

AGILENT TECHNOLOGIES INC

Form 10-Q

March 10, 2010

[Table of Contents](#)

**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 JANUARY 31, 2010**

**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.**

Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**77-0518772**

(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) 553-2424**

(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**  
**COMMON STOCK, \$0.01 PAR VALUE**

**OUTSTANDING AT JANUARY 31, 2010**  
**348,145,821 SHARES**



Table of Contents

AGILENT TECHNOLOGIES, INC.

TABLE OF CONTENTS

		<b>Page Number</b>
<u>Part I.</u>	<u>Financial Information</u>	
	<u>Item 1.</u>	
	<u>Condensed Consolidated Financial Statements (Unaudited)</u>	3
	<u>Condensed Consolidated Statement of Operations</u>	3
	<u>Condensed Consolidated Balance Sheet</u>	4
	<u>Condensed Consolidated Statement of Cash Flows</u>	5
	<u>Notes to Condensed Consolidated Financial Statements</u>	6
	<u>Item 2.</u>	
	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
	<u>Item 3.</u>	
	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	34
	<u>Item 4.</u>	
	<u>Controls and Procedures</u>	34
<u>Part II.</u>	<u>Other Information</u>	35
	<u>Item 1.</u>	
	<u>Legal Proceedings</u>	35
	<u>Item 1A.</u>	
	<u>Risk Factors</u>	36
	<u>Item 2.</u>	
	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	45
	<u>Item 6.</u>	
	<u>Exhibits</u>	45
<u>Signature</u>		46
<u>Exhibit Index</u>		47

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****AGILENT TECHNOLOGIES, INC.****CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**

(in millions, except per share amounts)

(Unaudited)

	<b>Three Months Ended January 31,</b>	
	<b>2010</b>	<b>2009</b>
Net revenue:		
Products	\$ 976	\$ 937
Services and other	237	229
Total net revenue	1,213	1,166
Costs and expenses:		
Cost of products	421	453
Cost of services and other	132	124
Total costs	553	577
Research and development	149	169
Selling, general and administrative	417	396
Total costs and expenses	1,119	1,142
Income from operations	94	24
Interest income	3	14
Interest expense	(23)	(23)
Other income (expense), net	9	12
Income before taxes	83	27
Provision (benefit) for income taxes	4	(37)
Net income	\$ 79	\$ 64
Net income per share basic:	\$ 0.23	\$ 0.18
Net income per share diluted:	\$ 0.22	\$ 0.18
Weighted average shares used in computing net income per share:		
Basic	348	351
Diluted	354	352

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

Table of Contents

## AGILENT TECHNOLOGIES, INC.

## CONDENSED CONSOLIDATED BALANCE SHEET

(in millions, except par value and share amounts)

(Unaudited)

	January 31, 2010	October 31, 2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,481	\$ 2,479
Short-term restricted cash and cash equivalents	1,553	
Short-term investments	12	14
Accounts receivable, net	628	595
Inventory	548	552
Other current assets	297	321
Total current assets	5,519	3,961
Property, plant and equipment, net	837	845
Goodwill	657	655
Other intangible assets, net	148	167
Long-term restricted cash and cash equivalents	11	1,566
Long-term investments	154	163
Other assets	248	255
Total assets	\$ 7,574	\$ 7,612
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 315	\$ 307
Employee compensation and benefits	271	336
Deferred revenue	300	285
Short-term debt	1,501	1
Other accrued liabilities	162	194
Total current liabilities	2,549	1,123
Long-term debt	1,410	2,904
Retirement and post-retirement benefits	491	498
Other long-term liabilities	526	573
Total liabilities	4,976	5,098
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; 571 million shares at January 31, 2010 and 566 million shares at October 31, 2009, issued	6	6
Treasury stock at cost; 223 million shares at January 31, 2010 and 220 million shares at October 31, 2009	(7,727)	(7,627)
Additional paid-in-capital	7,673	7,552
Retained earnings	2,839	2,760
Accumulated other comprehensive loss	(201)	(185)
Total stockholders' equity	2,590	2,506
Non-controlling interest	8	8
Total equity	2,598	2,514
Total liabilities and equity	\$ 7,574	\$ 7,612

Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

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

Table of Contents

## AGILENT TECHNOLOGIES, INC.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions)

(Unaudited)

	Three Months Ended January 31,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 79	\$ 64
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	39	41
Share-based compensation	25	21
Deferred taxes	84	5
Excess and obsolete and inventory-related charges	6	27
Asset impairment charges	19	19
Allowance for doubtful accounts		3
Other		(1)
Changes in assets and liabilities:		
Accounts receivable	(42)	140
Inventory	(1)	(22)
Accounts payable	8	(53)
Employee compensation and benefits	(61)	(142)
Interest rate swap proceeds		43
Other assets and liabilities	(126)	(128)
Net cash provided by operating activities	30	17
Cash flows from investing activities:		
Investments in property, plant and equipment	(25)	(34)
Proceeds from sale of investments	4	20
Acquisitions of businesses and intangible assets, net of cash acquired	(12)	(1)
Change in restricted cash and cash equivalents, net	2	4
Net cash used in investing activities	(31)	(11)
Cash flows from financing activities:		
Issuance of common stock under employee stock plans	103	26
Proceeds from revolving credit facility		275
Repayment of revolving credit facility		(225)
Treasury stock repurchases	(100)	(125)
Net cash provided by (used in) financing activities	3	(49)
Effect of exchange rate movements		
Net increase (decrease) in cash and cash equivalents	2	(43)
Cash and cash equivalents at beginning of period	2,479	1,405
Cash and cash equivalents at end of period	\$ 2,481	\$ 1,362

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





Table of Contents

**AGILENT TECHNOLOGIES, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

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

*Overview.* Agilent Technologies, Inc. ( we , Agilent or the company ), incorporated in Delaware in May 1999, is a measurement company, providing core bio-analytical and electronic measurement solutions to the life sciences, 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.

*Proposed Acquisition of Varian, Inc.* On July 26, 2009, Agilent, Varian, Inc. ( Varian ), and Cobalt Acquisition Corp., a direct, wholly-owned subsidiary of Agilent, entered into an Agreement and Plan of Merger (the Merger Agreement ). Pursuant to the terms of the Merger Agreement, Varian would become a wholly-owned subsidiary of Agilent. Varian is a leading worldwide supplier of scientific instrumentation and associated consumables for life science and applied market applications. The estimated \$1.5 billion total purchase price of Varian includes \$52 cash per share of Varian s common stock, the cashing out of in the money stock options (after acceleration) and assumed debt. The transaction has been approved by shareholders of Varian and is expected to be completed after achieving customary closing conditions and regulatory approvals. On January 21, 2010, the European Commission announced that it has granted conditional antitrust clearance of the proposed acquisition of Varian by Agilent. As part of the European Commission s clearance decision, Varian and Agilent have committed to sell Varian s laboratory gas chromatography ( GC ) business; Varian s triple quadrupole gas chromatography-mass spectrometry ( GC-MS ) business; Varian s inductively-coupled plasma-mass spectrometry ( ICP-MS ) business; and Agilent s micro GC business. Clearance by the U.S. Federal Trade Commission is still pending. On January 28, 2010 we announced the sale of the Agilent micro GC business, which is subject to customary closing conditions and regulatory approval. On March 9, 2010, we announced the sale of the Varian laboratory GC business, the triple quadrupole GC-MS business and the ICP-MS business, which is subject to regulatory approval, the closing of the Varian transaction and other closing conditions. We plan to finance the purchase price of Varian using a portion of the proceeds from our September 2009 offering of senior notes and other existing cash.

*Basis of Presentation.* We have prepared the accompanying financial data for the three months ended January 31, 2010 and 2009 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 following discussion should be read in conjunction with our 2009 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, 2010 and October 31, 2009, condensed consolidated statement of operations for the three months ended January 31, 2010 and 2009, and condensed consolidated statement of cash flows for the three months ended January 31, 2010 and 2009.

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, inventory valuation, investment impairments, share-based compensation, retirement and post-retirement benefit plan assumptions, goodwill and purchased intangible assets, restructuring and asset impairment charges and accounting for income taxes.

*Reclassifications.* Certain prior year financial statement amounts have been reclassified to conform to the current year presentation with no impact on previously reported net income.

*Segment Reporting Changes.* In the first quarter of 2010, we formed three new operating segments from our existing businesses. The bio-analytical measurement segment separated into two operating segments—life sciences and chemical analysis. The electronic measurement segment recombined electronic measurement and semiconductor and board test, which were reported separately in 2009. Following this re-organization, Agilent has three businesses—life sciences, chemical analysis and electronic measurement—each of which comprises a reportable segment.

*Fair Value of Financial Instruments.* The carrying values of certain of our financial instruments including cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, accounts payable, short-term debt, accrued compensation and

Table of Contents

other accrued liabilities approximate fair value because of their short maturities. Agilent determines the fair value of short-term and long-term investments in debt securities considering information obtained from independent pricing sources. The fair value of long-term equity investments is determined using quoted market prices for those securities when available. The fair value of our long-term debt approximates the carrying value. The fair value of foreign currency contracts used for hedging purposes is estimated internally by using inputs tied to active markets. See Note 8, Fair Value Measurements for additional information on the fair value of financial instruments.

*Goodwill and Purchased Intangible Assets.* We review goodwill for impairment annually during our fourth quarter and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with the authoritative guidance. The circumstances that could trigger a goodwill impairment could include, but are not limited to, the following items to the extent that management believes the occurrence of one or more would make it more likely than not that we would fail the first step of the goodwill impairment test (as described in the next paragraph): significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of, a portion of a reporting unit's goodwill has been included in the carrying amounts of a business that will be disposed of or if our market capitalization is below our net book value.

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. Accordingly, we aggregated components of operating segments with similar economic characteristics into our reporting units. At the time of an acquisition, we assign goodwill to the reporting unit that is expected to benefit from the synergies of the combination. The results of our test for goodwill impairment during our fourth quarter of 2009 showed that the estimated fair values of our previous reporting units which were electronic measurement, bio-analytical measurement, and semiconductor and board test, exceeded their carrying values. During 2010 we will assess for potential impairment of goodwill on our three new reporting units—life sciences, chemical analysis and electronic measurement. For these reporting unit changes, we applied the relative fair value method to determine the impact to the reporting units. For the first quarter of 2010, we determined that no impairment existed.

The process of evaluating the potential impairment of goodwill is highly subjective and requires significant judgment, as our businesses operate in a number of markets and geographical regions. We determine the fair value of our reporting units based on an income approach, whereby we calculate the fair value of each reporting unit based on the present value of estimated future cash flows, which are formed by evaluating historical trends, current budgets, operating plans and industry data. We evaluate the reasonableness of the fair value calculations of our reporting units by reconciling the total of the fair values of all of our reporting units to our total market capitalization, taking into account an appropriate control premium. We then compare the carrying value of our reporting units to the fair value calculations based on the income approach noted above.

If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its estimated fair value, then the second step of the goodwill impairment test must be performed. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with its goodwill carrying amount to measure the amount of impairment, if any. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit's assets and liabilities in a manner similar to a purchase price allocation, with any residual fair value allocated to goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, an impairment loss is recognized in an amount equal to that excess. Estimates of the future cash flows associated with the businesses are critical to these assessments. Changes in these estimates based on changed economic conditions or business strategies could result in material impairment charges in future periods.

## Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

Purchased intangible assets consist primarily of acquired developed technologies, proprietary know-how, trademarks, and customer relationships and is amortized using the straight-line method over estimated useful lives ranging from 1 to 15 years.

### 2. NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board ( FASB ) issued guidance on measurements of fair value. The guidance defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP, and expands disclosures about fair value measurements. The guidance does not require any new fair value measurements; rather, it applies to other accounting pronouncements that require or permit fair value measurements. In February 2008, the FASB issued authoritative guidance which allowed for the delay of the effective date of the authoritative guidance for nonfinancial assets and nonfinancial liabilities, except for certain items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Effective November 1, 2008, we adopted the measurement and disclosure requirements related to financial assets and financial liabilities. The

Table of Contents

adoption of the guidance for financial assets and financial liabilities did not have a material impact on the company's results of operations or the fair values of its financial assets and liabilities. We adopted the provisions for nonfinancial assets and nonfinancial liabilities as of November 1, 2009 and there was no material impact on our consolidated financial statements.

In December 2007, the FASB issued amendments to the guidance for business combinations. The revised guidance provides the recognition and measurement requirements of identifiable assets and goodwill acquired, liabilities assumed, and any non-controlling interest in the acquiree. It also requires additional disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business combination. As a result of adopting the amended guidance on November 1, 2009, approximately \$6 million of business combination costs, previously capitalized, were recognized in net income for the three months ended January 31, 2010.

In December 2007, the FASB issued new guidance on non-controlling interests in consolidated financial statements. The guidance requires that ownership interests in subsidiaries held by parties other than the parent, and the amount of consolidated net income, be clearly identified, labeled, and presented in the consolidated financial statements. It also requires once a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary be initially measured at fair value. Sufficient disclosures are required to clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. This guidance was effective beginning November 1, 2009 and had no material impact on our consolidated financial statements.

In January 2010, the FASB issued guidance that requires new disclosures for fair value measurements and provides clarification for existing disclosures requirements. The guidance is effective for interim and annual periods beginning after December 15, 2009, except for activity in level 3 which is effective beginning after December 15, 2010, and for interim periods in those years. We do not expect a material impact on the consolidated financial statements due to the adoption of this guidance. See Note 8, Fair Value Measurements for additional information on the fair value of financial instruments.

3. SHARE-BASED COMPENSATION

Agilent accounts for share-based awards in accordance with the provisions of the revised 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,		
	2010	(in millions)	2009
Cost of products and services	\$	6	\$ 5
Research and development		4	4
Selling, general and administrative		15	12
Total share-based compensation expense	\$	25	\$ 21

At January 31, 2010 there was no share-based compensation capitalized within inventory. The windfall tax benefit realized from exercised stock options and similar awards was not material for the three months ended January 31, 2010 and 2009.

Table of Contents

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

	Three Months Ended January 31,	
	2010	2009
<b>Stock Option Plans:</b>		
Weighted average risk-free interest rate	2.2%	2.3%
Dividend yield	0%	0%
Weighted average volatility	37%	32%
Expected life	4.4 yrs	4.4 yrs
<b>LTPP:</b>		
Volatility of Agilent shares	39%	33%
Volatility of selected peer-company shares	20-80%	17-62%
Price-wise correlation with selected peers	53%	35%

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. 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.

#### 4. PROVISION FOR INCOME TAXES

For the three months ended January 31, 2010, we recorded an income tax provision of \$4 million compared to an income tax benefit of \$37 million in the same period last year. The income tax provision for the three months ended January 31, 2010 includes net discrete tax benefits of \$9 million. The net discrete benefits relate primarily to tax settlements, lapses of statutes of limitations and valuation allowance adjustments based on changes in other comprehensive income items. The income tax benefit for the three months ended January 31, 2009 includes a net discrete benefit of tax and interest in the amount of \$42 million. The net discrete benefit is primarily associated with lapses of statutes of limitations and tax settlements. Without considering interest and penalties, the rate reflects taxes in all jurisdictions except the U.S. and foreign jurisdictions in which income tax expense or benefit continues to be offset by adjustments to valuation allowances. We intend to maintain partial or full valuation allowances in these jurisdictions until sufficient positive evidence exists to support the reversal of the valuation allowances.

In the U.S., the tax years remain open to Internal Revenue Service ( IRS ) and state audits back to the year 2000. In other major jurisdictions where we conduct business, the tax years generally remain open to audit by local tax authorities back to the year 2003. It is reasonably possible that changes to our unrecognized tax benefits could be significant in the next twelve months due to lapses of statutes of limitation and tax audit settlements. As a result of uncertainties regarding the timing of the completion of tax audits in various jurisdictions and their possible outcomes, an estimate of the range of increase or decrease that could occur in the next twelve months cannot be made.



## Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

Our U.S. federal income tax returns for 2000 through 2002 and 2003 through 2007 are under audit by the IRS which is normal for taxpayers subject to the IRS's Large and Mid-Sized Business examination procedures. In August 2007, we received a Revenue Agent's Report (RAR) for 2000 through 2002. The RAR proposed several adjustments to taxable income. We disagreed with most of the proposed adjustments. In order to resolve the disagreements, representatives of Agilent met with the Appeals Office of the IRS. At present, only one significant adjustment remains unresolved. We are uncertain as to how and when this issue will be resolved. However, any required tax adjustment will be offset by applying available net operating losses and tax credits. Based on current information, we believe that the ultimate disposition of this matter is unlikely to have a material adverse effect on our consolidated financial position, results of operations or liquidity.

Table of Contents

## 5. NET INCOME PER SHARE

The following is a reconciliation of the numerators and denominators of the basic and diluted net income per share computations for the periods presented below.

	Three Months Ended January 31,	
	2010	2009
	(in millions)	
Numerator:		
Net income	\$ 79	\$ 64
Denominators:		
Basic weighted-average shares	348	351
Potentially dilutive common stock equivalents and other employee stock plans	6	1
Diluted weighted-average shares	354	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 following table presents options to purchase shares of common stock, which were not included in the computations of diluted net income per share because they were anti-dilutive.

	Three Months Ended January 31,	
	2010	2009
Options to purchase shares of common stock (in millions)	16	35
Weighted-average exercise price	\$ 34	\$ 30
Average common stock price	\$ 29	\$ 18

## 6. INVENTORY

	January 31,	(in millions)		October 31,
	2010			2009
Finished goods	\$	277	\$	285
Purchased parts and fabricated assemblies		271		267
Inventory	\$	548	\$	552

## 7. GOODWILL AND OTHER INTANGIBLE ASSETS

Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

The following table presents goodwill balances and the movements for each of our reportable segments during the three months ended January 31, 2010:

	Life Sciences	Chemical Analysis	Electronic Measurement	Total
	(in millions)			
Goodwill as of October 31, 2009	\$ 123	\$ 151	\$ 381	\$ 655
Foreign currency translation impact			(3)	(3)
Goodwill arising from acquisitions			5	5
Goodwill as of January 31, 2010	\$ 123	\$ 151	\$ 383	\$ 657

Table of Contents

The components of other intangibles as of January 31, 2010 and October 31, 2009 are shown in the table below:

	Gross Carrying Amount	Purchased Other Intangible Assets Accumulated Amortization and Impairments (in millions)		Net Book Value
<b>As of October 31, 2009:</b>				
Purchased technology	\$ 281	\$ 170		\$ 111
Trademark/Tradenname	32	6		26
Customer relationships	85	55		30
Total	\$ 398	\$ 231		\$ 167
<b>As of January 31, 2010:</b>				
Purchased technology	\$ 283	\$ 179		\$ 104
Trademark/Tradenname	32	9		23
Customer relationships	86	65		21
Total	\$ 401	\$ 253		\$ 148

We recorded \$5 million of goodwill relating to the purchase of two businesses during the three months ended January 31, 2010. We recorded \$3 million of additions to other intangibles related to acquisitions and recorded \$12 million in impairment charges for other intangibles related to a business that will be divested in the second quarter of 2010.

Amortization of intangible assets was \$10 million for the three months ended January 31, 2010 and \$12 million for the same period in the prior year. Future amortization expense related to existing purchased intangible assets is estimated to be \$27 million for the remainder of 2010, \$33 million for 2011, \$27 million for 2012, \$17 million for 2013, \$13 million for 2014, \$8 million for 2015, and \$23 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.

### *Fair Value Hierarchy*

The guidance establishes a fair value hierarchy that prioritizes the use of inputs used in valuation techniques into three levels. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. There are three levels of inputs that may be used to measure fair value:

*Level 1-* applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

*Level 2-* applies to assets or liabilities for which there are inputs other than quoted prices included within level 1 that are observable, either directly or indirectly, for the asset or liability such as: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in less active markets; or other inputs that can be derived principally from, or corroborated by, observable market data.

*Level 3-* applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

Table of Contents*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, 2010 were as follows:

	January 31, 2010	Fair Value Measurement at January 31, 2010 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)	\$ 1,902	\$ 1,902	\$	\$
Available-for-sale investments	12		11	1
Derivative instruments	16		16	
Restricted cash (commercial paper)	1,553		1,553	
<b>Long-term</b>				
Trading securities	47	47		
Available-for-sale investments	29	8	19	2
Total assets measured at fair value	\$ 3,559	\$ 1,957	\$ 1,599	\$ 3
<b>Liabilities:</b>				
<b>Short-term</b>				
Derivative instruments	\$ 14	\$	\$ 14	\$
<b>Long-term</b>				
Deferred compensation liability	45		45	
Total liabilities measured at fair value	\$ 59	\$	\$ 59	\$

Our money market funds, some publicly traded available-for-sale investments, and our trading securities investments are generally valued using quoted market prices and therefore are classified within level 1 of the fair value hierarchy. Our derivative financial instruments are classified within level 2, as there is not an active market for each hedge contract, but the inputs used to calculate the value of the instruments are tied to active markets. Most available-for-sale investments as well as our commercial paper are classified as level 2 because although the values are not directly based on quoted market prices, the inputs used in the calculations are observable. Marketable securities measured at fair value using level 3 inputs are comprised of asset-backed securities, mortgage-backed securities, and corporate bonds within our available-for-sale investment portfolio. The values of these investments are determined based on models for which some of the inputs are not readily observable. Counterparty credit risk is evaluated when assigning levels to our financial instruments.

Trading securities 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 stockholders' equity. Realized gains and losses from the sale of these instruments are recorded in net income.

For assets measured at fair value using significant unobservable inputs (level 3), the following table summarizes the change in balances during the three months ended January 31, 2010:

	Three Months Ended	
	2010	2009
	January 31, (in millions)	
Balance, beginning of period	\$ 6	\$ 19
Realized losses related to amortization of premium		(1)
Unrealized gains included in accumulated other comprehensive income		
Realized losses related to investment impairments		(3)
Sales	(2)	(3)
Transfers into level 3		4
Transfers out of level 3	(1)	
Balance, end of period	\$ 3	\$ 16
Total losses included in net income attributable to change in unrealized losses relating to assets still held at the reporting date, reported in interest and other income, net	\$	\$ (1)

Table of Contents

*Impairment of Investments.* All of our investments, excluding trading securities, are subject to periodic impairment review. The impairment analysis requires significant judgment to identify events or circumstances that would likely have significant adverse effect on the future value of the investment. We consider various factors in determining whether an impairment is other-than-temporary, including the severity and duration of the impairment, forecasted recovery, the financial condition and near-term prospects of the investee, and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. Other than temporary impairments for investments was not material for the three months ended January 31, 2010 and we recognized \$6 million of other than temporary impairments for investments for the same period in 2009. Fair values for the impaired investments in the three months ended January 31, 2009 were measured using both level 2 and level 3 inputs.

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

*Impairment of Long-Lived Assets.* Long-lived assets held and used with a carrying amount of \$28 million were written down to their fair value of \$23 million, resulting in an impairment charge of \$5 million, which was included in net income for the period. Long-lived assets held for sale with a carrying amount of \$30 million were written down to their fair value of \$16 million, resulting in an impairment charge of \$14 million, which was included in net income for the period. Fair values for the impaired long-lived assets were measured using level 2 inputs.

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, and interest rate swaps, to hedge economic and/or accounting exposures resulting from changes in foreign currency exchange rates and interest rates.

*Fair Value Hedges*

The company enters into fair value hedges to reduce the exposure of our debt portfolio to interest rate risk. We issue long-term senior notes in U.S. dollars based on market conditions at the time of financing. We use interest rate swaps to modify the market risk exposure in connection with fixed interest rate senior notes to U.S. dollar London inter bank offered rate ( LIBOR )-based floating interest rate. Alternatively, we may choose not to swap fixed for floating interest rate or may terminate a previously executed swap. We designate and qualify these interest rate swaps as fair value hedges of the interest rate risk inherent in the debt. For derivative instruments that are designated and qualify as fair value hedges, we recognize the gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, in interest expense, in the condensed consolidated statement of operations. The fair value of the swaps is recorded on the condensed consolidated balance sheet at each period end, with an offsetting entry in senior notes. As of January 31, 2010, there were 9 interest rate swap contracts designated as fair value hedges associated with our 2012 and 2015 senior notes. The notional amount of these interest rate swap contracts, receive-fixed/pay-variable, was \$750 million. On November 25, 2008, we terminated the two remaining interest rate swap contracts associated with our 2017 senior notes that represented the notional amount of \$400 million. The asset value upon termination was approximately \$43 million. The proceeds were recorded as operating cash flows and the gain is being deferred and amortized over the remaining life of the 2017 senior notes.

*Cash Flow Hedges*



The company also enters 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 the 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 either the forecasted transaction occurs or it becomes probable that the forecasted transaction will not occur. Changes in the fair value of the ineffective portion of derivative instruments are recognized in cost of sales in the condensed consolidated statement of operations in the current period.

*Other Hedges*

Additionally, the company enters 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

Table of Contents

recognized in other income (expense) in the condensed consolidated statement of operations, in the current period, along with the offsetting gain or loss on the underlying assets or liabilities.

All 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. If our corporate credit rating were to fall below the threshold limits, the counterparties to the derivative instruments may request collateralization 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 January 31, 2010, was approximately \$5 million. The credit-risk-related contingent features underlying these agreements had not been triggered as of January 31, 2010.

There were 128 foreign exchange forward contracts and 7 foreign exchange option contracts open as of January 31, 2010 and designated as cash flow hedges. There were 160 foreign exchange forward contracts open as of January 31, 2010 not designated as hedging instruments. The aggregated notional amounts by currency and designation as of January 31, 2010 were as follows:

Currency	Derivatives in Cash Flow Hedging Relationships		Derivatives Not Designated as Hedging Instruments
	Forward Contracts Buy/(Sell)	Option Contracts Buy/(Sell) (in millions)	
Euro	\$ (45)	\$	\$ 181
British Pound			151
Swedish Krona			(60)
Malaysian Ringgit	81		28
Canadian Dollar	(26)		11
Japanese Yen	(8)	(67)	(43)
Other	7		15
	\$ 9	\$ (67)	\$ 283

Derivative instruments are subject to master netting arrangements and qualify for net presentation in the balance sheet. The gross fair values and balance sheet location of derivative instruments held in the condensed consolidated balance sheet as of January 31, 2010 and October 31, 2009 were as follows:

Balance Sheet Location	Fair Values of Derivative Instruments			
	Asset Derivatives		Liability Derivatives	
	January 31, 2010	October 31, 2009	January 31, 2010	October 31, 2009
	Fair Value		Fair Value	
	(in millions)			

Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

**Derivatives designated as hedging instruments:**

*Fair value hedges*

Interest rate contracts

Other assets	\$	10	\$	3	Other long-term liabilities	\$		\$
--------------	----	----	----	---	-----------------------------	----	--	----

*Cash flow hedges*

Foreign exchange contracts

Other current assets	\$	8	\$	8	Other accrued liabilities	\$	3	\$	5
Other accrued liabilities	\$	18	\$	11	Other current assets	\$	3	\$	6

Table of Contents

<b>Derivatives not designated as hedging instruments:</b>									
Foreign exchange contracts									
Other current assets	\$	8	\$	8	Other accrued liabilities	\$	11	\$	3
Other accrued liabilities					Other current assets				1
	\$	8	\$	8		\$	11	\$	4
Total derivatives	\$	26	\$	19		\$	14	\$	10

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:

	2010	Three Months Ended January 31,		2009
		(in millions)		
<b>Derivatives designated as hedging instruments:</b>				
<i>Fair Value Hedges</i>				
Gain on interest rate swap contracts in interest expense	\$	4	\$	
<i>Cash Flow Hedges</i>				
Gain (loss) recognized in accumulated other comprehensive income	\$	2	\$	(7)
Loss reclassified from accumulated other comprehensive income into cost of sales	\$		\$	(9)
<b>Derivatives not designated as hedging instruments:</b>				
Gain (loss) recognized in other income (expense)	\$	(12)	\$	2

The estimated net amount of existing gains at January 31, 2010 that is expected to be reclassified from other comprehensive income to the cost of sales within the next twelve months is \$4 million.

## 10. RESTRUCTURING COSTS, ASSET IMPAIRMENTS AND OTHER SPECIAL CHARGES

Our 2005 restructuring program, announced in the fourth quarter of 2005, is largely complete. The remaining obligations under this and previous plans relate primarily to lease obligations that are expected to be satisfied over approximately the next two years.

In the first quarter of 2009, we announced a new restructuring program (the FY 2009 Plan) to reduce our annual operating expenses by reducing approximately 500 positions of the global workforce of regular employees. The FY 2009 Plan was conceived in response to deteriorating economic conditions and was designed to deliver sufficient savings to enable our businesses to reach their profitability targets. In the second quarter of 2009, we announced additional actions as part of the FY 2009 Plan to restructure our global infrastructure organization and our electronic measurement segment in response to the continuing deterioration of economic conditions. These additional actions will ultimately reduce our global workforce of regular employees by approximately 3,300 positions, bringing the total headcount reductions under the FY 2009 Plan to approximately 3,800 positions. We expect to complete all the actions under the FY 2009 Plan by the second quarter of 2010. As of January 31, 2010, approximately 300 employees within electronic measurement are subject to termination under the FY 2009 Plan.



Table of Contents

Special charges in 2009 related to inventory include estimated future payments that we are contractually obliged to make to our suppliers in connection with future inventory purchases and inventory on hand written down. In both cases, actions taken under our FY 2009 Plan, including exiting lines of business, have caused the value of this inventory to decrease below its cost.

A summary of total restructuring activity and other special charges is shown in the table below:

	Workforce Reduction	Consolidation of Excess Facilities	Impairment of Building and Purchased Intangible Assets (in millions)	Special Charges related to Inventory	Total
<b>Balance as of October 31, 2009</b>	\$ 49	\$ 19	\$	\$ 1	\$ 69
Income statement expense	18	11	5		34
Asset impairments/inventory charges			(5)		(5)
Cash payments	(38)	(3)			(41)
<b>Balance as of January 31, 2010</b>	\$ 29	\$ 27	\$	\$ 1	\$ 57

The restructuring and other special accruals for all plans, which totaled \$57 million at January 31, 2010, are recorded in other accrued liabilities and other long-term liabilities on the condensed consolidated balance sheet. These balances reflect estimated future cash outlays.

We expect workforce reduction payments, primarily severance, to be largely complete by the end of the second quarter of 2010. Lease payments should primarily be complete in approximately four years, and payments to suppliers in connection with inventory should be complete by the end of the second quarter of 2010.

