

AGILENT TECHNOLOGIES INC
Form 10-Q
June 09, 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 APRIL 30, 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.)

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**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 APRIL 30, 2009
343,353,951 SHARES

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AGILENT TECHNOLOGIES, INC.

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****AGILENT TECHNOLOGIES, INC.****CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS****(in millions, except per share amounts)****(Unaudited)**

| | Three Months Ended April 30, | | Six Months Ended April 30, | |
|--|---------------------------------|----------|-------------------------------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| Net revenue: | | | | |
| Products | \$ 864 | \$ 1,214 | \$ 1,801 | \$ 2,375 |
| Services and other | 227 | 242 | 456 | 474 |
| Total net revenue | 1,091 | 1,456 | 2,257 | 2,849 |
| Costs and expenses: | | | | |
| Cost of products | 436 | 512 | 889 | 1,013 |
| Cost of services and other | 125 | 137 | 249 | 273 |
| Total costs | 561 | 649 | 1,138 | 1,286 |
| Research and development | 170 | 183 | 339 | 364 |
| Selling, general and administrative | 407 | 433 | 803 | 874 |
| Total costs and expenses | 1,138 | 1,265 | 2,280 | 2,524 |
| Income (loss) from operations | (47) | 191 | (23) | 325 |
| Interest income | 6 | 27 | 20 | 66 |
| Interest expense | (23) | (29) | (46) | (59) |
| Other income (expense), net | 6 | 7 | 18 | 11 |
| Income (loss) before taxes | (58) | 196 | (31) | 343 |
| Provision for income taxes | 43 | 23 | 6 | 50 |
| Net income (loss) | \$ (101) | \$ 173 | \$ (37) | \$ 293 |
| Net income (loss) per share basic: | \$ (0.29) | \$ 0.48 | \$ (0.11) | \$ 0.80 |
| Net income (loss) per share diluted: | \$ (0.29) | \$ 0.47 | \$ (0.11) | \$ 0.78 |
| Weighted average shares used in computing net income (loss) per share: | | | | |
| Basic | 344 | 363 | 348 | 367 |
| Diluted | 344 | 370 | 348 | 376 |

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)

| | April 30, 2009 | October 31, 2008 |
|---|-------------------|---------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,400 | \$ 1,405 |
| Short-term investments | 12 | 24 |
| Accounts receivable, net | 569 | 770 |
| Inventory | 608 | 646 |
| Other current assets | 294 | 337 |
| Total current assets | 2,883 | 3,182 |
| Property, plant and equipment, net | 821 | 824 |
| Goodwill | 648 | 646 |
| Other intangible assets, net | 189 | 228 |
| Restricted cash and cash equivalents | 1,572 | 1,582 |
| Long-term investments | 167 | 206 |
| Other long-term assets | 296 | 339 |
| Total assets | \$ 6,576 | \$ 7,007 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 252 | \$ 308 |
| Employee compensation and benefits | 305 | 409 |
| Deferred revenue | 292 | 280 |
| Income and other taxes payable | 89 | 128 |
| Other accrued liabilities | 161 | 205 |
| Total current liabilities | 1,099 | 1,330 |
| Long-term debt | 1,515 | 1,514 |
| Senior notes | 639 | 611 |
| Retirement and post-retirement benefits | 344 | 324 |
| Other long-term liabilities | 560 | 669 |
| Total liabilities | 4,157 | 4,448 |
| 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 April 30, 2009 and 561 million shares at October 31, 2008 issued | 6 | 6 |
| Treasury stock at cost; 220 million shares at April 30, 2009 and 211 million shares at October 31, 2008 | (7,627) | (7,470) |
| Additional paid-in-capital | 7,474 | 7,410 |
| Retained earnings | 2,754 | 2,791 |
| Accumulated other comprehensive loss | (188) | (178) |
| Total stockholders' equity | 2,419 | 2,559 |
| Total liabilities and stockholders' equity | \$ 6,576 | \$ 7,007 |

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)

| | Six Months Ended April 30, | |
|--|-------------------------------|----------|
| | 2009 | 2008 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (37) | \$ 293 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 81 | 100 |
| Share-based compensation | 39 | 49 |
| Deferred taxes | 34 | 58 |
| Excess and obsolete and inventory-related charges | 41 | 8 |
| Translation gain from liquidation of a subsidiary | | (25) |
| Asset impairment charges | 32 | 3 |
| Allowance for doubtful accounts | 4 | 1 |
| Other | 4 | 7 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 203 | (26) |
| Inventory | 13 | (36) |
| Accounts payable | (58) | 19 |
| Employee compensation and benefits | (108) | |
| Income taxes and other taxes payable | (44) | (99) |
| Interest rate swap proceeds | 43 | |
| Other assets and liabilities | (93) | (23) |
| Net cash provided by operating activities | 154 | 329 |
| Cash flows from investing activities: | | |
| Investments in property, plant and equipment | (68) | (71) |
| Proceeds from sale of property, plant and equipment | | 14 |
| Purchase of investments | (30) | (255) |
| Proceeds from sale of investments | 62 | 114 |
| Acquisitions of businesses and intangible assets, net of cash acquired | (2) | (130) |
| Purchase of minority interest | | (14) |
| Change in restricted cash and cash equivalents, net | 10 | 31 |
| Net cash used in investing activities | (28) | (311) |
| Cash flows from financing activities: | | |
| Issuance of common stock under employee stock plans | 27 | 84 |
| Proceeds from revolving credit facility | 325 | 250 |
| Repayment of revolving credit facility | (325) | |
| Treasury stock repurchases | (157) | (500) |
| Net cash used in financing activities | (130) | (166) |
| Effect of exchange rate movements | (1) | 32 |
| Net decrease in cash and cash equivalents | (5) | (116) |
| Cash and cash equivalents at beginning of period | 1,405 | 1,826 |
| Cash and cash equivalents at end of period | \$ 1,400 | \$ 1,710 |

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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, 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 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.

