AGILENT TECHNOLOGIES INC
Form 10-Q
March 05, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(MARK ONE)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
FOR THE QUARTERLY PERIOD ENDED JANUARY 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	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 JANUARY 31, 2014

COMMON STOCK, $0.01 PAR VALUE	333,420,524

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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 January 31,	
	2014	2013
Net revenue:		
Products	$1,366	$1,380
Services and other	313	300
Total net revenue	1,679	1,680
Costs and expenses:		
Cost of products	626	637
Cost of services and other	170	163
Total costs	796	800
Research and development	177	179
Selling, general and administrative	488	484
Total costs and expenses	1,461	1,463
Income from operations	218	217
Interest income	2	2
Interest expense	(29)	(25)
Other income (expense), net	—	1
Income before taxes	191	195
Provision (benefit) for income taxes	(4)	16
Net income	$195	$179
Net income per share:		
Basic	$0.59	$0.52
Diluted	$0.58	$0.51
Weighted average shares used in computing net income per share:		
Basic	333	347
Diluted	338	352
Cash dividends declared per common share	$0.13	$0.22

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 January 31,	
	2014	2013
Net income	$195	$179
Other comprehensive income (loss):		
Unrealized gain (loss) on investments, net of tax (expense) benefit of $1 and $(2)	(3)	3
Unrealized gain (loss) on derivative instruments, net of tax (expense) benefit of $1 and $(2)	(2)	6
Amounts reclassified into earnings related to derivative instruments, net of tax (expense) of $(1) and zero	—	(1)
Foreign currency translation, net of tax benefit of $5 and zero	(55)	56
Net defined benefit pension cost and post retirement plan costs:		
Amortization of actuarial net loss, net of tax (expense) of $(4) and $(4)	13	14
Amortization of net prior service benefit, net of tax benefit of $4 and $4	(8)	(8)
Other comprehensive income (loss)	(55)	70
Total comprehensive income	$140	$249

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)

	January 31, 2014	October 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$2,742	$2,675
Accounts receivable, net	849	899
Inventory	1,088	1,066
Other current assets	394	343
Total current assets	5,073	4,983
Property, plant and equipment, net	1,129	1,134
Goodwill	3,017	3,047
Other intangible assets, net	859	916
Long-term investments	129	139
Other assets	431	467
Total assets	$10,638	$10,686
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$430	$432
Employee compensation and benefits	335	401
Deferred revenue	459	439
Other accrued liabilities	325	330
Total current liabilities	1,549	1,602
Long-term debt	2,695	2,699
Retirement and post-retirement benefits	274	294
Other long-term liabilities	673	802
Total liabilities	5,191	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; 605 million shares at January 31, 2014 and 602 million shares at October 31, 2013 issued	6	6
Treasury stock at cost; 271 million shares at January 31, 2014 and 269 million shares at October 31, 2013	(9,707)	(9,607)
Additional paid-in-capital	8,820	8,723
Retained earnings	6,289	6,073
Accumulated other comprehensive income	36	91
Total stockholders' equity	5,444	5,286
Non-controlling interest	3	3
Total equity	5,447	5,289
Total liabilities and equity	$10,638	$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)

	Three Months Ended January 31,	
	2014	2013
Cash flows from operating activities:		
Net income	$195	$179
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	96	94
Share-based compensation	36	31
Excess tax benefit from share-based plans	(3)	(2)
Deferred taxes	(5)	(2)
Excess and obsolete inventory and inventory-related charges	11	10
Other non-cash expenses, net	6	2
Changes in assets and liabilities:		
Accounts receivable	40	53
Inventory	(33)	(34)
Accounts payable	(1)	(7)
Employee compensation and benefits	(62)	(70)
Other assets and liabilities	(86)	(9)
Net cash provided by operating activities	194	245
Cash flows from investing activities:		
Investments in property, plant and equipment	(45)	(59)
Proceeds from sale of property, plant and equipment	—	1
Purchase of investments	—	(15)
Proceeds from sale of investments	—	11
Acquisitions of businesses and intangible assets, net of cash acquired	(2)	(10)
Net cash used in investing activities	(47)	(72)
Cash flows from financing activities:		
Issuance of common stock under employee stock plans	73	52
Payment of dividends	(44)	(35)
Purchase of non-controlling interest	—	(3)
Excess tax benefit from share-based plans	3	2
Treasury stock repurchases	(100)	(79)
Net cash used in financing activities	(68)	(63)
Effect of exchange rate movements	(12)	(11)
Net increase in cash and cash equivalents	67	99
Cash and cash equivalents at beginning of period	2,675	2,351
Cash and cash equivalents at end of period	$2,742	$2,450

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, all 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 that will be comprised of the electronic measurement business that will be renamed Keysight Technologies, Inc. (“Keysight”). As part of the separation, Agilent plans to transfer the assets, liabilities and operations of the electronic measurement business to Keysight prior to the distribution. 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. Keysight was incorporated in Delaware as a wholly-owned subsidiary of Agilent on December 6, 2013.