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

	2010	Three Months Ended January 31, (in millions)	2009
Cost of products and services	\$	3	\$ 33
Research and development		1	4
Selling, general and administrative		30	11
Total restructuring, asset impairments and other special charges	\$	34	\$ 48

11. RETIREMENT PLANS AND POST RETIREMENT PENSION PLANS

## Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

*Components of net periodic costs.* For the three months ended January 31, 2010 and 2009, our net pension and post retirement benefit costs were comprised of the following:

	Pensions						U.S. Post Retirement Benefit Plans		
	U.S. Plans		Non-U.S. Plans		U.S. Post Retirement Benefit Plans				
	2010	2009	Three Months Ended January 31,		2010	2009	2010	2009	
				(in millions)					
Service cost benefits earned during the period	\$ 10	\$ 8	\$ 8	\$ 8	\$ 1	\$ 1			
Interest cost on benefit obligation	7	12	18	16	7	7			
Expected return on plan assets	(10)	(10)	(22)	(20)	(5)	(5)			
Amortization and deferrals:									
Actuarial loss	2	1	13	9	4	1			
Prior service cost	(3)				(4)	(3)			
Total net plan costs	\$ 6	\$ 11	\$ 17	\$ 13	\$ 3	\$ 1			

We contributed approximately \$2 million to our U.S. defined benefit plans and \$12 million to our non-U.S. defined benefit plans during the three months ended January 31, 2010 and \$1 million and \$19 million, respectively, for the same period in 2009. We expect to contribute approximately \$30 million to our U.S. defined benefit plans and \$42 million to our non-U.S. defined benefit plans during the remainder of 2010.

## 12. 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 warranty terms typically extend for one year from the date of delivery.

Table of Contents

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

	FY 2010	(in millions)	FY 2009
Beginning balance as of November 1,	\$	28	\$ 29
Accruals for warranties issued during the period		13	13
Changes in estimates		(1)	1
Settlements made during the period		(12)	(13)
Ending balance as of January 31,	\$	28	\$ 30

## 13. SHORT-TERM DEBT AND SHORT-TERM RESTRICTED CASH &amp; CASH EQUIVALENTS

*Credit Facility*

On May 11, 2007, we entered into a five-year credit agreement, which provides for a \$300 million unsecured credit facility that will expire on May 11, 2012. On September 8, 2009, we entered into an Accession Agreement, increasing the credit facility from \$300 million to \$330 million. The company may use amounts borrowed under the facility for general corporate purposes. As of January 31, 2010 the company has no borrowings outstanding under the facility.

On August 17, 2009 the credit agreement was amended to provide additional financing flexibility in advance of the pending acquisition of Varian, Inc. The amendment allows for up to \$1 billion of additional indebtedness, incurred during the period from August 17, 2009 through the closing of the acquisition, to be excluded from the leverage ratio covenant until the later of the first day of the month following the ninth full calendar month after the closing of the acquisition or August 1, 2010; it also temporarily reduces the basket for other secured financing we are permitted to incur from \$300 million to \$75 million during this period. The amendment also increases by \$500 million the amount of repurchase obligations (such as those of Agilent Technologies World Trade, Inc., a consolidated wholly-owned subsidiary of Agilent ( World Trade )), that we are permitted to incur.

*World Trade Debt*

In January 2006, World Trade entered into a five-year Master Repurchase Agreement with a counterparty in which World Trade sold 15,000 Class A preferred shares of Agilent Technologies (Cayco) Limited ( Cayco ) to the counterparty, having an aggregate liquidation preference of \$1.5 billion. World Trade owns all of the outstanding common shares of Cayco, a separate legal entity.

In September 2008, Agilent and World Trade entered into an agreement (the Lloyds Related Agreement ) with Lloyds TSB Bank plc ( Lloyds ). Under the Lloyds Related Agreement, on November 17, 2008 (the Effective Date ), Lloyds accepted the transfer by novation of all of the rights and obligations of the counterparty under a revised Master Repurchase Agreement. On the Effective Date, Lloyds paid \$1.5 billion to the prior counterparty in consideration of the novation and World Trade s repurchase obligation was extended to January 27, 2011 (the Extended Repurchase Date ). World Trade is obligated to make aggregate quarterly payments to Lloyds at a rate per annum, reset quarterly, with reference



to LIBOR plus 175 basis points beginning on the Effective Date.

Lloyds can accelerate the Extended Repurchase Date or cause redemption of the preferred Cayco shares only upon certain events of default, but neither World Trade nor Agilent has the right to accelerate the Extended Repurchase Date. The World Trade obligation of \$1.5 billion is recorded and classified as a short-term debt on our condensed consolidated balance sheet.

***Short-Term Restricted Cash & Cash Equivalents***

As of January 31, 2010, \$1,553 million was reported as short-term restricted cash and cash equivalents in our condensed consolidated balance sheet which is held in commercial paper maintained in connection with our World Trade debt obligation. As of October 31, 2009, \$1,555 million of restricted cash and cash equivalents associated with our World Trade debt obligation was reported as long-term in our condensed consolidated balance sheet.

Table of Contents

14. LONG-TERM DEBT

*Senior Notes*

The following table summarizes the company's senior notes:

	January 31, 2010	(in millions)	October 31, 2009
2017 Senior Notes	\$	636	\$ 637
2015 Senior Notes		505	500
2012 Senior Notes		254	251
Total	\$	1,395	\$ 1,388

2017 Senior Notes

In October 2007, the company issued an aggregate principal amount of \$600 million in senior notes. The senior notes were issued at 99.60% of their principal amount. The notes will mature on November 1, 2017, and bear interest at a fixed rate of 6.50% per annum. The interest is payable semi-annually on May 1st and November 1st of each year and payments commenced on May 1, 2008.

On November 25, 2008, we terminated the two remaining interest rate swap contracts associated with our 2017 senior notes that represented the notional amount of \$400 million. The asset value upon termination was approximately \$43 million. The proceeds were recorded as operating cash flows and the gain is being deferred and amortized over the remaining life of the senior notes.

2015 Senior Notes

In September 2009, the company issued an aggregate principal amount of \$500 million in senior notes. The senior notes were issued at 99.69% of their principal amount. The notes will mature on September 14, 2015, and bear interest at a fixed rate of 5.50% per annum. The interest is payable semi-annually on March 14th and September 14th of each year, payments commencing on March 14, 2010.

2012 Senior Notes

## Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

In September 2009, the company also issued an aggregate principal amount of \$250 million in senior notes. The senior notes were issued at 99.91% of their principal amount. The notes will mature on September 14, 2012, and bear interest at a fixed rate of 4.45% per annum. The interest is payable semi-annually on March 14th and September 14th of each year, payments commencing on March 14, 2010.

All notes issued are unsecured and rank equally in right of payment with all of Agilent's other senior unsecured indebtedness. The company incurred issuance costs of \$5 million in connection with the 2017 senior notes and a total of \$5 million in connection with the 2015 and 2012 senior notes. These costs were capitalized in other assets on the condensed consolidated balance sheet and the costs are being amortized to interest expense over the term of the senior notes.

Upon the closing of the offering of the 2015 and 2012 senior notes, we entered into interest rate swaps with an aggregate notional amount of \$750 million. Under the interest rate swaps, we will receive fixed-rate interest payments and will make payments based on the U.S. dollar LIBOR plus 253 basis points and 257.6 basis points with respect to the 2015 and 2012 senior notes, respectively. The economic effect of these swaps will be to convert the fixed-rate interest expense on the senior notes to a variable LIBOR-based interest rate. The hedging relationship qualifies for the shortcut method of assessing hedge effectiveness, and consequently we do not expect any ineffectiveness during the life of the swap and any movement in the value of the swap would be reflected in the movement in fair value of the senior notes. At January 31, 2010, the fair value of the swaps on 2015 and 2012 senior notes was an asset of \$10 million with a corresponding increase in carrying value of the senior notes.

### *Other Debt*

On August 11, 2008 a consolidated wholly-owned subsidiary of Agilent, borrowed Indian Rupees equivalent to \$15 million from Citibank N.A. at 12.75 percent per annum interest rate for 5 years, maturing on August 9, 2013 to finance a capital project in India. The loan is classified as long-term debt on our condensed consolidated balance sheet.

Table of Contents

## 15. COMPREHENSIVE INCOME

The following table presents the components of comprehensive income:

	Three Months Ended	
	2010	2009
	(in millions)	
Net income	\$ 79	\$ 64
Other comprehensive income:		
Change in unrealized gain and loss on investments	1	(13)
Change in unrealized gain and loss on derivative instruments	2	(7)
Reclassification of losses into earnings related to derivative instruments		9
Foreign currency translation	(27)	24
Change in deferred net pension cost	12	9
Deferred taxes	(4)	2
Comprehensive income	\$ 63	\$ 88

## 16. STOCK REPURCHASE PROGRAM

On November 14, 2007, the Audit and Finance Committee of the Board of Directors approved a share repurchase program of up to \$2 billion of Agilent's common stock over the next two years. On March 26, 2009, the company announced that it was suspending its share repurchase program until the end of the 2009 fiscal year. On November 15, 2009, the company's share repurchase program expired upon the termination of its two-year term. No shares were purchased under the November 14, 2007 share repurchase program during the quarterly period ended January 31, 2010.

On November 19, 2009 our Board of Directors approved a share-repurchase program to reduce or eliminate dilution in connection with issuances of stock under the company's equity incentive plans. The share-repurchase program does not require the company to acquire a specific number of shares and may be suspended or discontinued at any time. There is no fixed termination date for the new share-repurchase program. For the three months ended January 31, 2010, we repurchased 3 million shares for \$100 million using settlement date calculation. All such shares and related costs are held as treasury stock and accounted for using the cost method.

## 17. SEGMENT INFORMATION

We are a measurement company, providing core bio-analytical and electronic measurement solutions to the communications, electronics, life sciences and chemical analysis industries. In the first quarter of 2010, we formed three new operating segments from our existing businesses. The bio-analytical measurement segment separated into two operating segments—life sciences and chemical analysis. The electronic measurement segment recombined electronic measurement and semiconductor and board test, which were reported separately in 2009. Following this re-organization, Agilent has three businesses—life sciences, chemical analysis and electronic measurement—each of which comprises a reportable segment. The three new operating segments were determined based primarily on how the chief operating decision maker

## Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

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 technology and delivery channels, consumer-specific solutions and specialized manufacturing, are considered in determining the formation of these new operating segments.

The life sciences segment includes DNA microarrays and associated scanner, software, and reagents; microfluidics-based sample analysis systems; liquid chromatography systems, columns and components; liquid chromatography mass spectrometry systems; capillary electrophoresis systems; laboratory software and informatics systems; bio-reagents and related products; laboratory automation and robotic systems; services and support for the aforementioned products.

The chemical analysis segment includes gas chromatography systems, columns and components; gas chromatography mass spectrometry systems; inductively coupled plasma mass spectrometry products; spectroscopy analyzers; software and data systems; services and support for the aforementioned products.

The electronic measurement business includes standard and customized electronic measurement instruments and systems monitoring, management and optimization tools for communications networks and services, software design tools and related services that are used in the design, development, manufacture, installation, deployment and operation of electronics equipment, communications networks and services, and microscopy products.

Table of Contents

All historical segment numbers were recast to conform to this new reporting structure in our financial statements.

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 costs of centralized research and development, legal, accounting, real estate, insurance services, information technology services, treasury and other corporate infrastructure expenses. Charges are allocated to the segments, and the allocations have been determined on a basis that we considered to be a reasonable reflection of the utilization of services provided to or benefits received by the segments.

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.

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

	Life Sciences	Chemical Analysis	Electronic Measurement	Total
	(in millions)			
<b>Three months ended January 31, 2010:</b>				
Total net revenue	\$ 340	\$ 244	\$ 629	\$ 1,213
Segment income from operations	\$ 55	\$ 67	\$ 58	\$ 180
<b>Three months ended January 31, 2009:</b>				
Total net revenue	\$ 309	\$ 216	\$ 641	\$ 1,166
Segment income (loss) from operations	\$ 44	\$ 57	\$ (6)	\$ 95

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

	Three Months Ended January 31,	
	2010	2009
	(in millions)	
Total reportable segments' income from operations	\$ 180	\$ 95
Restructuring and other related costs	(34)	(42)
Asset impairments	(14)	(14)
Interest income	3	14
Interest expense	(23)	(23)
Other income (expense), net	9	12
Varian acquisition and integration costs	(17)	
Amortization of intangibles and other	(21)	(15)

Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

Income from operations before taxes, as reported	\$	83	\$	27
--	----	----	----	----

Table of Contents

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 and the valuation allowance relating to deferred tax assets.

	Life Sciences	Chemical Analysis	Electronic Measurement	Total
	(in millions)			
<b>Assets:</b>				
As of January 31, 2010	\$ 1,162	\$ 529	\$ 2,243	\$ 3,934
As of October 31, 2009	\$ 1,019	\$ 463	\$ 2,084	\$ 3,566

## 18. SUBSEQUENT EVENT

On February 11, 2010, we signed a definitive agreement to sell the Network Solutions Division ( NSD ) of our electronic measurement business to JDS Uniphase Corporation ( JDSU ), a leading communications test and measurement company. JDSU will pay Agilent \$165 million in cash which is subject to a post-closing working capital adjustment. The agreement is subject to customary closing conditions and regulatory approval. NSD includes Agilent's network assurance solutions, network protocol test and drive test products.

On March 9, 2010, we announced the sale of the Varian laboratory GC business, the triple quadrupole GC-MS business and the ICP-MS business, which is subject to regulatory approval, the closing of the Varian transaction and other closing conditions.



Table of Contents

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

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto included elsewhere in this Form 10-Q and our Annual Report on Form 10-K. This report contains forward-looking statements including, without limitation, statements regarding trends, seasonality, cyclicalities and growth in, and drivers of, the markets we sell into, our strategic direction, our future effective tax rate and tax valuation allowance, earnings from our foreign subsidiaries, remediation activities, new product and service introductions, the ability of our products to meet market needs, changes to our manufacturing processes, the use of contract manufacturers, the impact of local government regulations on our ability to pay vendors or conduct operations, our liquidity position, our ability to generate cash from operations, growth in our businesses, our investments, the potential impact of adopting new accounting pronouncements, our financial results, our purchase commitments, our contributions to our pension plans, the selection of discount rates and recognition of any gains or losses for our benefit plans, our cost-control activities, savings and headcount reduction recognized from our restructuring programs, the closing of the proposed Varian transaction, the sale to JDS Uniphase Corporation and other transactions, our stock repurchase program, our transition to lower-cost regions, the existence, length or timing of an economic recovery that involve risks and uncertainties. Our actual results could differ materially from the results contemplated by these forward-looking statements due to various factors, including those discussed below in Risks, Uncertainties and Other Factors That May Affect Future Results and elsewhere in this Form 10-Q.

**Basis of Presentation**

The financial information presented in this Form 10-Q is not audited and is not necessarily indicative of our future consolidated financial position, results of operations or cash flows. Our fiscal year-end is October 31, and our fiscal quarters end on January 31, April 30 and July 31. Unless otherwise stated, all dates refer to our fiscal year and fiscal periods.

**Executive Summary**

Agilent is the world's premier measurement company, providing core bio-analytical and electronic measurement solutions to the life sciences, chemical analysis, communications and electronics industries.

In the first quarter of 2010, we formed three new operating segments from our existing businesses. The bio-analytical measurement segment was separated into two operating segments—life sciences and chemical analysis. The electronic measurement segment recombined electronic measurement and semiconductor and board test, which were reported separately in 2009. Following this re-organization, Agilent has three businesses—life sciences, chemical analysis and electronic measurement.

For the three months ended January 31, 2010 there were signs of a recovery in our key markets in total order and revenue growth compared to the same period last year. Total orders for the three months ended January 31, 2010 were \$1,220 million, an increase of 9 percent above the same period last year with each business segment showing order growth in the quarter. For the three months ended January 31, 2010, life sciences orders increased 9 percent, chemical analysis orders increased 12 percent and electronic measurement orders increased 8 percent when compared to the first quarter of 2009. Foreign currency movements accounted for 5 percentage points of order growth for both life sciences and chemical analysis and for 2 percentage points in electronic measurement.