Revisions to Financial Statement Presentation. We have revised our consolidated balance sheet as of October 31, 2008 to correct an error in the classification of deferred tax assets and liabilities. This revision does not impact the consolidated statement of operations or the consolidated statement of cash flows for any period. During the April 30, 2009 quarter-end process, we noted that the October 31, 2008 U.S. deferred tax valuation allowances and certain deferred tax assets/ deferred tax liabilities were misclassified on the balance sheet as a result of improperly applying the jurisdictional netting rules of SFAS No. 109. We have therefore revised our balance sheet as of October 31, 2008 by decreasing other long-term liabilities by \$435 million and decreasing other long-term assets by \$404 million, decreasing other current assets by \$26 million and increasing other accrued liabilities by \$5 million.

Basis of Presentation. We have prepared the accompanying financial data for the three months and six months ended April 30, 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 April 30, 2009 and October 31, 2008, condensed consolidated statement of operations for the three and six months ended April 30, 2009 and 2008, and condensed consolidated statement of cash flows for the six months ended April 30, 2009 and 2008.

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

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judgments by management. Those policies are revenue recognition, inventory valuation, investment impairments, share-based compensation, retirement and post-retirement benefit plan assumptions, restructuring and asset impairment charges, valuation of long-lived assets and accounting for income taxes.

Goodwill and purchased intangible assets. We review goodwill for impairment annually as of September 30 and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). 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 SFAS No. 142 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 SFAS No. 142, paragraph 30, a reporting unit is an operating segment, or one level below an operating segment. In accordance with paragraph 30 of SFAS No. 142, we have aggregated components of an operating segment that have 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. For the six months ended April 30, 2009, Agilent had three reporting units, which were the same as our operating segments: electronic measurement, bio-analytical measurement and semiconductor and board test.

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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.

2. NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (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. 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 April 30, 2009.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS No. 161), which requires additional disclosures about objectives and strategies for using derivative instruments, how the derivative instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and related interpretations, and how the derivative instruments and related hedged items affect our financial statements. SFAS No. 161 also requires disclosures about credit risk-related contingent features in derivative agreements. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008 and will be applied prospectively. Effective February 1, 2009 we adopted the

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additional disclosures required under SFAS No. 161. The adoption of SFAS No. 161 did not have a material impact on our condensed consolidated financial statements. See note 10, *Derivatives* for additional information on adoption of SFAS No. 161.

In December 2008, the FASB issued FASB Staff Position (*FSP*) FAS 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*.

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| | | | | |
|--|-------|-------|-------|-------|
| Research and development | 2 | 3 | 6 | 8 |
| Selling, general and administrative | 13 | 12 | 25 | 30 |
| Total share-based compensation expense | \$ 18 | \$ 19 | \$ 39 | \$ 49 |

Included in the expense amount for the three and six months ended April 30, 2009 is approximately \$3 million of incremental expense for the acceleration of share-based compensation related to the announced workforce reduction. Upon termination of the employees impacted by the workforce reduction, the non-vested Agilent awards held by these employees immediately vests. Employees have a period of up to three months in which to exercise the Agilent options before such options are cancelled.

Share-based compensation capitalized within inventory at April 30, 2009 and 2008 was zero. The windfall tax benefit realized from exercised stock options and similar awards was immaterial for the three and six months ended April 30, 2009 and 2008.

The following assumptions were used to estimate the fair value of the options granted, ESPP purchases and LTPP grants. During the three months ended April 30, 2008, no grants were made under any of our share-based payment award plans as reflected in the assumption table below.

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| | Three Months Ended April 30, | | Six Months Ended April 30, | |
|--|---------------------------------|------|-------------------------------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| Stock Option Plans: | | | | |
| Weighted average risk-free interest rate | 1.8% | | 2.3% | 3.2% |
| Dividend yield | 0% | | 0% | 0% |
| Weighted average volatility | 36% | | 32% | 33% |
| Expected life | 4.4 yrs | | 4.4 yrs | 4.6 yrs |
| ESPP: | | | | |
| Weighted average risk-free interest rate | N/A | | N/A | 3.8% |
| Dividend yield | N/A | | N/A | 0% |
| Weighted average volatility | N/A | | N/A | 32% |
| Expected life | N/A | | N/A | 0.5-1 yr |
| LTPP: | | | | |
| Volatility of Agilent shares | 33% | | 33% | 27% |
| Volatility of selected peer-company shares | 17%-62% | | 17%-62% | 17%-52% |
| Price-wise correlation with selected peers | 35% | | 35% | 24% |

The fair value of share-based awards for employee stock option awards was estimated using the Black-Scholes option pricing model. Effective November 1, 2008, the Compensation Committee of the Board of Directors approved a change to our ESPP that eliminated the 24-month look back period. The ESPP continues to allow eligible employees to purchase shares of our common stock at 85 percent of the purchase price, but only uses the purchase date to establish the fair market value. As a result of the change in our plan, for the three and six months ended April 30, 2009 no Black-Scholes assumptions were required in the valuation of awards granted under our current ESPP. 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.

