.

## 10. RESTRUCTURING

In the second quarter of 2013, in response to slow revenue growth due to macroeconomic conditions, we accrued for a targeted restructuring program to reduce Agilent's total headcount by approximately 450 regular employees, representing approximately 2 percent of our global workforce. In the fourth quarter of fiscal year 2013, Agilent announced plans to separate the electronic measurement business from Agilent which is expected to be completed early in November 2014. As a result, approximately 50 employees from the targeted restructuring plan have been redeployed within the company, reducing the total headcount under this plan to 400 employees. The timing and scope of workforce reductions will vary based on local legal requirements. When completed, the restructuring program is expected to result in a reduction in annual cost of sales and operating expenses.

As previously announced, we are streamlining our manufacturing operations. As part of this action, we anticipate the reduction of approximately 250 positions to reduce our annual cost of sales.

Total headcount reductions from targeted restructuring and manufacturing streamlining will be approximately 650 positions. Within the U.S., we have substantially completed these restructuring activities. Internationally, we expect to complete the majority of these restructuring activities by the end of the first quarter of fiscal 2015. As of July 31, 2014, approximately 140 employees are pending termination under the above actions.

A summary of the activity in the condensed consolidated statement of operations resulting from all restructuring activities is shown in the table below:

	Workforce Reduction (in millions)
Balance as of October 31, 2013	\$24
Income statement expense reversal	(4
Cash payments	(14

Balance as of July 31, 2014

\$6

The restructuring reversal of \$4 million recorded during the nine months ended July 31, 2014 related to approximately 50 employees that have been redeployed within the company as a result of the separation announcement. The restructuring accruals which totaled \$6 million at July 31, 2014, are recorded in other accrued liabilities on the condensed consolidated balance sheet. These balances reflect estimated future cash outlays.

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A summary of the activity in the condensed consolidated statement of operations resulting from all restructuring activities is shown below:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2014	2013	2014	2013
	(in millions)			
Cost of products and services	\$—	\$1	\$(1	) \$19
Research and development	—	1	(1	) 9
Selling, general and administrative	—	(1	) (2	) 28
Total restructuring and other related costs	\$—	\$1	\$(4	) \$56

## 11. RETIREMENT PLANS AND POST RETIREMENT PENSION PLANS

Components of net periodic costs. For the three and nine months ended July 31, 2014 and 2013, our net pension and post retirement benefit costs were comprised of the following:

	Pensions					
	U.S. Plans		Non-U.S. Plans		U.S. Post Retirement Benefit Plans	
	Three Months Ended July 31,					
	2014	2013	2014	2013	2014	2013
	(in millions)					
Service cost—benefits earned during the period	\$12	\$11	\$9	\$9	\$1	\$1
Interest cost on benefit obligation	8	6	19	17	3	3
Expected return on plan assets	(16	) (13	) (30	) (24	) (6	) (5
Amortization:						
Actuarial losses	—	3	11	13	4	4
Prior service cost	(3	) (3	) —	—	(9	) (9
Total net plan costs	\$1	\$4	\$9	\$15	\$(7	) \$(6

	Pensions					
	U.S. Plans		Non-U.S. Plans		U.S. Post Retirement Benefit Plans	
	Nine Months Ended July 31,					
	2014	2013	2014	2013	2014	2013
	(in millions)					
Service cost—benefits earned during the period	\$36	\$33	\$27	\$27	\$3	\$3
Interest cost on benefit obligation	24	18	56	52	9	9
Expected return on plan assets	(48	) (39	) (88	) (73	) (17	) (15
Amortization:						
Actuarial losses	—	10	33	41	11	13
Prior service cost	(9	) (9	) —	—	(27	) (26
Total net plan costs	\$3	\$13	\$28	\$47	\$(21	) \$(16

We contributed zero and \$30 million to our U.S. defined benefit plans during the three and nine months ended July 31, 2014, respectively. We also contributed \$19 million and \$54 million to our non-U.S. defined benefit plans during the three and nine months ended July 31, 2014, respectively.

We contributed zero and \$30 million to our U.S. defined benefit plans during the three and nine months ended July 31, 2013, respectively. We also contributed \$19 million and \$72 million to our non-U.S. defined benefit plans during the three and nine months ended July 31, 2013, respectively.

We do not expect to contribute to our U.S. defined benefit plans during the remainder of 2014 and we expect to contribute \$19 million to our non-U.S. defined benefit plans during the remainder of 2014.

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## 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 between one and three years from the date of delivery, depending on the product.