Net revenue of \$1,213 million for the three months ended January 31, 2010 increased 4 percent from the same period last year. Life sciences revenues increased 10 percent in the three months ended January 31, 2010 compared to the same period in 2009 with foreign currency movements accounting for 5 percentage points of revenue growth in the quarter. Within life sciences food testing continued to perform strongly and other markets also increased revenue in the three months ended January 31, 2010 compared to the same period in 2009. Chemical analysis revenues increased 13 percent in the three months ended January 31, 2010 compared to the same period last year with foreign currency movements accounting for 5 percentage points of revenue growth in the quarter. Growth was reported at a similar rate across all chemical analysis markets in the three months ended January 31, 2010 when compared to the same period in 2009. Electronic measurement revenues decreased 2 percent in the three months ended January 31, 2010 when compared to the same period last year with foreign currency movements accounting for 2 percentage points of revenue growth in the quarter. General purpose, computer and semiconductor markets all grew compared to the same period last year. Communications test was still weak in wireless manufacturing test due to excess handset test capacity around the world.

Net income for the three months ended January 31, 2010 was \$79 million, compared to \$64 million for the corresponding period last year. In the three months ended January 31, 2010, we generated \$30 million of cash from operations compared with \$17 million generated in the same period last year.

We announced restructuring activities in December 2008, February 2009 and March 2009 in response to the deterioration of economic conditions. The restructuring activities were combined under a single restructuring plan (the FY 2009 Plan ) and were part

Table of Contents

of a series of actions taken by Agilent in response to the economic situation. In connection with the combined restructuring plan, we expect to record in aggregate approximately \$315 million in pre-tax restructuring and other charges related to business and infrastructure cost reduction. When completed, these actions together are expected to result in future annual operating savings of approximately \$525 million and workforce reductions of approximately 3,800 regular positions. We completed the majority of these activities related to the FY 2009 Plan in 2009 with the remainder expected to be completed by the end of the second quarter of 2010. Total restructuring and other special charges of \$34 million have been incurred in the three months ended January 31, 2010 with respect to these actions. As of January 31, 2010, approximately 300 employees within electronic measurement are subject to termination under the FY 2009 Plan.

On July 26, 2009, Agilent, Varian, Inc. ( Varian ), and Cobalt Acquisition Corp., a direct, wholly-owned subsidiary of Agilent, entered into an Agreement and Plan of Merger (the Merger Agreement ). Pursuant to the terms of the Merger Agreement, Varian would become a wholly-owned subsidiary of Agilent. Varian is a leading worldwide supplier of scientific instrumentation and associated consumables for life science and applied market applications. The estimated \$1.5 billion total purchase price of Varian includes \$52 cash per share of Varian's common stock, the cashing out of in the money stock options (after acceleration) and assumed debt. The transaction has been approved by shareholders of Varian and is expected to be completed after achieving customary closing conditions and regulatory approvals. On January 21, 2010, the European Commission announced that it has granted conditional antitrust clearance of the proposed acquisition of Varian by Agilent. As part of the European Commission's clearance decision, Varian and Agilent have committed to sell Varian's laboratory gas chromatography ( GC ) business; Varian's triple quadrupole gas chromatography-mass spectrometry ( GC-MS ) business; Varian's inductively-coupled plasma-mass spectrometry ( ICP-MS ) business; and Agilent's micro GC business. Clearance by the U.S. Federal Trade Commission is still pending. On January 28, 2010 we announced the sale of the Agilent micro GC business, which is subject to customary closing conditions and regulatory approval. On March 9, 2010, we announced the sale of the Varian laboratory GC business, the triple quadrupole GC-MS business and the ICP-MS business, which is subject to regulatory approval, the closing of the Varian transaction and other closing conditions. We plan to finance the purchase price of Varian using a portion of the proceeds from our September 2009 offering of senior notes and other existing cash.

On February 11, 2010, we signed a definitive agreement to sell the Network Solutions Division ( NSD ) of our electronic measurement business to JDS Uniphase Corporation ( JDSU ), a leading communications test and measurement company. JDSU will pay Agilent \$165 million which is subject to a post-closing working capital adjustment. The agreement is subject to customary closing conditions and regulatory approval. NSD includes Agilent's network assurance solutions, network protocol test and drive test products.

Looking forward, we have seen signs that many of our businesses have reached the bottom of the economic downturn and a recovery of most of our key markets is underway. We remain committed to delivering performance consistent with Agilent's operating model.

**Critical Accounting Policies and Estimates**

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles ( GAAP ) in the U.S. The preparation of condensed consolidated financial statements in conformity with GAAP in the U.S. requires management to make estimates, judgments and assumptions that affect the amounts reported in our condensed consolidated financial statements and accompanying notes. Our critical accounting policies are those that affect our financial statements materially and involve difficult, subjective or complex judgments by management. Those policies are revenue recognition, inventory valuation, investment impairments, share-based compensation, retirement and post-retirement benefit plan assumptions, goodwill and purchased intangible assets, restructuring and asset impairment charges, and accounting for income taxes; certain of which are described below. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management's best knowledge of current events and actions that may impact the company in the future, actual results may be different from the estimates.

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

*Share-based compensation.* We estimate the stock price volatility using the historical volatility of Agilent's stock options over the most recent historical period equivalent to the expected life of stock options. In reaching this 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. A 10 percent increase in our estimated historical volatility from 37 percent to 47 percent would generally increase the value of an award and the associated compensation cost by approximately 22 percent if no other factors were changed.

Table of Contents

*Goodwill and purchased intangible assets.* Agilent reviews goodwill for impairment annually during our fourth quarter and whenever events or changes in circumstances indicate the carrying value may not be recoverable. As defined in the authoritative guidance, a reporting unit is an operating segment, or one level below an operating segment. We aggregated components of operating segments with similar economic characteristics into our reporting units. We reviewed three previous reporting units for goodwill impairment testing purposes: electronic measurement, bio-analytical measurement and semiconductor and board test. In the first quarter of 2010, we formed three new operating segments from our existing businesses. The bio-analytical measurement segment separated into two operating segments – life sciences and chemical analysis. The electronic measurement segment recombined electronic measurement and semiconductor and board test, which were reported separately in 2009. Following this re-organization, Agilent has three businesses – life sciences, chemical analysis and electronic measurement – each of which comprises an operating segment. During 2010 we will assess for potential impairment of goodwill on our three new reporting. For these reporting unit changes, we applied the relative fair value method to determine the impact to the reporting units. For the first quarter of 2010, we determined that no impairment existed.

The process of evaluating the potential impairment of goodwill is highly subjective and requires significant judgment, as our businesses operate in a number of markets and geographical regions. We determine the fair value of our reporting units based on an income approach, whereby we calculate the fair value of each reporting unit based on the present value of estimated future cash flows, which are formed by evaluating historical trends, current budgets, operating plans and industry data. We evaluate the reasonableness of the fair value calculations of our reporting units by reconciling the total of the fair values of all of our reporting units to our total market capitalization, taking into account an appropriate control premium. We then compare the carrying value of our reporting units to the fair value calculations based on the income approach. Estimates of the future cash flows associated with the businesses are critical to these assessments. The assumptions used in the fair value calculation change from year to year and include revenue growth rates, operating margins, risk adjusted discount rates and future economic and market conditions. Changes in these assumptions based on changed economic conditions or business strategies could result in material impairment charges in future periods.

The circumstances that could trigger a goodwill impairment could include, but are not limited to, the following items to the extent that management believes the occurrence of one or more would make it more likely than not that we would fail step 1 of the goodwill impairment test: significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of, a portion of a reporting unit's goodwill has been included in the carrying amounts of a business that will be disposed or if our market capitalization is below our net book value.

There was no impairment of goodwill during the three months ended January 31, 2010 or for the year ended October 31, 2009. We continue to assess the overall environment to determine if we would trigger and fail step 1 of the goodwill impairment test.

We continually monitor events and changes in circumstances that could indicate carrying amounts of long-lived assets, including purchased intangible assets, may not be recoverable. When such events or changes in circumstances occur, we assess the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the undiscounted future cash flows is less than the carrying amount of those assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets. We impaired \$14 million of purchased intangible assets and fixed assets in this first quarter related to a business which we will divest in our second quarter of this year.

*Accounting for income taxes.* We must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, benefits and deductions, and in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes, as well as interest and penalties related to uncertain tax positions. Significant changes to these estimates may result in an increase or decrease to

our tax provision in a subsequent period.

Significant management judgment is also required in determining whether deferred tax assets will be realized in full or in part. When it is more likely than not that all or some portion of specific deferred tax assets such as net operating losses or foreign tax credit carryforwards will not be realized, a valuation allowance must be established for the amount of the deferred tax assets that cannot be realized. We consider all available positive and negative evidence on a jurisdiction-by-jurisdiction basis when assessing whether it is more likely than not that deferred tax assets are recoverable. We consider evidence such as our past operating results, the existence of cumulative losses in recent years and our forecast of future taxable income. At January 31, 2010, we provided partial valuation allowances for our U.S. deferred tax assets and full or partial valuation allowances on certain foreign deferred tax assets. We intend to maintain partial or full valuation allowances until sufficient positive evidence exists to support reversal of a valuation allowance in a given taxing jurisdiction.

We have not provided for all U.S. federal income and foreign withholding taxes on the undistributed earnings of some of our foreign subsidiaries because we intend to reinvest such earnings indefinitely. Should we decide to remit this income to the U.S. in a future period, our provision for income taxes may increase materially in that period.

Table of Contents

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax law and regulations in a multitude of jurisdictions. Although the guidance on the accounting for uncertainty in income taxes prescribes the use of a recognition and measurement model, the determination of whether an uncertain tax position has met those thresholds will continue to require significant judgment by management. If the ultimate resolution of tax uncertainties is different from what is currently estimated, a material impact on income tax expense could result.

**Adoption of New Pronouncements**

See Note 2, New Accounting Pronouncements, to the condensed consolidated financial statements for a description of new accounting pronouncements.

**Restructuring Costs, Asset Impairments and Other Charges**

We announced restructuring activities in December 2008, February 2009 and March 2009 in response to the deterioration of economic conditions. The restructuring activities were combined under a single restructuring plan (the FY 2009 Plan ) and were part of a series of actions taken by Agilent in response to the economic situation. In connection with the combined restructuring plan, we expect to record in aggregate approximately \$315 million in pre-tax restructuring and other charges related to business and infrastructure cost reduction. When completed, these actions together are expected to result in future annual operating savings of approximately \$525 million and workforce reductions of approximately 3,800 regular positions. We completed the majority of these activities related to the FY 2009 Plan in 2009 with the remainder expected to be completed by the end of the second quarter of 2010. Total restructuring and other special charges of \$34 million have been incurred in the three months ended January 31, 2010 with respect to these actions. As of January 31, 2010 approximately 300 employees within electronic measurement are subject to termination under the FY 2009 Plan.

**Foreign Currency**

Our revenues, costs and expenses, and monetary assets and liabilities are exposed to changes in foreign currency exchange rates as a result of our global operating and financing activities. We hedge revenues, expenses and balance sheet exposures that are not denominated in the functional currencies of our subsidiaries on a short term and anticipated basis. We do experience some fluctuations within individual lines of the condensed consolidated statement of operations and balance sheet because our hedging program is not designed to offset the currency movements in each category of revenues, expenses, monetary assets and liabilities. Our hedging program is designed to hedge currency movements on a relatively short-term basis (rolling twelve month period). Therefore, we are exposed to currency fluctuations over the longer term.

**Results from Operations**

**Orders and Net Revenue**

	Three Months Ended January 31,		2010 over 2009
	2010	2009	
	(in millions)		
Orders	\$ 1,220	\$ 1,115	9%
Net revenue:			
Products	976	937	4%
Services and other	237	229	3%
Total net revenue	\$ 1,213	\$ 1,166	4%

Agilent orders increased 9 percent in the three months ended January 31, 2010 compared to the same period last year as we continued to see signs of a recovery in most of our key markets. Our life sciences business recorded an order increase of 9 percent in the three months ended January 31, 2010 compared to the same period last year. Chemical analysis orders increased 12 percent in the three months ended January 31, 2010 compared to the same period last year. Electronic measurement orders increased 8 percent in the three months ended January 31, 2010 compared to the same period in 2009. Foreign currency movements accounted for 5 percentage points of order growth for both life sciences and chemical analysis and for 2 percentage points in electronic measurement.

Net revenue in the three months ended January 31, 2010 was \$1,213 million, a 4 percent increase over the \$1,166 million net revenue recorded in three months ended January 31, 2009. Foreign currency movements accounted for 3 percentage points of revenue increase in the three months ended January 31, 2010 compared to the same period last year. Net revenue from services and other increased 3 percent in three months ended January 31, 2010 versus a 4 percent increase in product revenues. Revenue increased in life



Table of Contents

sciences, chemical analysis and declined slightly in electronic measurement in the three months ended January 31, 2010 when compared to the same period in 2009 as signs of a recovery in most of our end markets observed towards the end of 2009 continued into the first quarter of 2010. Services and other revenue include revenue generated from servicing our installed base of products, warranty extensions and consulting.

Life sciences revenues increased 10 percent in the three months ended January 31, 2010 compared to the same period last year with foreign currency movements accounting for 5 percentage points of revenue increase. Within life sciences, we saw continued strength in food testing and growth in revenue in all other markets. In the three months ended January 31, 2010, chemical analysis revenues increased 13 percent when compared to the same period in 2009 with foreign currency movements accounting for 5 percentage points of revenue growth. All markets showed strength and revenues increased in the three months ended January 31, 2010 when compared to the same period in 2009. Electronic measurement revenues decreased 2 percent in the three months ended January 31, 2010 when compared to the same period last year with foreign currency accounting for 2 percentage points of revenue growth in the quarter. General purpose, computer and semiconductor markets grew in the three months ended January 31, 2010 when compared to last year, but communications test was weak, particularly in wireless manufacturing test due to excess handset test capacity.

**Operating Results**

	<b>Three Months Ended January 31,</b>		<b>2010 over</b>	
	<b>2010</b>	<b>2009</b>	<b>2009</b>	
Total gross margin	54.4%	50.5%		4ppts
Operating margin	7.8%	2.1%		6ppts

(in millions)

Research and development	\$	149	\$	169	(12)%
Selling, general and administrative	\$	417	\$	396	5%

Total gross margins for the three months ended January 31, 2010 showed a 4 percentage point increase compared to the same period last year. The benefits of business and infrastructure restructuring programs together with favorable volume impacts and currency movements contributed to the growth of gross margins in the quarter compared to the same period last year. Operating margins have increased 6 percentage points for the three months ended January 31, 2010 compared to the same period last year.

In January 2009, we implemented wage reductions across the company in response to deteriorating economic conditions. Wages were restored to previous levels for all employees effective November 1, 2009.

Research and development expenses decreased 12 percent for the three months ended January 31, 2010 compared to the same period last year. Overall spending reductions as a result of restructuring programs were partially offset by wage restoration, higher variable pay and unfavorable currency movements. We remain committed to invest in research and development by bringing new products to the market, and have focused our development efforts on key strategic opportunities in order to align our business with available markets and position ourselves to capture market share.

## Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

Selling, general and administrative expenses increased 5 percent for the three months ended January 31, 2010 compared to the same period last year. Increased expenditure in the three months ended January 31, 2010 was due to an increase in acquisition related costs, the impact of currency movements, wage restoration and higher variable pay.

At January 31, 2010, our headcount was approximately 16,350 as compared to approximately 19,340 at January 31, 2009.

### **Global Infrastructure Organization**

Our global infrastructure organization ( GIO ) remains a key component of our operating model. GIO, which includes finance, IT and workplace services, has aggressively reduced its cost structure over the past year while increasing the flexibility and leverage of our worldwide infrastructure footprint. We will continue to efficiently manage and leverage our infrastructure resources to support our businesses, integrate acquisitions and complete our divestitures in the coming year.