Effective November 1, 2008 we moved to historical volatility to estimate the expected stock price volatility assumption for employee stock option awards. Management believes that based on current data these estimates of volatility are more appropriate than implied volatility. In reaching this conclusion, we have considered many factors including the limited number of Agilent options currently traded and our limited ability to find traded options in the current market with similar terms and prices to the options we are valuing. For the three and six months ended April 30, 2008, we used implied volatility of Agilent's publicly traded, similarly priced, stock options to estimate the expected stock price volatility assumption for employee stock option awards.

4. PROVISION FOR TAXES

For the three and six months ended April 30, 2009, we recorded an income tax provision of \$43 million and \$6 million, respectively, compared to an income tax provision of \$23 million and \$50 million in the same periods last year. The income tax provisions for the three and six months ended April 30, 2009 include net discrete benefits of zero and \$34 million, respectively, and are primarily associated with lapses of statutes of limitations and tax settlements. The tax provisions for the three and six months ended April 30, 2008 both include a benefit of \$12 million for effectively settled issues related to foreign audits.

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Income tax expense is net of taxes recorded for income generated in jurisdictions other than the Netherlands, Puerto Rico, Switzerland, the U.S. and the U.K. where we have recorded 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 back to the year 2000. In other major jurisdictions where we conduct business, the tax years generally remain open 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.

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Our U.S. federal income tax returns for 2000 through 2007 have been or are under audit by the Internal Revenue Service (IRS). In August 2007, we received a Revenue Agent's Report (RAR) for 2000 through 2002. In the RAR, the IRS proposes to assess a net tax deficiency, after applying available net operating losses from the years under audit and undisputed tax credits, for those years of approximately \$405 million, plus penalties of approximately \$160 million and interest. If the IRS were to fully prevail, our net operating loss and tax credits generated in recent years would be utilized earlier than they otherwise would have been, and our annual effective tax rate would increase in the period the IRS prevails. The RAR addresses several issues. One issue, however, relating to the use of Agilent's brand name by our foreign affiliates, accounts for a majority of the claimed tax deficiency. We believe that the claimed IRS adjustment for this issue in particular is inconsistent with applicable tax laws and that we have meritorious defenses to this claim. Therefore, we have not included any tax for this item in our tax provisions. We filed a formal protest, and in the protest, we vigorously opposed the claim associated with Agilent's brand name, and most of the other claimed adjustments proposed in the RAR. In April of 2008, we received a rebuttal to our formal protest, and after reviewing the IRS's arguments, our assessment of the risks remains the same. In the formal protest, we also requested a conference with the Appeals Office of the IRS, and we recently began to address these matters with them. The final resolution of the proposed adjustments is uncertain and may take several years. Based on current information, it is our opinion that the ultimate disposition of these matters is unlikely to have a material adverse effect on our consolidated financial position, results of operations or liquidity.

5. NET INCOME (LOSS) PER SHARE

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

| | Three Months Ended April 30, | | Six Months Ended April 30, | |
|--|---------------------------------|--------|-------------------------------|--------|
| | 2009 | 2008 | 2009 | 2008 |
| | (in millions) | | | |
| Numerator: | | | | |
| Net income (loss) | \$ (101) | \$ 173 | \$ (37) | \$ 293 |
| Denominators: | | | | |
| Basic weighted-average shares | 344 | 363 | 348 | 367 |
| Potentially dilutive common stock equivalents - stock options and other employee stock plans | | 7 | | 9 |
| Diluted weighted-average shares | 344 | 370 | 348 | 376 |

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 required by SFAS No. 123 (R).

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 April 30, | | Six Months Ended April 30, | |
|--|---------------------------------|-------|-------------------------------|-------|
| | 2009 | 2008 | 2009 | 2008 |
| Options to purchase shares of common stock (in millions) | 33 | 19 | 33 | 7 |
| Weighted-average exercise price | \$ 29 | \$ 36 | \$ 29 | \$ 45 |

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| | | | | | | | | |
|----------------------------|----|----|----|----|----|----|----|----|
| Average common stock price | \$ | 16 | \$ | 31 | \$ | 17 | \$ | 33 |
|----------------------------|----|----|----|----|----|----|----|----|

6. INVENTORY

| | April 30, 2009 | (in millions) | October 31, 2008 |
|---|-------------------|---------------|---------------------|
| Finished goods | \$ | 310 | \$ 331 |
| Purchased parts and fabricated assemblies | | 298 | 315 |
| Inventory | \$ | 608 | \$ 646 |

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7. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents goodwill balances and the movements for each of our reportable segments during the six months ended April 30, 2009:

| | Electronic Measurement | Bio-analytical Measurement | Semiconductor & Board Test | Total |
|-------------------------------------|---------------------------|-------------------------------|-------------------------------|--------|
| | (in millions) | | | |
| Goodwill as of October 31, 2008 | \$ 329 | \$ 278 | \$ 39 | \$ 646 |
| Foreign currency translation impact | | | 2 | 2 |
| Goodwill as of April 30, 2009 | \$ 329 | \$ 278 | \$ 41 | \$ 648 |