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

	Nine Months Ended July 31,	
	2014	2013
	(in millions)	
Beginning balance as of November 1	\$69	\$60
Accruals for warranties including change in estimate	65	69
Settlements made during the period	(58	) (64
Ending balance as of July 31	\$76	\$65
Accruals for warranties due within one year	\$55	\$48
Accruals for warranties due after one year	21	17
Ending balance as of July 31	\$76	\$65

## Contingencies

We are involved in lawsuits, claims, investigations and proceedings, including patent, commercial and environmental matters. 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.

On March 4, 2013, we made a report to the Inspector General of the Department of Defense (“DOD IG”) regarding pricing irregularities relating to certain sales of electronic measurement products to U.S. government agencies. We have conducted a thorough investigation with the help of external counsel, and we have approached the DOD IG with a proposed methodology for resolving possible overcharges to U.S. government purchasers resulting from these sales and now will be discussing the matter with the Department of Justice Civil Division (“DOJ”). Based on our investigation and our interactions with the DOD IG and DOJ, we do not believe that this matter is reasonably possible of having a material impact on Agilent's financial condition, results of operations or cash flows. As of July 31, 2014, we have accrued for this matter based on our current understanding.

As part of routine internal audit activities, the Company determined that certain employees of Agilent's subsidiaries in China did not comply with the Company's Standards of Business Conduct and other policies. Based on those findings, the Company has initiated an internal investigation, with the assistance of outside counsel, relating to certain sales of our products through third party intermediaries in China. The internal investigation includes a review of compliance by our employees in China with the requirements of the U.S. Foreign Corrupt Practices Act and other applicable laws and regulations. On September 5, 2013, the Company voluntarily contacted the United States Securities and Exchange Commission and United States Department of Justice to advise both agencies of this internal investigation. We will cooperate with any government investigation of this matter. At this point, we cannot predict or

estimate the duration, scope, cost, or result of this matter, or whether the government will commence any legal action, which could result in possible fines and penalties, criminal or civil sanctions, or other consequences. Accordingly, no provision with respect to these matters has been made in the Company's consolidated financial statements. Adverse findings or other negative outcomes from any governmental proceedings could have a material impact on the Company's consolidated financial statements in future periods.

### 13. SHORT-TERM DEBT

#### Credit Facilities

On October 20, 2011, we entered into a five-year credit agreement, which provides for a \$400 million unsecured credit facility that will expire on October 20, 2016. The company may use amounts borrowed under the facility for general corporate

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purposes. For the nine months ended July 31, 2014 we borrowed \$50 million under the facility and repaid \$50 million by July 31, 2014. As of July 31, 2014 the company had no borrowings outstanding under the facility. We were in compliance with the covenants for the credit facility during the three and nine months ended July 31, 2014.

As a result of the Dako acquisition, we have a credit facility in Danish Krone equivalent of \$9 million with a Danish financial institution. No borrowings were outstanding under the facility as of July 31, 2014.

## Short- Term Loan

On July 10, 2014, a wholly owned subsidiary of Agilent in India entered into a short-term loan agreement with a financial institution, which provides up to \$50 million of unsecured borrowings. On July 25, 2014, we borrowed \$35 million against the loan agreement at an interest rate of 9.95 percent per annum. The loan will be used for general corporate purposes on a short-term basis and interest will be paid monthly.

## 14. LONG-TERM DEBT

## Senior Notes

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

	July 31, 2014			October 31, 2013		
	Amortized Principal (in millions)	Swap	Total	Amortized Principal	Swap	Total
2015 Senior Notes	\$—	\$—	\$—	\$500	\$12	\$512
2017 Senior Notes	599	18	617	599	22	621
2020 Senior Notes	499	23	522	498	26	524
2022 Senior Notes	399	—	399	399	—	399
2023 Senior Notes	598	—	598	597	—	597
Total	\$2,095	\$41	\$2,136	\$2,593	\$60	\$2,653

On July 14, 2014, we settled the redemption of the outstanding aggregate principal amount of our 5.5% senior notes ("2015 senior notes") due September 14, 2015, that had been called for redemption on June 12, 2014. The redemption price of approximately \$528 million included the \$500 million principal amount and a \$28 million prepayment penalty, computed in accordance with the terms of the 2015 senior notes as the present value of the remaining scheduled payments of principal and unpaid interest. The prepayment penalty less full amortization of previously deferred interest rate swap gain of approximately \$8 million was disclosed in other income (expense), net in the condensed consolidated statement of operations. We also paid accrued and unpaid interest of \$9 million on the 2015 senior notes up to but not including the redemption date.

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 other senior notes, detailed in the table above, in the three and nine months ended July 31, 2014 as compared to the senior notes described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2013. All swap contracts have been terminated and amounts to be amortized over the remaining life of the senior notes as of July 31, 2014 and October 31, 2013 are detailed above.