### **Provision for Income Taxes**

For the three months ended January 31, 2010, we recorded an income tax provision of \$4 million compared to an income tax benefit of \$37 million in the same period last year. The income tax provision for the three months ended January 31, 2010 includes net discrete tax benefits of \$9 million. The net discrete benefits relate primarily to tax settlements, lapses of statutes of limitations and

Table of Contents

valuation allowance adjustments based on changes in other comprehensive income items. The income tax benefit for the three months ended January 31, 2009 includes a net discrete benefit of tax and interest in the amount of \$42 million. The net discrete benefit is primarily associated with lapses of statutes of limitations and tax settlements. Without considering interest and penalties, the rate reflects taxes in all jurisdictions except the U.S. and foreign jurisdictions in which income tax expense or benefit continues to be offset by adjustments to valuation allowances. We intend to maintain partial or full valuation allowances in these jurisdictions until sufficient positive evidence exists to support the reversal of the valuation allowances.

At January 31, 2010, our estimate of the annual effective tax rate was 14 percent. The income tax rate for operations was 4.8 percent for the three months ended January 31, 2010. The company determines its interim tax provision using an estimated annual effective tax rate methodology except in jurisdictions where the company anticipates or has a year-to-date ordinary loss for which no tax benefit can be recognized. In these jurisdictions, tax expense is computed based on an actual or discrete method. Our effective tax rate is affected by research tax credits, the expected level of other tax benefits, the effects of business acquisitions and dispositions, the impact of changes to valuation allowances, changes in other comprehensive income, as well as changes in the mix of income and losses in the jurisdictions in which we operate that have varying statutory rates.

In the U.S., the tax years remain open to Internal Revenue Service ( IRS ) and state audits back to the year 2000. In other major jurisdictions where we conduct business, the tax years generally remain open to audit by local tax authorities back to the year 2003. It is reasonably possible that changes to our unrecognized tax benefits could be significant in the next twelve months due to lapses of statutes of limitation and tax audit settlements. As a result of uncertainties regarding the timing of the completion of tax audits in various jurisdictions and their possible outcomes, an estimate of the range of increase or decrease in our unrecognized tax benefits that could occur in the next twelve months cannot be made.

Our U.S. federal income tax returns for 2000 through 2002 and 2003 through 2007 are under audit by the IRS which is normal for taxpayers subject to the IRS's Large and Mid-Sized Business examination procedures. In August 2007, we received a Revenue Agent's Report ( RAR ) for 2000 through 2002. The RAR proposed several adjustments to taxable income. We disagreed with most of the proposed adjustments. In order to resolve the disagreements, representatives of Agilent met with the Appeals Office of the IRS. At present, only one significant adjustment remains unresolved. We are uncertain as to how and when this issue will be resolved. However, any required tax adjustment will be offset by applying available net operating losses and tax credits. Based on current information, we believe that the ultimate disposition of this matter is unlikely to have a material adverse effect on our consolidated financial position, results of operations or liquidity.

**Segment Overview**

Agilent is a measurement company providing core bio-analytical and electronic measurement solutions to the life sciences, chemical analysis, communications and electronics industries. Agilent has three primary businesses focused on the life sciences market, the chemical analysis market and the electronic measurement market.

In the first quarter of 2010, we formed three new operating segments from our existing businesses. The bio-analytical measurement segment was separated into two operating segments—life sciences and chemical analysis. The electronic measurement segment recombined electronic measurement and semiconductor and board test, which were reported separately in 2009. Following this re-organization, Agilent has three businesses—life sciences, chemical analysis and electronic measurement—each of which comprises a reportable segment. The three new 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 technology and delivery channels, consumer-specific solutions and specialized manufacturing, are

considered in determining the formation of these new operating segments.

All historical segment numbers have been recast to conform to this new reporting structure in our financial statements.

### **Life Sciences**

Our life sciences 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 life sciences include: DNA microarrays and associated scanner, software, and reagents; microfluidics-based sample analysis systems; liquid chromatography systems, columns and components; liquid chromatography mass spectrometry systems; capillary electrophoresis systems; laboratory software and informatics systems; bio-reagents and related products; laboratory automation and robotic systems; services and support for the aforementioned products.

Table of Contents**Orders and Net Revenue**

	Three Months Ended		2010 over 2009
	2010	January 31, 2009	
	(in millions)		
Orders	\$ 336	\$ 307	9%
Net revenue	\$ 340	\$ 309	10%

Life sciences orders for the three months ended January 31, 2010 increased 9 percent when compared to the same period last year, fueled by strength in the liquid chromatography ( LC ) and microarray portfolios, along with services. Foreign currency movements for the three months ended January 31, 2010 accounted for 5 percentage points of the growth in orders when compared to the same period last year. Geographically, orders grew 5 percent in the Americas, 2 percent in Europe, 18 percent in Japan, and 27 percent in other Asia for the three months ended January 31, 2010 compared to the same period last year.

Life sciences revenues for the three months ended January 31, 2010 grew 10 percent when compared to the same period last year, led by growth in the LC, microarray, and consumables portfolios. Foreign currency movements for the three months ended January 31, 2010 accounted for a growth of 5 percentage points of the revenue growth compared to the same period last year. Geographically, revenues grew 3 percent in the Americas, 9 percent in Europe, 16 percent in Japan, and 28 percent in other Asia for the three months ended January 31, 2010 compared to the same period last year.

We saw growth in the pharmaceutical, biotechnology, academic, and government markets. Customers in the pharmaceutical and biotechnology markets are focused on enabling technologies favorable to life sciences product platforms. As pharmaceutical companies face increasing cost pressures from the declining number of new products in the research pipelines, their investments in R&D will be less vigorous. However, the China pharmaceutical industry is expected to grow in 2010. In the academic and government markets, next generation sequencing continues on an aggressive growth path in the genomics field. The food market is seeing strong growth trends, especially in food testing in public health labs in the United States and China. In China, the government is heavily investing in improving testing capabilities which could result in strong demand for liquid chromatography mass spectrometry technology, genomic techniques, total solutions sample preparation and pesticide residue analysis, especially multiple pesticides by triple quadrupole ( QQQ ) and time-of-flight ( TOF ).

Looking forward, we expect the food market growth to result in demand for our LC, QQQ, and TOF instruments. In our new life sciences sales channel coverage model, we have chosen specific countries which are investing heavily in life science technologies. Our life sciences sales channel will also specifically add capabilities to address life science applications expertise. The life sciences business also remains focused on expanding our application portfolio for our customers. We are working to fill the gaps in our capabilities through R&D and product efforts.

**Operating Results**

	Three Months Ended		2010 over 2009
	2010	January 31, 2009	
Gross margin	54.4%	54.5%	

Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

Operating margin 16.3% 14.3% 2ppts

(in millions)

Research and development	\$	33	\$	33	(2)%
Selling, general and administrative	\$	97	\$	91	7%

Gross margins were relatively flat for the three months ended January 31, 2010 compared to the same period last year. Increases due to wage restoration, higher wages and variable pay, and lower currency hedging gains year-over-year were largely offset by favorable volume impact, currency movements, and product and geographic mix.

Research and development expenses declined 2 percent for the three months ended January 31, 2010 compared to the same period last year. Overall spending reductions were partially offset by wage restoration and higher variable pay.

Selling, general and administrative expenses grew 7 percent for the three months ended January 31, 2010 compared to the same period last year. The increase was due to wage restoration, higher wages and variable pay and share-based compensation partially offset by lower pension costs and reduced commissions.

Table of Contents

Operating margins for the three months ended January 31, 2010, improved by 2 percentage points compared to the same period last year. The year-over-year margin improvement from favorable volume impact was partially offset by wage restoration, higher wages and variable pay, and unfavorable currency movements.

***Income from Operations***

Income from operations for the three months ended January 31, 2010 increased \$11 million on a revenue increase of \$31 million, a 36 percent year-over-year operating margin incremental.

**Chemical Analysis**

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 systems, columns and components; gas chromatography mass spectrometry systems; inductively coupled plasma mass spectrometry products; spectroscopy analyzers; software and data systems; services and support for the aforementioned products.

***Orders and Net Revenue***

	Three Months Ended January 31,		2009	2010 over 2009
	2010	(in millions)		
Orders	\$	242	\$ 216	12%
Net revenue	\$	244	\$ 216	13%

Chemical analysis orders for the three months ended January 31, 2010 increased 12 percent when compared to the same period last year, led by solid performance in the GC-MS and ICP-MS portfolios, along with services. Foreign currency movements for the three months ended January 31, 2010 accounted for 5 percentage points of the growth in orders when compared to the same period last year. Geographically, orders declined 1 percent in the Americas, grew 9 percent in Europe, grew 39 percent in Japan, and grew 18 percent in other Asia for the three months ended January 31, 2010 compared to the same period last year.

Chemical analysis revenues for the three months ended January 31, 2010 increased 13 percent when compared to the same period last year, led by growth in the GC-MS, ICP-MS, and consumables portfolios. Foreign currency movements for the three months ended January 31, 2010 accounted for a growth of 5 percentage points of the revenue growth compared to the same period last year. Geographically, revenues declined 3 percent in the Americas, grew 18 percent in Europe, grew 19 percent in Japan, and grew 23 percent in other Asia for the three months ended January 31, 2010 compared to the same period last year.

We saw growth in the petrochemical, food, forensics, and environmental markets. The hydrocarbon processing industry within the petrochemical market is slowly recovering from the recession in most regions, with companies in the exploration segment expecting modest increases in capital investment. The food market continues to remain strong, particularly for pesticide and drug residues analysis in China and Europe, and accelerating in Japan and India. In the environmental market, global contract environment testing labs are cautious with capital budgets, resulting in a steep drop in the amount of samples and subsequent reduction in equipment purchases. However, European directives are driving investments in water quality analysis and waste water management. In the forensics market, spending in support of doping control for national and international sporting events remains strong.

Looking forward, we look to strengthen our core business and drive growth. We will strengthen our core business to extend our gas phase leadership by expanding our mid-range gas chromatography portfolio to meet customers' needs. We will drive growth by focusing on the emerging food market and growth opportunities in China. Recent new product introductions in the GC-MS and ICP-MS portfolios continue to drive good growth in food and environmental applications. We will also expand our high-end mass spectrometry portfolio and consumables business.



Table of Contents

**Operating Results**

	Three Months Ended January 31,		2010 over 2009
	2010	2009	
Gross margin	55.1%	55.1%	
Operating margin	27.5%	26.1%	1ppt

**(in millions)**

Research and development	\$	13	\$	13	(3)%
Selling, general and administrative	\$	54	\$	49	10%

Gross margins were relatively flat for the three months ended January 31, 2010 compared to the same period last year. Higher wages and variable pay were offset by favorable volume impact and currency movements.

Research and development expenses declined 3 percent for the three months ended January 31, 2010 compared to the same period last year. Overall spending reductions were partially offset by wage restoration and higher variable pay.

Selling, general and administrative expenses grew 10 percent for the three months ended January 31, 2010 compared to the same period last year. The increase was due to wage restoration, higher variable pay and share-based compensation, and currency movements partially offset by reduced commissions.

Operating margins for the three months ended January 31, 2010, improved by 1 percentage point compared to the same period last year. The year-over-year margin improvement from favorable volume impact was partially offset by wage restoration, higher wages and variable pay, and unfavorable currency movements.

**Income from Operations**

Income from operations for the three months ended January 31, 2010, increased \$10 million on a revenue increase of \$28 million, a 38 percent year-over-year operating margin incremental.

**Electronic Measurement**

Our electronic measurement business provides standard and customized electronic measurement instruments and systems monitoring, management and optimization tools for communications networks and services, software design tools and related services that are used in the

## Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

design, development, manufacture, installation, deployment and operation of electronics equipment, communications networks and services, and microscopy products. 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.

### *Orders and Net Revenue*

	Three Months Ended January 31,		2010 over 2009	
	2010	2009		
	(in millions)			
Orders	\$ 642	\$ 592		8%
Net revenue	\$ 629	\$ 641		(2)%

Electronic measurement orders for the three months ended January 31, 2010, increased 8 percent when compared to the same period last year. Foreign currency movements accounted for 2 percentage points of the year-over-year increase in orders. In our general purpose test business, both the manufacturing market and the computers and semiconductor markets showed signs of improvement. Aerospace defense market demand was strong and improved year-over-year. In our communications test market, wireless manufacturing remains weak, while wireless R&D demand has stabilized. On a geographic basis, orders declined 3 percent in the Americas and 7 percent in Japan, while improving 7 percent in Europe and 34 percent in other Asia compared to the same period last year.

Electronic measurement revenues for the three months ended January 31, 2010, declined 2 percent when compared to the same period last year as weakness in communications test markets offset strength in general purpose test markets. Foreign currency movements accounted for 2 percentage points of revenue growth year-over-year. Regionally, revenues from Asia, excluding Japan,

Table of Contents

improved 16 percent, while the Americas and Europe both declined 3 percent and Japan declined 26 percent, compared to the same period last year.

General purpose test revenues of \$426 million, representing approximately 68 percent of electronic measurement revenues, grew 13 percent compared to the same period last year. Within general purpose test, all market segments grew compared to the same period last year with particular strength in aerospace and defense and other general purpose test. Government demand in aerospace and defense drove strength in communications applications for surveillance and intelligence, as well as satellite applications. Computer and semiconductor measurement markets improved due to increased capital spending in both R&D and manufacturing applications driven by higher levels of capacity utilization in the semiconductor industry. Other general purpose test markets improved with increased capital investment in consumer electronics manufacturing, while the automotive market remains weak.

Communications test revenues of \$203 million, representing approximately 32 percent of electronic measurement revenues, declined 23 percent compared to the same period last year, primarily due to continued weakness in wireless and network equipment manufacturing businesses. The wireless R&D, broadband and electronic design automation markets performed better than our other submarkets on a relative basis. Wireless R&D investment continues for high data rate applications, as well as pre-conformance and interoperability test solutions, particularly for long-term evolution (an emerging wireless standard). Investment in next-generation technology in Asia is driving strength in this region. Wireless manufacturing markets remain weak due to low demand for new handset test capacity with expansion limited primarily to smart phones. Capital spending remains limited in the other communications test submarkets. Network monitoring business was nearly flat due to the continued consolidation in the network operator and service provider markets.

While we are seeing recovery in most of our end markets, looking forward we expect our general purpose test markets to sustain their growth momentum, whereas the outlook in wireless handset test and network equipment manufacturing markets remains mixed.

**Operating Results**

	Three Months Ended		2010 over 2009
	2010	January 31, 2009	
Gross margin	57.3%	53.9%	3ppts
Operating margin	9.3%	(0.9)%	10ppts

(in millions)

Research and development	\$	100	\$	118	(15)%
Selling, general and administrative	\$	202	\$	234	(14)%

Gross margins for products and services for the three months ended January 31, 2010, improved year-over-year by 3 percentage points due largely to the impact of savings related to business and infrastructure restructuring programs. Volume-adjusted gross margins compared to the same period last year improved by 4 percentage points as expense reductions from restructuring, lower general and direct infrastructure costs and favorable currency offset the unfavorable impact of wage restoration and higher variable pay.

## Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

Research and development expenses for the three months ended January 31, 2010, declined 15 percent compared to the same period last year. This decline was driven by savings from restructuring programs and lower general and direct infrastructure costs, which were offset by wage restoration, higher wages and variable pay and the unfavorable impact of currency movements.

Selling, general and administrative expenses for the three months ended January 31, 2010, declined 14 percent compared to the same period last year. Year-over-year reductions in SG&A were consistent with R&D and driven by savings from restructuring programs and lower general and direct infrastructure costs, which were offset by wage restoration, higher wages and variable pay and the unfavorable impact of currency movements.