The components of other intangibles as of April 30, 2009 and October 31, 2008 are shown in the table below:

| | Gross Carrying Amount | Purchased Other Intangible Assets Accumulated Amortization and Impairments (in millions) | Net Book Value |
|--------------------------------|-----------------------------|---|-------------------|
| As of October 31, 2008: | | | |
| Purchased technology | \$ 281 | \$ 124 | \$ 157 |
| Trademark/Tradename | 32 | 3 | 29 |
| Customer relationships | 85 | 43 | 42 |
| Total | \$ 398 | \$ 170 | \$ 228 |
| As of April 30, 2009: | | | |
| Purchased technology | \$ 281 | \$ 154 | \$ 127 |
| Trademark/Tradename | 32 | 5 | 27 |
| Customer relationships | 85 | 50 | 35 |
| Total | \$ 398 | \$ 209 | \$ 189 |

We recorded no additions to goodwill and no additions to other intangibles during the six months ended April 30, 2009. We incurred \$6 million and \$16 million in impairment charges related to other intangibles for the three and six months ended April 30, 2009, respectively.

Amortization of intangible assets was \$11 million and \$23 million for the three and six months ended April 30, 2009 and \$13 million and \$26 million for the same periods in the prior year. Future amortization expense related to existing purchased intangible assets is estimated to be \$21 million for the remainder of 2009, \$39 million for 2010, \$35 million for 2011, \$28 million for 2012, \$20 million for 2013, \$14 million for 2014, and \$32 million thereafter.

8. INVESTMENTS

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The following table summarizes the company's investments at April 30, 2009 and October 31, 2008 (net book value):

| | April 30, 2009 | | October 31, 2008 |
|--------------------------------|-------------------|-----|---------------------|
| | (in millions) | | |
| Short-Term | | | |
| Available-for-sale investments | \$ | 12 | \$ 24 |
| Long-Term | | | |
| Cost method investments | \$ | 13 | \$ 19 |
| Trading securities | | 43 | 57 |
| Available-for-sale investments | | 111 | 130 |
| Total | \$ | 167 | \$ 206 |

Cost method investments consist of non-marketable equity securities and are accounted for at historical cost. Trading securities are reported at fair value, with gains or losses resulting from changes in fair value recognized currently in earnings. Investments designated as available-for-sale 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 available-for-sale investments are recorded in earnings.

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In February 2008, Agilent traded an externally managed short-term investment for the underlying securities of the investment and now manages those investments internally. The securities received were fixed income debt securities and are held as available-for-sale. Agilent estimated the fair values based on quoted market prices or pricing models using current market rates. These estimated fair values may not be representative of actual values that could have been realized as of April 30, 2009 or that will be realized in the future.

Investments in available-for-sale securities at estimated fair value were as follows at April 30, 2009 and October 31, 2008:

| | April 30, 2009 | | | Estimated Fair Value | October 31, 2008 | | | Estimated Fair Value |
|-------------------|----------------|------------------------------|-------------------------------|----------------------------|------------------|------------------------------|-------------------------------|----------------------------|
| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | | Cost | Gross Unrealized Gains | Gross Unrealized Losses | |
| | (in millions) | | | | | | | |
| Debt securities | \$ 69 | \$ | \$ (4) | \$ 65 | \$ 101 | \$ | \$ (5) | \$ 96 |
| Equity securities | 4 | 6 | | 10 | 4 | 5 | | 9 |
| Other | 61 | | (13) | 48 | 50 | | (1) | 49 |
| | \$ 134 | \$ 6 | \$ (17) | \$ 123 | \$ 155 | \$ 5 | \$ (6) | \$ 154 |

Other represents shares we own in two special funds that target underlying investments of approximately 40 percent debt securities and 60 percent equity securities.

Contractual maturities of available-for-sale debt securities were as follows at April 30, 2009:

| | Cost | Estimated Fair Value | |
|-------------------------|---------------|-------------------------|----|
| | (in millions) | | |
| Due in less than 1 year | \$ 12 | \$ | 12 |
| Due in 1-5 years | 34 | | 33 |
| Due after 5 years | 23 | | 20 |
| | \$ 69 | \$ | 65 |

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, forecast 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.

Amounts included in other income (expense) for realized gains and losses on the sale of cost method investments, available-for-sale securities and other than temporary impairments were as follows for the three and six months ended April 30, 2009 and 2008:

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| | Three months ended | | Six months ended | |
|--|--------------------|------|------------------|------|
| | April 30, | | April 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| | (in millions) | | | |
| Cost method investments realized gain | \$ | \$ | \$ | \$ |
| Available-for-sale investments realized loss | | | | |
| | | (3) | | (4) |
| Other than temporary impairment on investments | (2) | (2) | (8) | (2) |
| Total | \$ | (2) | \$ | (6) |
| | | (5) | | (7) |

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Our trading securities portfolio incurred \$1 million of unrealized gains and \$6 million of unrealized losses for the three months ended April 30, 2009 and 2008, respectively. Unrealized losses on our trading securities portfolio were \$15 million and \$8 million for the six months ended April 30, 2009 and 2008, respectively.