## Other Debt

As of July 31, 2014, and as a result of the Dako acquisition, we have mortgage debt, secured on buildings in Denmark, in Danish Krone equivalent of \$45 million aggregate principal outstanding with a Danish financial institution. The loans have a variable interest rate based on 3 months Copenhagen Interbank Rate ("Cibor") and will mature on September 30, 2027. Interest payments are made in March, June, September and December of each year.

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15. STOCKHOLDERS' EQUITY

Stock Repurchase Program

On January 16, 2013, our board of directors approved a share-repurchase program (the "2013 repurchase program"). The 2013 repurchase program authorized the use of up to \$500 million to repurchase shares of the company's common stock in open market transactions. On May 14, 2013, we announced that our board of directors authorized an increase of \$500 million to the 2013 repurchase program bringing the cumulative authorization to \$1 billion. As of July 31, 2014, there were no remaining amounts to be repurchased under the 2013 program.

On November 22, 2013 we announced that our board of directors had authorized a new share repurchase program effective upon the conclusion of the company's \$1 billion repurchase program. The new program is 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.

For the nine months ended July 31, 2014, we repurchased 4 million shares for \$200 million. For the nine months ended July 31, 2013, 20 million shares were repurchased for \$900 million. All such shares and related costs are held as treasury stock and accounted for using the cost method.

Cash Dividends on Shares of Common Stock

During the nine months ended July 31, 2014, we paid cash dividends of \$0.396 per common share or \$132 million on the company's common stock. During the nine months ended July 31, 2013, we paid cash dividends of \$0.34 per common share or \$117 million on the company's common stock.

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

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## Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income by component and related tax effects for the three and nine months ended July 31, 2014 were as follows (in millions):

	Unrealized gain on investments	Foreign currency translation	Net defined benefit pension cost and post retirement plan costs		Unrealized gains (losses) on derivatives	Total
			Prior service credits	Actuarial Losses		
As of April 30, 2014	\$7	\$458	\$238	\$(570)	\$(1)	\$132
Other comprehensive income (loss) before reclassifications	10	(91)	—	—	3	(78)
Amounts reclassified out of accumulated other comprehensive income	(1)	—	(12)	15	1	3
Tax (expense) benefit	(2)	(1)	4	(4)	(1)	(4)
Other comprehensive income (loss)	7	(92)	(8)	11	3	(79)
As of July 31, 2014	\$14	\$366	\$230	\$(559)	\$2	\$53
As of October 31, 2013	\$7	\$425	\$254	\$(595)	\$—	\$91
Other comprehensive income (loss) before reclassifications	9	(58)	—	—	1	(48)
Amounts reclassified out of accumulated other comprehensive income	(1)	—	(36)	46	2	11
Tax (expense) benefit	(1)	(1)	12	(10)	(1)	(1)
Other comprehensive income (loss)	7	(59)	(24)	36	2	(38)
As of July 31, 2014	\$14	\$366	\$230	\$(559)	\$2	\$53





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Reclassifications out of accumulated other comprehensive income for the three and nine months ended July 31, 2014 and 2013 were as follows (in millions):

Details about accumulated other comprehensive income components	Amounts Reclassified from other comprehensive income				Affected line item in statement of operations	
	Three Months Ended July 31, 2014		Nine Months Ended July 31, 2014			
Unrealized gain on equity securities	\$1	\$—	\$1	\$—	Other income (expense), net	
	1	—	1	—	Total before income tax	
	—	—	—	—	Provision for income tax	
	1	—	1	—	Total net of income tax	
Unrealized gains and (losses) on derivatives	(1	) 4	(2	) 11	Cost of products	
	(1	) 4	(2	) 11	Total before income tax	
	—	(1	) 1	(3	)	(Provision)/benefit for income tax
	(1	) 3	(1	) 8	Total net of income tax	
Net defined benefit pension cost and post retirement plan costs:						
Actuarial net loss	(15	) (21	) (46	) (61	)	
Prior service benefit	12	12	36	36		
	(3	) (9	) (10	) (25	)	Total before income tax
	—	2	—	4		Benefit for income tax
	(3	) (7	) (10	) (21	)	Total net of income tax
Total reclassifications for the period	\$(3	) \$(4	) \$(10	) \$(13	)	

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

Reclassifications 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 (see Note 11 "Retirement Plans and Post Retirement Pension Plans").

## 16. SEGMENT INFORMATION

Description of segments. We are a measurement company providing core bio-analytical and electronic measurement solutions to the life sciences, diagnostics and genomics, chemical analysis, communications and electronics industries. In the fourth fiscal quarter of 2013, we formed a new operating segment from our existing businesses. The new life sciences and diagnostics segment was formed by the combination of the life sciences business plus the diagnostics and

genomics business. Following this reorganization, Agilent has three business segments comprised of the life sciences and diagnostics business, the chemical analysis business and the electronic measurement business. The historical segment financial information for the life sciences and diagnostics segment has been recast to conform to this new reporting structure in our financial statements. 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.

