

AGILENT TECHNOLOGIES INC
Form 10-Q
March 12, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JANUARY 31, 2009

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 001-15405

AGILENT TECHNOLOGIES, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

77-0518772
(IRS EMPLOYER
IDENTIFICATION NO.)

5301 STEVENS CREEK BLVD.,

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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 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 JANUARY 31, 2009
345,256,316 SHARES

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	Three Months Ended January 31,	
	2009	2008
Net revenue:		
Products	\$ 937	\$ 1,161
Services and other	229	232
Total net revenue	1,166	1,393
Costs and expenses:		
Cost of products	453	501
Cost of services and other	124	136
Total costs	577	637
Research and development	169	181
Selling, general and administrative	396	441
Total costs and expenses	1,142	1,259
Income from operations	24	134
Interest income	14	39
Interest expense	(23)	(30)
Other income (expense), net	12	4
Income before taxes	27	147
Provision (benefit) for income taxes	(37)	27
Net income	\$ 64	\$ 120
Net income per share basic:	\$ 0.18	\$ 0.32
Net income per share diluted:	\$ 0.18	\$ 0.31
Weighted average shares used in computing net income per share:		
Basic	351	371
Diluted	352	382

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

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AGILENT TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEET

(in millions, except par value and share amounts)

(Unaudited)

	January 31, 2009	October 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,362	\$ 1,405
Short-term investments	18	24
Accounts receivable, net	630	770
Inventory	655	646
Other current assets	343	363
Total current assets	3,008	3,208
Property, plant and equipment, net	831	824
Goodwill	666	646
Other intangible assets, net	206	228
Restricted cash and cash equivalents	1,578	1,582
Long-term investments	169	206
Other assets	704	743
Total assets	\$ 7,162	\$ 7,437
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 257	\$ 308
Employee compensation and benefits	269	409
Deferred revenue	299	280
Income and other taxes payable	95	128
Short-term debt	50	
Other accrued liabilities	160	200
Total current liabilities	1,130	1,325
Long-term debt	1,514	1,514
Senior notes	640	611
Retirement and post-retirement benefits	323	324
Other long-term liabilities	984	1,104
Total liabilities	4,591	4,878
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; 563 million shares at January 31, 2009 and 561 million shares at October 31, 2008, issued	6	6
Treasury stock at cost; 218 million shares at January 31, 2009 and 211 million shares at October 31, 2008	(7,595)	(7,470)
Additional paid-in-capital	7,459	7,410
Retained earnings	2,855	2,791
Accumulated other comprehensive loss	(154)	(178)
Total stockholders' equity	2,571	2,559
Total liabilities and stockholders' equity	\$ 7,162	\$ 7,437

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

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AGILENT TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions)

(Unaudited)

	Three Months Ended January 31,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 64	\$ 120
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	41	49
Share-based compensation	21	30
Deferred taxes	5	6
Excess and obsolete and inventory-related charges	27	4
Asset impairment charges	19	1
Allowance for doubtful accounts	3	
Other	(1)	2
Changes in assets and liabilities:		
Accounts receivable	140	30
Inventory	(22)	(31)
Accounts payable	(53)	(15)
Employee compensation and benefits	(142)	(94)
Income taxes and other taxes payable	(34)	(89)
Interest rate swap proceeds	43	
Other assets and liabilities	(94)	(9)
Net cash provided by operating activities	17	4
Cash flows from investing activities:		
Investments in property, plant and equipment	(34)	(34)
Proceeds from sale of property, plant and equipment		14
Purchase of investments		(255)
Proceeds from sale of investments	20	79
Acquisitions of businesses and intangible assets, net of cash acquired	(1)	(113)
Change in restricted cash and cash equivalents, net	4	14
Net cash used in investing activities	(11)	(295)
Cash flows from financing activities:		
Issuance of common stock under employee stock plans	26	69
Proceeds from revolving credit facility	275	
Repayment of revolving credit facility	(225)	
Treasury stock repurchases	(125)	(237)
Net cash used in financing activities	(49)	(168)
Effect of exchange rate movements		18
Net decrease in cash and cash equivalents	(43)	(441)
Cash and cash equivalents at beginning of period	1,405	1,826
Cash and cash equivalents at end of period	\$ 1,362	\$ 1,385

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

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AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. OVERVIEW

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 communications, electronics, life sciences and chemical analysis 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.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. We have prepared the accompanying financial data for the three months ended January 31, 2009 and 2008 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 2008 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, 2009 and October 31, 2008, condensed consolidated statement of operations for the three months ended January 31, 2009 and 2008, and condensed consolidated statement of cash flows for the three months ended January 31, 2009 and 2008.

The preparation of condensed consolidated financial statements in accordance with accounting principles generally accepted 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 plan assumptions, restructuring and asset impairment charges, valuation of long-lived assets and accounting for income taxes.

3. NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP, and expands disclosures about fair value measurements. SFAS No. 157 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 FASB Staff Position (FSP) No. 157-2, Effective Date of FASB Statement No. 157 (FSP No. 157-2). FSP No. 157-2 delays the effective date of SFAS No. 157 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 adoption of SFAS No. 157 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. Refer to note 10 Fair Value Measurements for a discussion of our adoption of this standard. We will be required to apply the provisions of SFAS No. 157 to nonfinancial assets and nonfinancial liabilities as of November 1, 2009 and are currently evaluating the impact of the application of SFAS No. 157 as it pertains to these items.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FAS 115 (SFAS No. 159). SFAS No. 159 allows companies to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. Unrealized gains and losses shall be reported on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 also establishes presentation and disclosure requirements. Effective November 1, 2008, we adopted SFAS 159, but we have not elected the fair value option for any eligible financial instruments as of January 31, 2009.

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In December 2008, the FASB issued Staff Position No. 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* (FSP 132(R)-1). FSP 132(R)-1 requires detailed disclosures regarding the investment strategies, fair value measurements, and concentrations of risk of plan assets of a defined benefit pension or other postretirement plan. FSP 132(R)-1 is effective for fiscal years ending after December 15, 2009 and will be applied prospectively. We are currently evaluating the impact of adopting FSP 132(R)-1 on our condensed consolidated financial statements.

4. SHARE-BASED COMPENSATION

We follow the accounting provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123 (R)), for share-based awards granted to 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 under our Long-Term Performance Program (LTPP) using the estimated grant date fair value method of accounting in accordance with SFAS No. 123 (R).

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

	Three Months Ended January 31,		
	2009	(in millions)	2008
Cost of products and services	\$	5	\$ 7
Research and development		4	5
Selling, general and administrative		12	18
Total share-based compensation expense	\$	21	\$ 30

Share-based compensation capitalized within inventory at January 31, 2009 and 2008 was zero. The windfall tax benefit realized from exercised stock options and similar awards was immaterial for the three months ended January 31, 2009 and 2008.

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

	Three Months Ended January 31,	
	2009	2008
Stock Option Plans:		