9. FAIR VALUE MEASUREMENTS

SFAS No. 157 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

SFAS No. 157 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. SFAS No. 157 establishes 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.

Our money market funds and publicly traded available-for-sale and trading securities investments are generally classified as level 1 of the fair value hierarchy because they are valued using quoted market prices. Our derivative financial instruments are classified as 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. 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.

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Asset and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis as of April 30, 2009 were as follows:

| | April 30, 2009 | Fair Value Measurement at April 30, 2009 Using | | |
|--|-------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| (in millions) | | | | |
| Assets: | | | | |
| Short-term | | | | |
| Cash equivalents (money market funds) | \$ 578 | \$ 578 | \$ | \$ |
| Available-for-sale investments | 12 | | 4 | 8 |
| Derivative instruments | 17 | | 17 | |
| Long-term | | | | |
| Trading securities | 43 | 43 | | |
| Available-for-sale investments | 111 | 10 | 96 | 5 |
| Restricted cash (commercial paper) | 1,561 | | 1,561 | |
| Total assets measured at fair value | \$ 2,322 | \$ 631 | \$ 1,678 | \$ 13 |
| Liabilities: | | | | |
| Short-term | | | | |
| Derivative instruments | \$ 12 | \$ | \$ 12 | \$ |
| Long-term | | | | |
| Deferred compensation liability | 41 | | 41 | |
| Total liabilities measured at fair value | \$ 53 | \$ | \$ 53 | \$ |

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For assets measured at fair value using significant unobservable inputs (level 3), the following table summarizes the change in balances during the three and six months ended April 30, 2009:

| | Three Months Ended April 30, 2009 | Six Months Ended April 30, 2009 |
|---|--|--|
| | (in millions) | |
| Balance, beginning of period | \$ 16 | \$ 19 |
| Realized losses related to amortization of premium | (1) | (2) |
| Total unrealized gains (losses) included in accumulated other comprehensive loss | | |
| Realized losses related to investment impairments | (1) | (4) |
| Sales | (3) | (6) |
| Transfers into (out of) level 3 | 2 | 6 |
| Balance, end of period | \$ 13 | \$ 13 |
| Total losses included in earnings attributable to change in unrealized losses relating to assets still held at the reporting date, reported in interest and other income, net | \$ (1) | \$ (2) |

10. DERIVATIVES

We are exposed to foreign exchange rate risks in the normal course of business. We enter into foreign exchange contracts, primarily forward contracts and purchased options, to manage economic and/or accounting exposures resulting from changes in foreign currency exchange rates.

The company 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 SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133). 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.

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 under SFAS No. 133. Changes in value of the derivative are recognized in other income (expense) in the condensed consolidated statement of operations, in the current period, along with the offsetting 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.

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The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position on April 30, 2009, was \$5 million. The credit-risk-related contingent features underlying these agreements had not been triggered on April 30, 2009.

There were 106 foreign exchange forward contracts and 7 foreign exchange option contracts open as of April 30, 2009 and designated as cash flow hedges. There were 147 foreign exchange forward contracts open as of April 30, 2009 not designated as hedging instruments. The aggregated notional amounts by currency and designation as of April 30, 2009 were as follows:

| Currency | Derivatives in Cash Flow Hedging Relationships under SFAS No. 133 | | Derivatives Not Designated as Hedging Instruments under SFAS No. 133 |
|-------------------|---|--|--|
| | Forward Contracts Buy/(Sell) | Option Contracts Buy/(Sell) (in millions) | |
| Euro | \$ (64) | \$ | \$ 412 |
| British Pound | 4 | | 106 |
| Australian Dollar | | | 99 |
| Malaysian Ringgit | 89 | | 4 |
| Japanese Yen | (83) | (109) | (3) |
| Other | 7 | | 44 |
| | \$ (47) | \$ (109) | \$ 662 |

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 April 30, 2009 were as follows:

| | Fair Values of Derivative Instruments | | | |
|---|---------------------------------------|---------------|---------------------------|------------|
| | Asset Derivatives | | Liability Derivatives | |
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| | | (in millions) | | |
| Derivatives designated as hedging instruments under SFAS No. 133: | | | | |
| Foreign exchange contracts | Other current assets | \$ 5 | Other accrued liabilities | \$ 8 |
| | Other accrued liabilities | 1 | Other current assets | 1 |
| | | \$ 6 | | \$ 9 |
| Derivatives not designated as | | | | |

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| hedging instruments under SFAS No. 133: | | | | |
|---|---------------------------|-------|---------------------------|-------|
| Foreign exchange contracts | Other current assets | \$ 14 | Other accrued liabilities | \$ 6 |
| | Other accrued liabilities | 1 | Other current assets | 1 |
| | | \$ 15 | | \$ 7 |
| Total derivatives | | \$ 21 | | \$ 16 |

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The effect of derivative instruments for foreign exchange contracts designated as cash flow hedges and not designated as hedging instruments under SFAS No. 133 in our condensed consolidated statement of operations were as follows:

| | Three Months Ended April 30, 2009 (in millions) |
|--|--|
| <u>Derivatives in Cash Flow Hedging Relationships under SFAS No. 133</u> | |
| Gain recognized in OCI on derivatives | \$ 7 |
| Loss reclassified from OCI into cost of sales | \$ 10 |
| <u>Derivatives Not Designated as Hedging Instruments under SFAS No. 133</u> | |
| Gain recognized in other income (expense) | \$ 23 |

The estimated net amount of existing losses at April 30, 2009 that is expected to be reclassified from other comprehensive income to the cost of sales within the next twelve months is \$3 million.