Operating margins for the three months ended January 31, 2010, improved by 10 percentage points compared to the same period last year. The year-over-year margin improvement from the impact of restructuring was partially offset by wage restoration, higher variable pay, and unfavorable year-over-year impact of currency movement.

Table of Contents

*Income from Operations*

Income from operations for the three months ended January 31, 2010, increased \$64 million on a revenue decline of \$12 million, a 647 percent year-over-year operating margin incremental as structural and operational expense reductions offset the unfavorable impact of lower revenue.

**FINANCIAL CONDITION**

*Liquidity and Capital Resources*

Our cash balances are held in numerous locations throughout the world, including substantial amounts held outside of the U.S. Most of the amounts held outside of the U.S. could be repatriated to the U.S. but, under current law, would be subject to U.S. federal and state income taxes, less applicable foreign tax credits. Agilent has accrued for U.S. federal and state tax liabilities on the earnings of its foreign subsidiaries except when the earnings are considered indefinitely reinvested outside of the U.S. Repatriation could result in additional U.S. federal and state income tax payments in future years. Where local restrictions prevent an efficient intercompany transfer of funds, our intent is that cash balances would remain outside of the U.S. and we would meet U.S. liquidity needs through ongoing cash flows, external borrowings, or both. We utilize a variety of financing strategies in an effort to ensure that our worldwide cash is available in the locations in which it is needed.

Our financial position as of January 31, 2010 consisted of cash and cash equivalents of \$2,481 million as compared to \$2,479 million as of October 31, 2009.

Our proposed acquisition of Varian for an estimated \$1.5 billion total purchase price includes \$52 cash per share of Varian's common stock, the cashing out of in the money stock options (after acceleration) and assumed debt. We plan to finance the purchase price of Varian using a portion of the proceeds from our September 2009 offering of senior notes and other existing cash.

We currently hold \$1.5 billion of short-term debt repayable on January 27, 2011. We are currently considering a number of refinancing and other options regarding the short-term debt.

On February 11, 2010, we signed a definitive agreement to sell NSD to JDSU. JDSU will pay Agilent \$165 million in cash and is subject to a post-closing working capital adjustment. The agreement is subject to customary closing conditions and regulatory approval. We expect to receive cash for this and other divestitures during the year.

*Net Cash Provided by Operating Activities*

## Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

Net cash provided by operating activities was \$30 million for the three months ended January 31, 2010 compared to cash provided of \$17 million for the same period in 2009. In the first quarter of 2010, we paid approximately \$53 million under our variable pay programs, as compared to \$109 million paid out during the same period of 2009. We paid approximately \$22 million in taxes in the three months ended January 31, 2010 as compared to \$44 million in the same period in 2009.

In the three months ended January 31, 2010, accounts receivable used cash of \$42 million compared to cash provided of \$140 million for the same period in 2009. Agilent revenues increased by approximately 4 percent in the three months ended January 31, 2010 as compared to the same period in 2009. Days sales outstanding decreased to 47 days as of January 31, 2010 from 49 days a year ago. Accounts payable provided cash of \$8 million for the three months ended January 31, 2010 compared to cash used of \$53 million in the same period in 2009. Cash used for inventory was \$1 million for the three months ended January 31, 2010 compared to cash used of \$22 million for the same period in 2009. Inventory days on-hand decreased to 89 days as of January 31, 2010 compared to 102 days as of the end of the same period last year.

We contributed approximately \$14 million to our defined benefit plans in the first three months of 2010 compared to \$20 million in the same period of 2009. Our annual contributions are highly dependent on the relative performance of our assets versus our projected liabilities, among other factors. We expect to contribute approximately \$72 million to our defined benefit plans during the remainder of 2010.

### *Net Cash Used in Investing Activities*

Net cash used in investing activities was \$31 million for the three months ended January 31, 2010 compared to cash used of \$11 million for the same period of 2009. Investments in property, plant and equipment were \$25 million for the three months ended January 31, 2010 compared to \$34 million in the same period of 2009. We expect that total capital expenditures for the current year will be approximately the same as last years expenditures which were \$128 million for 2009. In the three months ended January 31,

Table of Contents

2010, there were \$12 million of business acquisitions and intangible assets, compared to \$1 million invested during the same period of 2009. In the three months ended January 31, 2010, restricted cash and cash equivalents increased by \$2 million compared to an increase of \$4 million in 2009.

*Net Cash Used in Financing Activities*

Net cash provided by in financing activities for the three months ended January 31, 2010 was \$3 million compared to cash used of \$49 million for the same period of 2009 mainly due to the increased issuance of common stock.

On November 19, 2009 our Board of Directors approved a share-repurchase program to reduce or eliminate dilution in connection with issuances of stock under the company's equity incentive plans. The share-repurchase program does not require the company to acquire a specific number of shares and may be suspended or discontinued at any time. There is no fixed termination date for the new share-repurchase program. For the three months ended January 31, 2010, we repurchased 3 million shares for \$100 million using settlement date calculation.

We currently hold \$1.5 billion of short-term debt which was refinanced and the repayment date was extended to January 27, 2011. As of January 31, 2010, we had approximately \$2.5 billion of unrestricted cash and \$1.6 billion of restricted cash that could be used to repurchase or redeem the debt mentioned above. However, most of this cash is held overseas and would need to be repatriated to the U.S. in order to be used to satisfy the repurchase obligation. Repatriation could result in additional U.S. federal and state income tax payments in future years. We are currently considering a number of refinancing and other options regarding the short-term debt.

On May 11, 2007, we entered into a five-year credit agreement, which provides for a \$300 million unsecured credit facility that will expire on May 11, 2012. On September 8, 2009, we entered into an Accession Agreement, increasing the credit facility from \$300 million to \$330 million. The company may use amounts borrowed under the facility for general corporate purposes. As of January 31, 2010 the company has no borrowings outstanding under the facility.

On August 17, 2009, the credit agreement was amended to provide additional financing flexibility in advance of the pending acquisition of Varian, Inc. The amendment allows for up to \$1 billion of additional indebtedness, incurred during the period from August 17, 2009 through the closing of the acquisition, to be excluded from the leverage ratio covenant until the later of the first day of the month following the ninth full calendar month after the closing of the acquisition or August 1, 2010; it also temporarily reduces the basket for other secured financing we are permitted to incur from \$300 million to \$75 million during this period. The amendment also increases by \$500 million the amount of repurchase obligations (such as those of Agilent Technologies World Trade, Inc.), a consolidated wholly-owned subsidiary of Agilent, that we are permitted to incur.

On September 9, 2009, Agilent Technologies, Inc. entered into an underwriting agreement with Barclays Capital Inc., Citigroup Global Markets Inc. and Credit Suisse Securities (USA) LLC. Pursuant to the underwriting agreement, Agilent issued an aggregate principal amount of \$250 million in senior notes (the 2012 notes). The senior notes were issued at 99.91% of their principal amount. The notes will mature on September 14, 2012, and bear interest at a fixed rate of 4.45% per annum. The interest is payable semi-annually on March 14th and September 14th of each year, payments commencing on March 14, 2010. Agilent also issued an aggregate principal amount of \$500 million in senior notes (the 2015 notes). These senior notes were issued at 99.69% of their principal amount. The notes will mature on September 14, 2015,

## Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

and bear interest at a fixed rate of 5.50% per annum. The interest is payable semi-annually on March 14th and September 14th of each year, payments commencing on March 14, 2010. Upon the closing of the offering of the 2012 and 2015 notes, we entered into interest rate swaps with an aggregate notional amount of \$750 million. Under the interest rate swaps, we will receive fixed-rate interest payments and will make payments based on the U.S. dollar London inter-bank offered rate ( LIBOR ) plus 257.6 basis points and 253 basis points with respect to the 2012 and 2015 notes, respectively. The economic effect of these swaps will be to convert the fixed-rate interest expense on the senior notes to a variable LIBOR-based interest rate.

### *Other*

There were no other substantial changes from our 2009 Annual Report on Form 10-K to our contractual commitments in the first three months of 2010. We have contractual commitments for non-cancelable operating leases. We have no other material non-cancelable guarantees or commitments.

Other long-term liabilities include \$331 million and \$418 million of taxes payable as of January 31, 2010 and October 31, 2009, respectively. We are unable to accurately predict when these amounts will be realized or released.



Table of Contents

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to foreign currency exchange rate risks inherent in our sales commitments, anticipated sales, and assets and liabilities denominated in currencies other than the functional currency of our subsidiaries. We hedge future cash flows denominated in currencies other than the functional currency using sales forecasts up to twelve months in advance. Our exposure to exchange rate risks is managed on an enterprise-wide basis. This strategy utilizes derivative financial instruments, including option and forward contracts, to hedge certain foreign currency exposures with the intent of offsetting gains and losses that occur on the underlying exposures with gains and losses on the derivative contracts hedging them. We do not currently and do not intend to utilize derivative financial instruments for speculative trading purposes.

Our operations generate non-functional currency cash flows such as revenues, third party vendor payments and inter-company payments. In anticipation of these foreign currency cash flows and in view of volatility of the currency market, we enter into such foreign exchange contracts as are described above to manage our currency risk. Approximately 63 percent and 62 percent of our revenues were generated in U.S. dollars during the first quarter of 2010 and 2009, respectively.

We performed a sensitivity analysis assuming a hypothetical 10 percent adverse movement in foreign exchange rates to the hedging contracts and the underlying exposures described above. As of January 31, 2010, the analysis indicated that these hypothetical market movements would not have a material effect on our condensed consolidated financial position, results of operations or cash flows.

**ITEM 4. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures*

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

*Changes in Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting during the quarter ended January 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

In November 2001, a securities class action, *Kassin v. Agilent Technologies, Inc., et al.*, Civil Action No. 01-CV-10639, was filed in United States District Court for the Southern District of New York (the Court) against certain investment bank underwriters for our initial public offering (IPO), Agilent and various of our officers and directors at the time of the IPO. In 2003, the Court granted Agilent's motion to dismiss the claims against Agilent based on Section 10 of the Securities Exchange Act, but denied Agilent's motion to dismiss the claims based on Section 11 of the Securities Act. On June 14, 2004, papers formalizing a settlement among the plaintiffs, Agilent and more than 200 other issuer defendants and insurers were presented to the Court. Under the proposed settlement, plaintiffs' claims against Agilent and its directors and officers would be released, in exchange for a contingent payment (which, if made, would be paid by Agilent's insurer) and an assignment of certain potential claims. However, class certification of plaintiffs' underlying action against the underwriter defendants was a condition of the settlement. On December 5, 2006, the Court of Appeals for the Second Circuit reversed the Court's order certifying such a class in several test cases that had been selected by the underwriter defendants and plaintiffs. On January 5, 2007, plaintiffs filed a petition for rehearing to the full bench of the Second Circuit. On April 6, 2007, the Second Circuit issued an order denying rehearing but noted that plaintiffs are free to seek certification of a more modest class. On June 25, 2007, the Court entered an order terminating the proposed settlement between plaintiffs and the issuer defendants based on a stipulation among the parties. Plaintiffs have amended their allegations and filed amended complaints in six test cases (none of which involve Agilent). Defendants in these cases have moved to dismiss the amended complaints. On March 26, 2008, the Court denied the defendants' motion to dismiss. The parties have again reached a global settlement of the litigation and filed a motion for preliminary approval of the settlement on April 2, 2009. Under the settlement, the insurers would pay the full amount of settlement share allocated to Agilent, and Agilent would bear no financial liability. Agilent, as well as the officer and director defendants who were previously dismissed from the action pursuant to tolling agreements, would receive complete dismissals from the case. On October 5, 2009, the Court entered an order granting final approval of the settlement. Certain objectors have appealed the Court's October 5, 2009 order to the Second Circuit Court of Appeals. That appeal is pending.

On August 5, 2009, a putative class action was filed in California Superior Court, County of Santa Clara, entitled *Feivel Gottlieb Plan Administrator Feivel Gottlieb Defined Benefit Pension Plan DTD 01-01-04 v. Garry W. Rogerson, et al.*, No. 1-09-CV-149132. The action was allegedly brought on behalf of a class of shareholders of Varian, Inc. (Varian) against Varian, its board of directors, Agilent and Cobalt Acquisition Corp. (Cobalt), a wholly owned subsidiary of Agilent, in connection with the proposed acquisition of Varian. A similar action, entitled *Stuart Kreisberg v. Garry W. Rogerson, et al.*, No. 1-09-CV-149383, was filed in the same court on August 7, 2009. The actions were subsequently consolidated under the caption *In re Varian, Inc. Shareholder Litigation*, Lead Case No. 1-09-CV-149132, and a consolidated amended complaint was filed on August 14, 2009. The consolidated amended complaint is also filed on behalf of an alleged class of Varian shareholders against Varian, its directors, Agilent and Cobalt. The consolidated amended complaint alleges that Varian's directors breached their fiduciary duties in connection with the proposed acquisition and asserts, among other things, that the price and other terms are unfair, that Varian's directors have engaged in self-dealing, and that the disclosures in Varian's August 7, 2009 proxy filing are inadequate. Agilent and Cobalt are alleged to have aided and abetted the Varian directors' purported breaches of fiduciary duties. Plaintiffs seek injunctive and other relief, including attorneys' fees and costs. On August 19, 2009, another substantially similar putative class action, entitled *Hawaii Laborers Pension Fund v. Varian, Inc., et al.*, No. 1-09-CV-150234, was filed in the same court against Varian, its directors, and Agilent. Like the consolidated amended complaint, it asserts claims on behalf of a class of Varian shareholders, alleges that Varian's directors breached their fiduciary duties in connection with the proposed acquisition by, *inter alia*, failing to value Varian properly, agreeing to improper deal terms, engaging in self-dealing and making misleading disclosures, alleges that Agilent aided and abetted those purported breaches of fiduciary duties, and seeks injunctive and other relief (including attorneys' fees and costs). On September 25, 2009, the parties signed a memorandum of understanding to settle the class actions. The settlement provides, among other things, that: (i) Varian would make certain agreed-upon disclosures designed to supplement those contained in its definitive proxy statement filed on August 20, 2009; (ii) the litigation will be dismissed with prejudice as to all defendants; (iii) defendants believe the claims are without merit and continue to deny liability, but agree to settle in order to avoid the potential cost and distraction of continued litigation and to eliminate any risk of any delay to the acquisition; and (iv) plaintiffs counsel may seek fees and costs of up to \$625,000, subject to court approval. There is to be no payment of money to the alleged class members. The settlement is subject to execution and delivery of a stipulation of settlement and other definitive documentation, confirmatory discovery, the closing of the acquisition, notice to stockholders, and court approval.

We are involved in lawsuits, claims, investigations and proceedings, including, but not limited to, patent, commercial and environmental matters, which arise in the ordinary course of business. There are no matters pending that we expect to be material in relation to our business, consolidated financial condition, results of operations or cash flows.

Table of Contents

**ITEM 1A. RISK FACTORS**

**Risks, Uncertainties and Other Factors That May Affect Future Results**

*Continued depressed general economic conditions and uncertainties in the global credit and equity markets may adversely affect our operating results and financial condition.*

Our business is sensitive to changes in general economic conditions, both inside and outside the U.S. Worldwide financial markets have experienced extreme disruption in the past year, including, among other things, extreme volatility in security prices, severely diminished liquidity and credit availability, rating downgrades and declining valuations of investments. These disruptions are likely to have an ongoing adverse effect on the world economy. Although there are indications that the economic situation is beginning to turn, we are unable to predict how long the economic downturn will last and when and if the economic downturn has reversed. A continuing economic downturn and continuing financial market disruptions may adversely impact our business resulting in:

- reduced demand for our products realized by diminished new orders and increases in order cancellations;
- increased risk of excess and obsolete inventories;
- increased pressure on the prices for our products and services;
- greater difficulty in collecting accounts receivable;
- reduced access to the credit markets to meet short term cash needs in the U.S.; and
- greater risk of impairment to the value, and a detriment to the liquidity, of our investment portfolio.