Basis of Presentation. We have prepared the accompanying financial data for the three months ended January 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 January 31, 2014 and October 31, 2013, condensed consolidated statement of comprehensive income for the three months ended January 31, 2014 and 2013, condensed consolidated statement of operations for the three months ended January 31, 2014 and 2013, and condensed consolidated statement of cash flows for the three months ended January 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, 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 $105 million and $112 million as of January 31, 2014 and October 31, 2013, respectively. The fair value of foreign currency contracts used for hedging purposes is estimated internally by using inputs

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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 months ended January 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 consolidated statement of operations in the period it is abandoned.

In July 2012, the FASB simplified the guidance for testing for impairment of indefinite-lived intangible assets other than goodwill. The changes are intended 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 asset 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 months ended January 31, 2014 and 2013.

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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 of 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 the guidance for reporting of amounts reclassified out of accumulated other comprehensive income. The revised 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 and interim reporting periods beginning after December 15, 2013 and is consistent with our current practice.

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 January 31,	
	2014	2013
	(in millions)	
Cost of products and services	$8	$8
Research and development	6	4
Selling, general and administrative	23	19
Total share-based compensation expense	$37	$31

At January 31, 2014, share-based compensation capitalized within inventory was $2 million. For the three months ended January 31, 2014 and 2013, the windfall tax benefit realized from exercised stock options and similar awards was $3 million and $2 million, respectively.

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

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

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 (2.0) percent and 8.2 percent for the three months ended January 31, 2014 and 2013, respectively. The income tax benefit was $4 million for the three months ended January 31, 2014. The income tax expense was $16 million for the three months ended January 31, 2013.

The income tax provision for the three months ended January 31, 2014 included a net discrete benefit of $35 million primarily due to the settlement of an Internal Revenue Service ("IRS") audit in the U.S. and the recognition of tax expense related to the repatriation of dividends to the U.S. The income tax provision for the three months ended January 31, 2013 included a net discrete tax benefit of $11 million primarily due to the recognition of research and development tax credits relating to the company's prior fiscal year.

In connection with the settlement of the 2006-2007 IRS audit we identified 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 in the current period by reducing long-term tax liabilities and increasing retained earnings by $65 million. The correction has no impact on net income or cash flows in any prior period or the current quarter, and is not considered material to total liabilities or equity in any prior period or for the current quarter.

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 2010 are currently under audit by the IRS. 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

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to the balance of our unrecognized tax benefits.

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 January 31,	
	2014	2013
	(in millions)	
Numerator:		
Net income	$195	$179
Denominator:		
Basic weighted-average shares	333	347
Potentially dilutive common shares equivalents — stock options and other employee stock plans	5	5
Diluted weighted-average shares	338	352

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 months ended January 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 months ended January 31, 2013. In addition, we also exclude from the calculation of diluted earnings per share, stock options, ESPP, LTPP and restricted stock awards whose combined exercise price, unamortized fair value and excess tax benefits or shortfalls collectively were greater than the average market price of our common stock because their effect would also be anti-dilutive. For the three months ended January 31, 2014 we excluded no additional shares as compared to 20,000 additional shares excluded for the three months ended January 31, 2013.

6. INVENTORY

	January 31, 2014	October 31, 2013
	(in millions)	
Finished goods	$557	$552
Purchased parts and fabricated assemblies	531	514
Inventory	$1,088	$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 three months ended January 31, 2014:

	Life Sciences and Diagnostics	Chemical Analysis	Electronic Measurement	Total
	(in millions)			
Goodwill as of October 31, 2013	$1,883	$745	$419	$3,047
Foreign currency translation impact	(13)	(8)	(9)	(30)
Goodwill arising from acquisitions/adjustments	—	—	—	—
Goodwill as of January 31, 2014	$1,870	$737	$410	$3,017

The components of other intangibles as of January 31, 2014 and October 31, 2013 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, 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 January 31, 2014:			
Purchased technology	1,020	493	527
Backlog	14	14	—
Trademark/Tradename	176	44	132
Customer relationships	398	229	169
Total amortizable intangible assets	1,608	780	828
In-Process R&D	31	—	31
Total	$1,639	$780	$859

During the three months ended January 31, 2014, there were no additions to goodwill. During the three months ended January 31, 2013, we recorded additions to goodwill of $10 million primarily related to the acquisition of two businesses. During the three months ended January 31, 2014, there were no additions to other intangible assets. During three months ended January 31, 2013, we recorded additions to other intangible assets of $1 million. During the three months ended January 31, 2014, intangible assets decreased by $7 million due to the impact of foreign exchange translation. During the three months ended January 31, 2013, intangible assets increased by $33 million due to the impact of foreign exchange translation. During the three months ended January 31, 2014 and 2013, we transferred $4 million and $22 million, respectively, from in-process R&D to purchased technology as projects were completed.

Amortization of intangible assets was $51 million and $51 million for the three months ended January 31, 2014 and 2013, respectively. Future amortization expense related to existing finite-lived purchased intangible assets is estimated to be $143 million for the remainder of 2014, $181 million for 2015, $154 million for 2016, $106 million for 2017, $70 million for 2018, $55 million for 2019, and $119 million thereafter.

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.

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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 January 31, 2014 were as follows:

		Fair Value Measurement at January 31, 2014 Using		
	January 31, 2014	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)	$2,080	$2,080	$—	$—
Derivative instruments (foreign exchange contracts)	8	—	8	—
Long-term				