11. RETIREMENT PLANS AND POST RETIREMENT PENSION PLANS

Components of net periodic costs. For the three and six months ended April 30, 2009 and 2008, our net pension and post retirement benefit costs were comprised of the following:

| | U.S. Plans | | Pensions | | Non-U.S. Plans | | U.S. Post Retirement Benefit Plans | |
|--|---------------|------|------------------------------|-------|------------------------------|--------|------------------------------------|------|
| | 2009 | 2008 | Three Months Ended April 30, | | Three Months Ended April 30, | | 2009 | 2008 |
| | | | 2009 | 2008 | 2009 | 2008 | | |
| | (in millions) | | | | | | | |
| Service cost benefits earned during the period | \$ 7 | \$ 9 | \$ 8 | \$ 10 | \$ 1 | \$ 1 | | |
| Interest cost on benefit obligation | 12 | 9 | 16 | 19 | 7 | 7 | | |
| Expected return on plan assets | (9) | (14) | (19) | (28) | (5) | (8) | | |
| Amortization and deferrals: | | | | | | | | |
| Actuarial (gain) loss | | (3) | 8 | 5 | 1 | | | |
| Prior service cost | | | | | (3) | (3) | | |
| Total net plan (income) costs | \$ 10 | \$ 1 | \$ 13 | \$ 6 | \$ 1 | \$ (3) | | |

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| | Pensions | | | | | |
|--|------------|-------|----------------------------|-------|------------------------------------|--------|
| | U.S. Plans | | Non-U.S. Plans | | U.S. Post Retirement Benefit Plans | |
| | 2009 | 2008 | Six Months Ended April 30, | | 2009 | 2008 |
| | | | (in millions) | | | |
| Service cost benefits earned during the period | \$ 15 | \$ 18 | \$ 16 | \$ 19 | \$ 2 | \$ 2 |
| Interest cost on benefit obligation | 24 | 19 | 32 | 38 | 14 | 14 |
| Expected return on plan assets | (19) | (28) | (39) | (55) | (10) | (16) |
| Amortization and deferrals: | | | | | | |
| Actuarial (gain) loss | 1 | (6) | 17 | 10 | 2 | |
| Prior service cost | | | | | (6) | (6) |
| Total net plan (income) costs | \$ 21 | \$ 3 | \$ 26 | \$ 12 | \$ 2 | \$ (6) |

We contributed approximately \$37 million and \$38 million to our U.S. defined benefit plans during the three and six months ended April 30, 2009 and zero and \$2 million respectively, for the same periods in 2008. We contributed approximately \$12 million and \$31 million to our non-U.S. defined benefit plans during the three and six months ended April 30, 2009 and \$9 million and \$19 million, respectively, for the same periods in 2008. We expect to contribute approximately \$27 million to our non-U.S. defined benefit plans during the remainder of fiscal 2009 which is more than previously anticipated and is due to the need to make additional contributions in some countries as asset values have declined. We do not anticipate making further contributions to the U.S. defined benefit plans during the remainder of fiscal 2009.

As of April 30, 2009, due to restructuring actions in response to the continuing deterioration of economic conditions (the FY 2009 Plan), we recorded a curtailment loss less than \$1 million related to a Non-U.S. Plan as required by SFAS No. 88 Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, (SFAS No. 88). In connection with the remeasurement of the pension obligation for this plan, we recorded additional net losses totaling \$45 million in accumulated other comprehensive loss on the balance sheet mainly due to lower asset values.

12. WARRANTIES

We accrue for warranty costs in accordance with SFAS No. 5, Accounting for Contingencies , based on historical trends in warranty charges as a percentage of gross 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. Our warranty terms typically extend for one year from the date of delivery.

| | FY 2009 | FY 2008 |
|--|---------------|---------|
| | (in millions) | |
| Beginning balance as of November 1, | \$ 29 | \$ 29 |
| Accruals for warranties issued during the period | 23 | 25 |
| Changes in estimates | 3 | (1) |
| Settlements made during the period | (26) | (25) |
| Ending balance as of April 30, | \$ 29 | \$ 28 |

13. RESTRUCTURING COSTS, ASSET IMPAIRMENTS AND OTHER SPECIAL CHARGES

Our FY2005 Plan, 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 three years and are included in the consolidation of excess facilities and other exit costs column in the table below.

In the first quarter of 2009, we announced a new restructuring plan (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 is in response to deteriorating economic conditions and is designed to enhance the potential of some of our business units most affected by the economic downturn to reach their operating model goals. In the second quarter of 2009, we announced additional actions as part of the FY 2009 Plan to restructure our global infrastructure organization and to restructure our electronic measurement and semiconductor and board test segments in response to the continuing deterioration of economic conditions. The additional actions will further 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 employees. We expect to complete a majority of these activities related to the FY 2009 Plan by October 31, 2009, with the remainder expected to be completed by the end of the second quarter of fiscal 2010. As of April 30, 2009 approximately 650 employees have left Agilent under the FY 2009 Plan.