*Our operating results and financial condition could be harmed if the markets into which we sell our products decline or do not grow as anticipated.*

Visibility into our markets is limited. Our quarterly sales and operating results are highly dependent on the volume and timing of orders received during the fiscal quarter, which are difficult to forecast. In addition, our revenues and earnings forecasts for future fiscal quarters are often based on the expected seasonality or cyclicity of our markets. However, the markets we serve do not always experience the seasonality or cyclicity that we expect. Any decline in our customers' markets or in general economic conditions, including declines related to the current market disruptions described above, would likely result in a reduction in demand for our products and services. For example, we experienced weakness in almost all sectors during 2009 due to declines in market activity caused largely by the continued global economic downturn. The broader semiconductor market is one of the drivers for our electronic measurement business, and therefore, a decrease in the semiconductor market could harm our electronic measurement business. Also, if our customers' markets decline, we may not be able to collect on outstanding amounts due to us. Such declines could harm our consolidated financial position, results of operations, cash flows and stock price, and could limit our ability to sustain profitability. Also, in such an environment, pricing pressures could intensify. Since a significant portion of our operating expenses is relatively fixed in nature due to sales, research and development and manufacturing costs, if we were unable to respond quickly enough these pricing pressures could further reduce our gross margins.

*The actions that we are taking to reduce costs could have long-term adverse effects on our business.*

Since December 2008, we have announced and implemented significant restructuring activities in our global infrastructure organization and our electronic measurement segment. This restructuring program and regular ongoing evaluations of our cost structure, could have the effect of reducing our talent pool and available resources and, consequently, could have long-term effects on our business by decreasing or slowing improvements in our products, affecting our ability to respond to customers, limiting our ability to increase production quickly if and when the demand for our products increases, and limiting our ability to hire and retain key personnel. These circumstances could harm our consolidated financial position, results of operations, cash flows, and stock price, and could limit our ability to sustain profitability.

Table of Contents

*If we do not introduce successful new products and services in a timely manner, our products and services will become obsolete, and our operating results will suffer.*

We generally sell our products in industries that are characterized by rapid technological changes, frequent new product and service introductions and changing industry standards. In addition, many of the markets in which we operate are seasonal and cyclical. Without the timely introduction of new products, services and enhancements, our products and services will become technologically obsolete over time, in which case our revenue and operating results would suffer. The success of our new products and services will depend on several factors, including our ability to:

- properly identify customer needs;
- innovate and develop new technologies, services and applications;
- successfully commercialize new technologies in a timely manner;
- manufacture and deliver our products in sufficient volumes on time;
- differentiate our offerings from our competitors' offerings;
- price our products competitively;
- anticipate our competitors' development of new products, services or technological innovations; and
- control product quality in our manufacturing process.

*Dependence on contract manufacturing and outsourcing other portions of our supply chain may adversely affect our ability to bring products to market and damage our reputation. Dependence on outsourced information technology and other administrative functions may impair our ability to operate effectively.*

As part of our efforts to streamline operations and to cut costs, we have been outsourcing aspects of our manufacturing processes and other functions and will continue to evaluate additional outsourcing. If our contract manufacturers or other outsourcers fail to perform their obligations in a timely manner or at satisfactory quality levels, our ability to bring products to market and our reputation could suffer. For example, during a market upturn, our contract manufacturers may be unable to meet our demand requirements, which may preclude us from fulfilling our customers' orders on a timely basis. The ability of these manufacturers to perform is largely outside of our control. In addition, we outsource significant portions of our information technology ( IT ) function and other administrative functions. Since IT is critical to our operations, any failure to perform on the part of the IT providers could impair our ability to operate effectively. In addition to the risks outlined above, problems with manufacturing or IT outsourcing could result in lower revenues, unexecuted efficiencies, and impact our results of operations and our stock price. Much of our outsourcing takes place in developing countries and, as a result, may be subject to geopolitical uncertainty.

***Failure to adjust our purchases due to changing market conditions or failure to estimate our customers' demand could adversely affect our income.***

Our income could be harmed if we are unable to adjust our purchases to market fluctuations, including those caused by the seasonal or cyclical nature of the markets in which we operate. The sale of our products and services are dependent, to a large degree, on customers whose industries are subject to seasonal or cyclical trends in the demand for their products. For example, the consumer electronics market is particularly volatile, making demand difficult to anticipate. During a market upturn, we may not be able to purchase sufficient supplies or components to meet increasing product demand, which could materially affect our results. We are already seeing a shortage of parts for some of our products. In addition, some of the parts that require custom design are not readily available from alternate suppliers due to their unique design or the length of time necessary for design work. Should a supplier cease manufacturing such a component, we would be forced to reengineer our product. In addition to discontinuing parts, suppliers may also extend lead times, limit supplies or increase prices due to capacity constraints or other factors. In order to secure components for the production of products, we may continue to enter into non-cancelable purchase commitments with vendors, or at times make advance payments to suppliers, which could impact our ability to adjust our inventory to declining market demands. Prior commitments of this type have resulted in an excess of parts when demand for our communications and electronics products has decreased. If demand for our products is less than we expect, we may experience additional excess and obsolete inventories and be forced to incur additional charges.

Table of Contents

***Our income may suffer if our manufacturing capacity does not match the demand for our products.***

Because we cannot immediately adapt our production capacity and related cost structures to rapidly changing market conditions, when demand does not meet our expectations, our manufacturing capacity will likely exceed our production requirements. If, during a general market upturn or an upturn in one of our segments, we cannot increase our manufacturing capacity to meet product demand, we will not be able to fulfill orders in a timely manner. This inability could materially and adversely limit our ability to improve our results. By contrast, if during an economic downturn we had excess manufacturing capacity, then our fixed costs associated with excess manufacturing capacity would adversely affect our income.

***Economic, political and other risks associated with international sales and operations could adversely affect our results of operations.***

Because we sell our products worldwide, our business is subject to risks associated with doing business internationally. We anticipate that revenue from international operations will continue to represent a majority of our total revenue. In addition, many of our employees, contract manufacturers, suppliers, job functions and manufacturing facilities are increasingly located outside the U.S. Accordingly, our future results could be harmed by a variety of factors, including:

- interruption to transportation flows for delivery of parts to us and finished goods to our customers;
- changes in foreign currency exchange rates;
- changes in a specific country's or region's political, economic or other conditions;
- trade protection measures and import or export licensing requirements;
- negative consequences from changes in tax laws;
- difficulty in staffing and managing widespread operations;
- differing labor regulations;



- differing protection of intellectual property;
- unexpected changes in regulatory requirements; and
- geopolitical turmoil, including terrorism and war.

We centralized most of our accounting processes to two locations: India and Malaysia. These processes include general accounting, cost accounting, accounts payable and accounts receivables functions. If conditions change in those countries, it may adversely affect operations, including impairing our ability to pay our suppliers and collect our receivables. Our results of operations, as well as our liquidity, may be adversely affected and possible delays may occur in reporting financial results.

In addition, although the majority of our products are priced and paid for in U.S. dollars, a significant amount of certain types of expenses, such as payroll, utilities, tax, and marketing expenses, are paid in local currencies. Our hedging programs reduce, but do not always entirely eliminate, within any given twelve month period, the impact of currency exchange rate movements, and therefore fluctuations in exchange rates, including those caused by currency controls, could impact our business operating results and financial condition by resulting in lower revenue or increased expenses. However, for expenses beyond that twelve month period, our hedging strategy does not mitigate our exposure. In addition, our currency hedging programs involve third party financial institutions as counterparties. These financial institutions, generally, have experienced and continue to experience significant adverse effects on their business from the current decline in general economic conditions and uncertainties in the global credit and equity markets. The weakening or failure of financial institution counterparties may adversely affect our hedging programs and our financial condition through, among other things, a reduction in available counterparties, increasingly unfavorable terms, and the failure of the counterparties to perform under hedging contracts.

***Our business will suffer if we are not able to retain and hire key personnel.***

Our future success depends partly on the continued service of our key research, engineering, sales, marketing, manufacturing, executive and administrative personnel. If we fail to retain and hire a sufficient number of these personnel, we will not be able to

Table of Contents

maintain or expand our business. The markets in which we operate are very dynamic, and our businesses continue to respond with reorganizations, workforce reductions and site closures. We believe our pay levels are very competitive within the regions that we operate. However, there is also intense competition for certain highly technical specialties in geographic areas where we continue to recruit, and it may become more difficult to retain our key employees, especially in light of our ongoing restructuring efforts.

***The impact of consolidation of competitors in the electronic measurement and life sciences markets is difficult to predict and may harm our business.***

The electronic measurement and life sciences industries are intensely competitive and have been subject to increasing consolidation. For instance, in September 2009, Danaher Corporation announced an agreement to acquire the Life Sciences Instrumentation Businesses from MDS Inc. and Life Technologies Corp. Consolidation in the electronic measurement and life sciences industries could result in existing competitors increasing their market share through business combinations, which could have a material adverse effect on our business, financial condition and results of operations. We may not be able to compete successfully in an increasingly consolidated industry and cannot predict with certainty how industry consolidation will affect our competitors or us.

***Our acquisitions, strategic alliances, joint ventures and divestitures may result in financial results that are different than expected.***

In the normal course of business, we frequently engage in discussions with third parties relating to possible acquisitions, strategic alliances, joint ventures and divestitures, and generally expect to complete several transactions per year. For example, in fiscal 2009, we completed a number of acquisitions and divestitures. In addition, in July 2009, we agreed to acquire Varian, Inc. The closing of the Varian acquisition is subject to certain closing conditions, including, but not limited to, the receipt of antitrust approvals in both the U.S. and the European Union. In February 2010, we agreed to sell our Network Solutions Division. The closing of the sale of our Network Solutions Division is subject to certain closing conditions, including, but not limited to, the receipt of antitrust approvals. As a result of such transactions, our financial results may differ from our own or the investment community's expectations in a given fiscal quarter, or over the long term. Such transactions often have post-closing arrangements including but not limited to post-closing adjustments, transition services, escrows or indemnifications, the financial results of which can be difficult to predict. In addition, acquisitions, including the Varian acquisition, and strategic alliances may require us to integrate a different company culture, management team and business infrastructure. We may have difficulty developing, manufacturing and marketing the products of a newly acquired company in a way that enhances the performance of our combined businesses or product lines to realize the value from expected synergies. Depending on the size and complexity of an acquisition, our successful integration of the entity depends on a variety of factors, including:

- the retention of key employees;
  
- the management of facilities and employees in different geographic areas;
  
- the retention of key customers;

## Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

- the compatibility of our sales programs and facilities with those of the acquired company; and
- the compatibility of our existing infrastructure with that of an acquired company.

In addition, effective internal controls are necessary for us to provide reliable and accurate financial reports and to effectively prevent fraud. The integration of acquired businesses is likely to result in our systems and controls becoming increasingly complex and more difficult to manage. We devote significant resources and time to comply with the internal control over financial reporting requirements of the Sarbanes-Oxley Act of 2002. However, we cannot be certain that these measures will ensure that we design, implement and maintain adequate control over our financial processes and reporting in the future, especially in the context of acquisitions of other businesses. Any difficulties in the assimilation of acquired businesses into our control system could harm our operating results or cause us to fail to meet our financial reporting obligations. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock and our access to capital.

A successful divestiture depends on various factors, including our ability to:

- effectively transfer liabilities, contracts, facilities and employees to the purchaser;
- identify and separate the intellectual property to be divested from the intellectual property that we wish to keep; and

Table of Contents

- reduce fixed costs previously associated with the divested assets or business.

In addition, if customers of the divested business do not receive the same level of service from the new owners, this may adversely affect our other businesses to the extent that these customers also purchase other Agilent products. All of these efforts require varying levels of management resources, which may divert our attention from other business operations. Further, if market conditions or other factors lead us to change our strategic direction, we may not realize the expected value from such transactions. If we do not realize the expected benefits or synergies of such transactions, our consolidated financial position, results of operations, cash flows and stock price could be negatively impacted.

***If we do not achieve the contemplated benefits of our pending acquisition of Varian, Inc., our business and financial condition may be materially impaired.***

We may not achieve the desired benefits from our pending acquisition of Varian. In addition, the consummation of the Varian acquisition is subject to certain closing conditions, including, but not limited to, the receipt of antitrust approvals in both the U.S. and the European Union. While we intend to consummate the Varian acquisition as soon as practicable after such approvals are obtained, there can be no assurance that we will obtain such approvals or satisfy the other conditions to consummation of the Varian acquisition when expected or at all, which could, among other things, delay or prevent us from completing the acquisition or restrict our ability to realize the expected financial and strategic goals of the transaction.

The acquisition involves the integration of Varian with the rest of our company. If we cannot successfully integrate Varian's operations, we may experience material negative consequences to our business, financial condition or results of operations. The integration of two businesses that have previously operated separately will be a costly and time-consuming process that will involve a number of risks, including, but not limited to:

- diversion of senior management's attention from the management of daily operations to the integration of operations;
- difficulties in the assimilation of different corporate cultures, practices and sales and distribution methodologies, as well as in the assimilation and retention of geographically dispersed, decentralized operations and personnel;
- the potential loss of key personnel who choose not to join the combined business;
- the potential loss of key customers who choose not to do business with the combined business;

## Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

- the risk of higher than anticipated costs in continuing support and development of acquired products;
- difficulties and unanticipated expenses related to the integration of facilities, departments, systems, including accounting systems, computer and other technologies, books and records and procedures, as well as in maintaining uniform standards, including internal accounting controls, procedures and policies;
- difficulties and uncertainties in achieving anticipated cost reductions and operational synergies; and
- the use of cash resources and increased capital expenditures on integration and implementation activities in excess of our current expectations, which could offset any such savings and other synergies resulting from the Varian acquisition and limit other potential uses of our cash, including stock repurchases and retirement of outstanding debt.

Even if we are able to successfully integrate the operations of Varian, we may not be able to realize the cost savings, synergies and growth that we anticipate from the acquisition in the time frame that we currently expect, and the costs of achieving these benefits may be higher than what we currently expect, because of a number of risks, including, but not limited to:

- the possibility that the acquisition may not further our business strategy as we expected;
- the fact that the acquisition will substantially expand our bio-analytical measurement business, and we may not experience anticipated growth in that market;
- our operating results or financial condition may be adversely impacted by liabilities that we assume in the acquisition or liabilities related to the acquisition, including claims from terminated employees, customers, former stockholders or other third parties;
- the risk of intellectual property disputes with respect to Varian's products; and

Table of Contents

- the risk that we may significantly increase our interest expense, leverage and debt service requirements, to the extent that we incur debt to pay for the acquisition.

As a result of these risks, the Varian acquisition may not contribute to our earnings as expected, we may not achieve expected cost synergies or our return on invested capital targets when expected, or at all, and we may not achieve the other anticipated strategic and financial benefits of this transaction.

***Environmental contamination from past operations could subject us to unreimbursed costs and could harm on-site operations and the future use and value of the properties involved and environmental contamination caused by ongoing operations could subject us to substantial liabilities in the future.***

Some of our properties are undergoing remediation by the Hewlett-Packard Company ( HP ) for subsurface contaminations that were known at the time of our separation from HP. HP has agreed to retain the liability for this subsurface contamination, perform the required remediation and indemnify us with respect to claims arising out of that contamination. HP will have access to our properties to perform remediation. While HP has agreed to minimize interference with on-site operations at those properties, remediation activities and subsurface contamination may require us to incur unreimbursed costs and could harm on-site operations and the future use and value of the properties. We cannot be sure that HP will continue to fulfill its indemnification or remediation obligations. In addition, the determination of the existence and cost of any additional contamination caused by us could involve costly and time-consuming negotiations and litigation.