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A description of our three reportable segments is as follows:

Our life sciences and diagnostics business provides application-focused solutions that include reagents, instruments, software, consumables, and services 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, columns and components; liquid chromatography mass spectrometry ("LCMS") systems; laboratory software and informatics systems; laboratory automation and robotic systems; dissolution testing; nucleic acid solutions; Nuclear Magnetic Resonance, and X-Ray Diffraction systems; services and support for the aforementioned products; immunohistochemistry; In Situ Hybridization; Hematoxylin and Eosin staining; special staining, DNA mutation detection; genotyping; gene copy number determination; identification of gene rearrangements; DNA methylation profiling; gene expression profiling; next generation sequencing target enrichment; and automated gel electrophoresis-based sample analysis systems. We also collaborate with a number of major pharmaceutical companies to develop new potential pharmacodiagnosics, also called companion diagnostics, with the potential of identifying patients most likely to benefit from a specific targeted therapy.

Our chemical analysis business provides application-focused solutions that include instruments, software, consumables, and services that enable customers to identify, quantify and analyze the physical and biological properties of substances and products. Key product categories in chemical analysis include: gas chromatography ("GC") systems, columns and components; gas chromatography mass spectrometry ("GC-MS") systems; inductively coupled plasma mass spectrometry ("ICP-MS") instruments; atomic absorption ("AA") instruments; inductively coupled plasma optical emission spectrometry ("ICP-OES") instruments; molecular spectroscopy instruments; software and data systems; vacuum pumps and measurement technologies; services and support for our products.

Our electronic measurement business provides electronic measurement solutions to communications and electronics industries. We provide electronic measurement instruments and systems and related software, software design tools and related services that are used in the design, development, manufacture, installation, deployment and operation of electronic components and equipment. Related services include start-up assistance, instrument productivity and application services and instrument calibration and repair. We also offer customization, consulting and optimization services throughout the customer's product lifecycle.

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, real estate, insurance services, information technology services, treasury, other corporate infrastructure expenses and, historically, 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. Beginning in fiscal year 2014, we created the order fulfillment and supply chain organization ("OFS") to centralize all order fulfillment and supply chain operations in our life sciences and diagnostics and chemicals analysis businesses. Similarly we created the order fulfillment and infrastructure ("OFI") organization to centralize all order fulfillment and supply organizations and operations within our electronic measurement business. Both OFS and OFI provide resources for manufacturing, engineering and strategic sourcing to our respective businesses. In general, OFS and OFI employees are dedicated to specific businesses and the associated costs are directly allocated to those businesses.

The following tables reflect the results of our reportable segments under our management reporting system. These results are not necessarily in conformity with U.S. GAAP. The performance of each segment is measured based on several metrics, including adjusted 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.

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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, pre-separation costs, non-cash amortization and other items as noted in the reconciliations below.

	Life Sciences and Diagnostics (in millions)	Chemical Analysis	Electronic Measurement	Total
Three months ended July 31, 2014:				
Total net revenue	\$592	\$417	\$757	\$1,766
Segment income from operations	\$93	\$97	\$149	\$339
Three months ended July 31, 2013:				
Total net revenue	\$564	\$387	\$701	\$1,652
Segment income from operations	\$91	\$83	\$129	\$303

	Life Sciences and Diagnostics (in millions)	Chemical Analysis	Electronic Measurement	Total
Nine months ended July 31, 2014:				
Total net revenue	\$1,760	\$1,245	\$2,171	\$5,176
Segment income from operations	\$269	\$281	\$399	\$949
Nine months ended July 31, 2013:				
Total net revenue	\$1,699	\$1,182	\$2,183	\$5,064
Segment income from operations	\$262	\$253	\$410	\$925

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

	Three Months Ended July 31, 2014		2013		Nine Months Ended July 31, 2014		2013	
	(in millions)							
Total reportable segments' income from operations	\$339		\$303		\$949		\$925	
Restructuring (charges) reversals	—	(1	) 4		(56	)		)
Asset impairments	—	(1	) —		(3	)		)
Transformational initiatives	(7	) (8	) (18	) (14	)			)
Amortization of intangibles	(48	) (48	) (150	) (149	)			)
Acquisition and integration costs	(2	) (6	) (11	) (22	)			)
Pre-separation costs	(62	) —		(123	) —			)
Other	9	(3	) 6		(15	)		)
Interest income	3	2	7	5				
Interest expense	(28	) (27	) (87	) (77	)			)
Other income (expense), net	(20	) 1	(16	) 11				)
Income before taxes, as reported	\$184		\$212		\$561		\$605	

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