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A summary of total restructuring activity and other special charges for the six months ended April 30, 2009 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 |
|---------------------------------------|------------------------|--|--|---|-------|
| Balance as of October 31, 2008 | \$ | \$ 10 | \$ | \$ | \$ 10 |
| Income statement expense | 89 | 5 | 17 | 23 | 134 |
| Asset impairments/inventory charges | | | (17) | (14) | (31) |
| Cash payments | (34) | (2) | | | (36) |
| Balance as of April 30, 2009 | \$ 55 | \$ 13 | \$ | \$ 9 | \$ 77 |

The restructuring and other special accruals for all plans, which totaled \$77 million at April 30, 2009 and \$10 million at October 31, 2008, are recorded in other accrued liabilities and other long-term liabilities on the condensed consolidated balance sheet and represents estimated future cash outlays. Lease payments are expected approximately over the next three years. Workforce reduction payments, primarily severance, are expected to be completed by the end of the second quarter of fiscal year 2010.

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

| | Three Months Ended April 30, | | Six Months Ended April 30, | |
|--|---------------------------------|------|-------------------------------|--------|
| | 2009 | 2008 | 2009 | 2008 |
| | (in millions) | | (in millions) | |
| Cost of products | \$ 22 | \$ | \$ 55 | \$ |
| Research and development | 17 | | 21 | |
| Selling, general and administrative | 47 | | 58 | (4) |
| Total restructuring, asset impairments and other special charges | \$ 86 | \$ | \$ 134 | \$ (4) |

14. 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. The company may use amounts borrowed under the facility for general corporate purposes. As of April 30, 2009 the company has no borrowings outstanding under the credit facility. During the three months ended April 30, 2009 the company repaid the \$50 million balance outstanding on the facility at the end of the January 31, 2009.

15. SENIOR NOTES

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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. The senior notes 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 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.

On November 25, 2008, we terminated the two remaining interest rate swap contracts associated with our 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.

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16. LONG-TERM DEBT AND LONG-TERM RESTRICTED CASH AND CASH EQUIVALENTS

The following table summarizes the company's long-term debt as of April 30, 2009 and October 31, 2008:

| | April 30, 2009 | October 31, 2008 |
|----------------------|-------------------|---------------------|
| | (in millions) | |
| World Trade debt | \$ 1,500 | \$ 1,500 |
| Other debt | 15 | 14 |
| Total long-term debt | \$ 1,515 | \$ 1,514 |

World Trade Debt

In January 2006, Agilent Technologies World Trade, Inc., a consolidated wholly-owned subsidiary of Agilent (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 a 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 long-term debt on our condensed consolidated balance sheet.

Other Debt

On August 11, 2008 a consolidated wholly-owned subsidiary of Agilent, borrowed Indian Rupees equivalent to \$14 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 recorded and classified as long-term debt on our condensed consolidated balance sheet.

Long-Term Restricted Cash & Cash Equivalents

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As of April 30, 2009 and October 31, 2008, \$1,572 million and \$1,582 million were reported as long-term restricted cash and cash equivalents in our condensed consolidated balance sheet, respectively. Of these amounts, \$1,561 million and \$1,571 million were held in commercial paper maintained in connection with our World Trade debt obligation as of April 30, 2009 and October 31, 2008, respectively.

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17. COMPREHENSIVE INCOME (LOSS)

The following table presents the components of comprehensive income (loss):

| | Three Months Ended | |
|--|---------------------------|-------------|
| | April 30, | |
| | 2009 | 2008 |
| | (in millions) | |
| Net income (loss) | \$ (101) | \$ 173 |
| Other comprehensive income: | | |
| Change in unrealized gain and loss on investments | 3 | 1 |
| Change in unrealized loss on derivative instruments | 7 | 14 |
| Translation gain reclassified into earnings related to liquidation of a subsidiary | | (25) |
| Losses reclassified into earnings related to derivative instruments | 10 | |
| Foreign currency translation | (2) | 56 |
| Change in deferred net pension cost | (39) | (2) |
| Deferred taxes | (13) | (6) |
| Comprehensive income (loss) | \$ (135) | \$ 211 |

| | Six Months Ended | |
|--|-------------------------|-------------|
| | April 30, | |
| | 2009 | 2008 |
| | (in millions) | |
| Net income (loss) | \$ (37) | \$ 293 |
| Other comprehensive income: | | |
| Change in unrealized gain and loss on investments | (10) | (21) |
| Change in unrealized gain and loss on derivative instruments | | 8 |
| Translation gain reclassified into earnings related to liquidation of a subsidiary | | (25) |
| Losses reclassified into earnings related to derivative instruments | 19 | |
| Foreign currency translation | 22 | 114 |
| Change in deferred net pension cost | (30) | (3) |
| Deferred taxes | (11) | (4) |
| Comprehensive income (loss) | \$ (47) | \$ 362 |

18. 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 a two year period.

The following repurchases under this program are, based on settlement date:

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| | Number of Common Stock Repurchased | | Amount of Common Stock Repurchased |
|--------------------------------------|--|----|--|
| | (in millions) | | |
| Fiscal Year 2008 | | | |
| Balance as of October 31, 2008 | 30 | \$ | 1,000 |
| Fiscal Year 2009 | | | |
| Three months ended | | | |
| January 31, 2009 | 7 | | 125 |
| April 30, 2009 | 2 | | 32 |
| Program to date as of April 30, 2009 | 39 | \$ | 1,157 |

All such shares and related costs are held as treasury stock and accounted for using the cost method. The remaining amount that is authorized under the plan is \$843 million. On March 26, 2009, the company announced that it was suspending its stock repurchase program until the end of the 2009 fiscal year.