We have agreed to indemnify HP for any liability associated with contamination from past operations at all other properties transferred from HP to us, other than those properties currently undergoing remediation by HP. While we are not aware of any material liabilities associated with any potential subsurface contamination at any of those properties, subsurface contamination may exist, and we may be exposed to material liability as a result of the existence of that contamination.

Our current and historical manufacturing processes involve, or have involved, the use of substances regulated under various international, federal, state and local laws governing the environment. As a result, we may become subject to liabilities for environmental contamination, and these liabilities may be substantial. While we have divested substantially all of our semiconductor related businesses to Avago and Verigy and regardless of indemnification arrangements with those parties, we may still become subject to liabilities for historical environmental contamination related to those businesses. Although our policy is to apply strict standards for environmental protection at our sites inside and outside the U.S., even if the sites outside the U.S. are not subject to regulations imposed by foreign governments, we may not be aware of all conditions that could subject us to liability.

***Our customers and we are subject to various governmental regulations, compliance with which may cause us to incur significant expenses, and if we fail to maintain satisfactory compliance with certain regulations, we may be forced to recall products and cease their manufacture and distribution, and we could be subject to civil or criminal penalties.***

Our businesses are subject to various significant international, federal, state and local regulations, including but not limited to health and safety, packaging, product content, labor and import/export regulations. These regulations are complex, change frequently and have tended to become more stringent over time. We may be required to incur significant expenses to comply with these regulations or to remedy violations of these

## Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

regulations. Any failure by us to comply with applicable government regulations could also result in cessation of our operations or portions of our operations, product recalls or impositions of fines and restrictions on our ability to carry on or expand our operations. In addition, because many of our products are regulated or sold into regulated industries, we must comply with additional regulations in marketing our products.

Our products and operations are also often subject to the rules of industrial standards bodies, like the International Standards Organization, as well as regulation by other agencies such as the U.S. Federal Communications Commission. We also must comply with work safety rules. If we fail to adequately address any of these regulations, our businesses could be harmed.

Some of our chemical analysis products are used in conjunction with chemicals whose manufacture, processing, distribution and notification requirements are regulated by the U.S. Environmental Protection Agency under the Toxic Substances Control Act, and by regulatory bodies in other countries with laws similar to the Toxic Substances Control Act. We must conform the manufacture, processing, distribution of and notification about these chemicals to these laws and adapt to regulatory requirements in all countries as these requirements change. If we fail to comply with these requirements in the manufacture or distribution of our products, then we could be made to pay civil penalties, face criminal prosecution and, in some cases, be prohibited from distributing our products in commerce until the products or component substances are brought into compliance.

Table of Contents

***We are subject to laws and regulations, and failure to address or comply with these laws and regulations could harm our business by leading to a reduction in revenue associated with certain customers.***

We have agreements relating to the sale of our products to government entities and, as a result, we are subject to various statutes and regulations that apply to companies doing business with the government. The laws governing government contracts differ from the laws governing private contracts. For example, many government contracts contain pricing terms and conditions that are not applicable to private contracts. We are also subject to investigation for compliance with the regulations governing government contracts. A failure to comply with these regulations might result in suspension of these contracts, or administrative penalties.

A number of our products from our bio-analytical measurement business are subject to regulation by the United States Food and Drug Administration ( FDA ) and certain similar foreign regulatory agencies. If we or any of our suppliers or distributors fail to comply with FDA and other applicable regulatory requirements or are perceived to potentially have failed to comply, we may face, among other things, adverse publicity affecting both us and our customers, investigations or notices of non-compliance, fines, injunctions, and civil penalties; partial suspensions or total shutdown of production facilities or the imposition of operating restrictions; increased difficulty in obtaining required FDA clearances or approvals; seizures or recalls of our products or those of our customers; or the inability to sell our products.

***Third parties may claim that we are infringing their intellectual property and we could suffer significant litigation or licensing expenses or be prevented from selling products or services.***

From time to time, third parties may claim that one or more of our products or services infringe their intellectual property rights. We analyze and take action in response to such claims on a case by case basis. Any dispute or litigation regarding patents or other intellectual property could be costly and time-consuming due to the complexity of our technology and the uncertainty of intellectual property litigation and could divert our management and key personnel from our business operations. A claim of intellectual property infringement could force us to enter into a costly or restrictive license agreement, which might not be available under acceptable terms or at all, could require us to redesign our products, which would be costly and time-consuming, and/or could subject us to significant damages or to an injunction against development and sale of certain of our products or services. Our intellectual property portfolio may not be useful in asserting a counterclaim, or negotiating a license, in response to a claim of intellectual property infringement. In certain of our businesses we rely on third party intellectual property licenses and we cannot ensure that these licenses will be available to us in the future on favorable terms or at all.

***Third parties may infringe our intellectual property and we may suffer competitive injury or expend significant resources enforcing our rights.***

Our success depends in large part on our proprietary technology. We rely on various intellectual property rights, including patents, copyrights, trademarks and trade secrets, as well as confidentiality provisions and licensing arrangements, to establish our proprietary rights. If we do not enforce our intellectual property rights successfully our competitive position may suffer which could harm our operating results.

Our pending patent applications, and our pending copyright and trademark registration applications, may not be allowed or competitors may challenge the validity or scope of our patents, copyrights or trademarks. In addition, our patents, copyrights, trademarks and other intellectual property rights may not provide us a significant competitive advantage.



We may need to spend significant resources monitoring our intellectual property rights and we may or may not be able to detect infringement by third parties. Our competitive position may be harmed if we cannot detect infringement and enforce our intellectual property rights quickly or at all. In some circumstances, we may choose to not pursue enforcement because an infringer has a dominant intellectual property position or for other business reasons. In addition, competitors might avoid infringement by designing around our intellectual property rights or by developing non-infringing competing technologies. Intellectual property rights and our ability to enforce them may be unavailable or limited in some countries which could make it easier for competitors to capture market share and could result in lost revenues. Furthermore, some of our intellectual property is licensed to others which allow them to compete with us using that intellectual property.

***We are subject to ongoing tax examinations of our tax returns by the Internal Revenue Service and other tax authorities. An adverse outcome of any such audit or examination by the IRS or other tax authority could have a material adverse effect on our results of operations, financial condition and liquidity.***

We are subject to ongoing tax examinations of our tax returns by the U.S. Internal Revenue Service and other tax authorities in various jurisdictions. We regularly assess the likelihood of adverse outcomes resulting from ongoing tax examinations to determine the adequacy of our provision for income taxes. These assessments can require considerable estimates and judgments. Intercompany

Table of Contents

transactions associated with the sale of inventory, services, intellectual property and cost share arrangements are complex and affect our tax liabilities. The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions. There can be no assurance that the outcomes from ongoing tax examinations will not have an adverse effect on our operating results and financial condition. A difference in the ultimate resolution of tax uncertainties from what is currently estimated could have an adverse effect on our operating results and financial condition.

***Adverse conditions in the global banking industry and credit markets may adversely impact the value of our cash investments or impair our liquidity.***

At the end of our first quarter in fiscal 2010, we had cash and cash equivalents of approximately \$2.5 billion invested or held in a mix of money market funds, time deposit accounts and bank demand deposit accounts. The recent disruptions in the financial markets have, in some cases, resulted in an inability to access assets such as money market funds that traditionally have been viewed as highly liquid. Any failure of our counterparty financial institutions or funds in which we have invested may adversely impact our cash and cash equivalent positions and, in turn, our results and financial condition. As of January 31, 2010, we also had \$1.6 billion of restricted cash which is invested in a portfolio of highly rated, short term commercial paper. This restricted cash is invested in a diverse portfolio of commercial paper rated A-1+/P-1 with maturities of less than 100 days, in each case, at the time of purchase; however, a failure of the issuer of any such commercial paper may result in an adverse impact on the portfolio.

***We have outstanding debt and may incur other debt in the future, which could adversely affect our financial condition, liquidity and results of operations.***

We currently have outstanding an aggregate principal amount of \$1,350 million in senior unsecured notes. We also are a party to a five-year senior unsecured revolving credit facility under which we may borrow up to \$330 million. We may borrow additional amounts in the future and use the proceeds from any future borrowing for general corporate purposes, other future acquisitions, expansion of our business or repurchases of our outstanding shares of common stock. We may enter into additional financing arrangements in order to satisfy our \$1.5 billion repurchase obligation of Agilent Technologies World Trade, which is scheduled to come due in January 2011.

Our incurrence of this debt, and increases in our aggregate levels of debt, may adversely affect our operating results and financial condition by, among other things:

- increasing our vulnerability to downturns in our business, to competitive pressures and to adverse economic and industry conditions;
- requiring the dedication of an increased portion of our expected cash from operations to service our indebtedness, thereby reducing the amount of expected cash flow available for other purposes, including capital expenditures, acquisitions and stock repurchases; and
- limiting our flexibility in planning for, or reacting to, changes in our business and our industry.

Our current revolving credit facility imposes restrictions on us, including restrictions on our ability to create liens on our assets and the ability of our subsidiaries to incur indebtedness, and requires us to maintain compliance with specified financial ratios. Our ability to comply with these ratios may be affected by events beyond our control. In addition, the indenture governing our senior notes contains covenants that may adversely affect our ability to incur certain liens or engage in certain types of sale and leaseback transactions. If we breach any of the covenants and do not obtain a waiver from the lenders, then, subject to applicable cure periods, our outstanding indebtedness could be declared immediately due and payable.

*Our results of operations, financial condition and liquidity could be adversely affected if our long-term leasehold counterparty becomes insolvent and the credit support on the leasehold transaction fails.*

In February 2001, we sold a parcel of surplus land in San Jose, California for \$287 million in cash. In August 2001, we completed a like-kind exchange by acquiring a long-term leasehold interest in several municipal properties in southern California for a total value of \$289 million. In 2002, we received \$237 million in non-refundable prepaid rent related to the leasehold interests described above. We contracted with a third party to provide credit protection for certain aspects of the transaction, including a future bankruptcy of the municipality. The current third party insurer is a subsidiary of American International Group Inc. ( AIG ) which has recently experienced a credit rating downgrade by Moody's and Standard & Poor's and has been the recipient of U.S federal government sponsored loans. If the municipality was to become insolvent and the credit support on the transaction was to fail, our results of operations, financial condition and liquidity could be adversely affected.

Table of Contents

***We have substantial cash requirements in the United States while a majority of our cash is generated outside of the United States. The failure to maintain a level of cash sufficient to address our cash requirements in the United States could adversely affect our financial condition and results of operations.***

Although cash generated in the United States covers normal operating requirements and debt service requirements, a substantial amount of additional cash is required for special purposes such as the Varian acquisition, the satisfaction of our \$1.5 billion repurchase obligation of World Trade scheduled to come due in January 2011, the repurchases of our stock and acquisitions of other third parties. Our business operating results, financial condition, and strategic initiatives could be adversely impacted if we were unable to address our U.S. cash requirements through (1) the efficient and timely repatriations of overseas cash or (2) other sources of cash obtained at an acceptable cost.

***If we suffer a loss to our factories, facilities or distribution system due to catastrophe, our operations could be seriously harmed.***

Our factories, facilities and distribution system are subject to catastrophic loss due to fire, flood, terrorism or other natural or man-made disasters. In particular, several of our facilities could be subject to a catastrophic loss caused by earthquake due to their locations. Our production facilities, headquarters and Agilent Technologies Laboratories in California, and our production facilities in Japan, are all located in areas with above-average seismic activity. If any of these facilities were to experience a catastrophic loss, it could disrupt our operations, delay production, shipments and revenue and result in large expenses to repair or replace the facility. In addition, since we have consolidated our manufacturing facilities, we are more likely to experience an interruption to our operations in the event of a catastrophe in any one location. Although we carry insurance for property damage and business interruption, we do not carry insurance or financial reserves for interruptions or potential losses arising from earthquakes or terrorism. Also, our third party insurance coverage will vary from time to time in both type and amount depending on availability, cost and our decisions with respect to risk retention. Economic conditions and uncertainties in global markets may adversely affect the cost and other terms upon which we are able to obtain third party insurance. If our third party insurance coverage is adversely affected, or to the extent we have elected to self-insure, we may be at a greater risk that our operations will be harmed by a catastrophic loss.

Table of Contents**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****ISSUER PURCHASES OF EQUITY SECURITIES**

The table below summarizes information about the Company's purchases, based on trade date; of its equity securities registered pursuant to Section 12 of the Exchange Act during the quarterly period ended January 31, 2010.

<b>Period</b>	<b>Total Number of Shares of Common Stock Purchased (1)(2) (a)</b>	<b>Weighted Average Price Paid per Share of Common Stock (3) (b)</b>	<b>Total Number of Shares of Common Stock Purchased as Part of Publicly Announced Plans or Programs (1)(2) (c)</b>	<b>Maximum Approximate Dollar Value of Shares of Common Stock that May Yet Be Purchased Under the Plans or Programs (in millions) (d)</b>
Nov. 1, 2009 through Nov. 31, 2009		\$		\$
Dec. 1, 2009 through Dec. 31, 2009	2,022,500	\$ 29.98	2,022,500	\$ NA
Jan. 1, 2010 through Jan. 31, 2010	1,500,000	\$ 30.28	1,500,000	\$ NA
<b>Total</b>	<b>3,522,500</b>	<b>\$ 30.10</b>	<b>3,522,500</b>	<b>\$ NA</b>

(1) On November 14, 2007, the Audit and Finance Committee of the Board of Directors approved a share repurchase program of up to \$2 billion of Agilent's common stock over the next two years through any one or a combination of a variety of methods, including open-market purchases, block trades, self tenders, accelerated share repurchase transactions or otherwise. On March 26, 2009, the company announced that it was suspending its share repurchase program until the end of the 2009 fiscal year. On November 15, 2009, the company's share repurchase program expired upon the termination of its two-year term. No shares were purchased under the November 14, 2007 share repurchase program during the quarterly period ended January 31, 2010.

(2) On November 19, 2009 our Board of Directors approved a new share repurchase program to reduce or eliminate dilution in connection with issuances of stock under the company's equity incentive plans. The new share repurchase program does not require the company to acquire a specific number of shares and may be suspended or discontinued at any time. There is no fixed termination date for the new share repurchase program.

The weighted average price paid per shares of common stock does not include the cost of commissions.

(3)

**ITEM 6. EXHIBITS**

(a) Exhibits:

A list of exhibits is set forth in the Exhibit Index found on page 47 of this report.

Table of Contents

**AGILENT TECHNOLOGIES, INC.**

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: March 10, 2010

By: /s/ Adrian T. Dillon  
Adrian T. Dillon  
Executive Vice President,  
Finance and Administration, Chief Financial Officer  
(Principal Financial Officer)

Dated: March 10, 2010

By: /s/ Didier Hirsch  
Didier Hirsch  
Vice President, Corporate Controllershship and Tax  
(Principal Accounting Officer)

Table of Contents

**AGILENT TECHNOLOGIES, INC.**

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
2.1	Asset Purchase Agreement, dated February 10, 2010, by and between Agilent Technologies, Inc. and JDS Uniphase Corporation (pursuant to Item 601(b)(2) of Regulation S-K, schedules to the Asset Purchase Agreement have been omitted; they will be supplementally provided to the SEC upon request)
11.1	See Note 5, Net Income Per Share, to our Condensed Consolidated Financial Statements on page 10.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS XBRL	Instance Document*
101.SCH XBRL	Schema Document*
101.CAL XBRL	Calculation Linkbase Document*
101.LAB XBRL	Labels Linkbase Document*
101.PRE XBRL	Presentation Linkbase Document*

---

\* In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed to be furnished and not filed.