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19. 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 2009, we formed a new operating segment from our existing businesses; the semiconductor and board test segment. Following this re-organization, Agilent has three primary businesses – bio-analytical measurement, electronic measurement and semiconductor and board test – each of which comprises a reportable segment. The segments were determined based primarily on how the chief operating decision maker views and evaluates our operations. Other factors, including customer base, homogeneity of products, technology and delivery channels, were also considered in determining our reportable segments. All historical segment numbers have been recast to conform to this new reporting structure in our financial statements.

In the first quarter of 2009, we also moved microscopy measurement from the bio-analytical measurement segment to the electronic measurement segment. Microscopy measurement combined with existing units in the electronic measurement segment for increased synergy with product lines and operational resources.

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.

Upon the adoption of SFAS No. 123 (R) in the first quarter of 2006, we included share-based compensation expense in our GAAP results but did not include such expense in our segment reporting. In the third quarter of 2008, we included share-based compensation expense in our segment results. All segment numbers have been reclassified to conform to the current period presentation.

The following tables reflect the results of our reportable segments under our management reporting system. These results are not necessarily in conformity with generally accepted accounting principles in the U.S. 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, asset impairment charges and other related costs, investment gains and losses, interest income, interest expense, non-cash amortization and impairment of other intangibles and other items as noted in the reconciliation below:

| | Electronic Measurement | Bio-analytical Measurement | Semiconductor & Board Test | Total |
|---|---------------------------|-------------------------------|-------------------------------|----------|
| | (in millions) | | | |
| Three months ended April 30, 2009: | | | | |
| Total net revenue | \$ 558 | \$ 498 | \$ 35 | \$ 1,091 |

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| | | | | | | | | |
|---|----|-----|----|-----|----|------|----|-------|
| Segment income (loss) from operations | \$ | (6) | \$ | 89 | \$ | (16) | \$ | 67 |
| Three months ended April 30, 2008: | | | | | | | | |
| Total net revenue | \$ | 831 | \$ | 530 | \$ | 95 | \$ | 1,456 |
| Segment income from operations | \$ | 120 | \$ | 85 | \$ | 8 | \$ | 213 |

| | | Electronic Measurement | | Bio-analytical Measurement | | Semiconductor & Board Test | | Total |
|---|----|---------------------------|----|-------------------------------|----|-------------------------------|----|-------|
| (in millions) | | | | | | | | |
| Six months ended April 30, 2009: | | | | | | | | |
| Total net revenue | \$ | 1,154 | \$ | 1,023 | \$ | 80 | \$ | 2,257 |
| Segment income (loss) from operations | \$ | 1 | \$ | 190 | \$ | (29) | \$ | 162 |
| Six months ended April 30, 2008: | | | | | | | | |
| Total net revenue | \$ | 1,604 | \$ | 1,061 | \$ | 184 | \$ | 2,849 |
| Segment income from operations | \$ | 197 | \$ | 172 | \$ | 11 | \$ | 380 |

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

| | Three Months Ended April 30, | | Six Months Ended April 30, | |
|---|---------------------------------|--------|-------------------------------|--------|
| | 2009 | 2008 | 2009 | 2008 |
| | (in millions) | | | |
| Total reportable segments' income from operations | \$ 67 | \$ 213 | \$ 162 | \$ 380 |
| Restructuring, asset impairment and other related costs | (98) | (6) | (154) | (18) |
| Net translation gain from liquidation of a subsidiary | | 11 | | 11 |
| Interest income | 6 | 27 | 20 | 66 |
| Interest expense | (23) | (29) | (46) | (59) |
| Other income (expense), net | 6 | (4) | 18 | |
| Amortization of intangibles and other | (16) | (16) | (31) | (37) |
| Income (loss) from operations before taxes, as reported | \$ (58) | \$ 196 | \$ (31) | \$ 343 |

For the three and six months ended April 30, 2009, other income (expense), net included zero and a \$6 million gain in respect of a patent litigation judgment, respectively.

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.

In the first quarter of 2009, we refined the methodology for allocating company assets which has resulted in an increase in segment assets. All segment numbers have been reclassified to conform to the current period presentation.

| | Electronic Measurement | Bio-analytical Measurement | Semiconductor & Board Test | Total |
|------------------------|---------------------------|-------------------------------|-------------------------------|----------|
| | (in millions) | | | |
| Assets: | | | | |
| As of April 30, 2009 | \$ 1,859 | \$ 1,519 | \$ 358 | \$ 3,736 |
| As of October 31, 2008 | \$ 2,014 | \$ 1,505 | \$ 387 | \$ 3,906 |

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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 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, 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, our stock repurchase program, our transition to lower-cost regions, our restructuring activities, including our current estimates of the scope, timing and cost of those activities, the existence or length of an economic recovery that involve risks and uncertainties, and the impact of an Internal Revenue Service (IRS) Revenue Agent's Report (RAR) on our operations and financial results. 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.

Revisions to Financial Statement Presentation. We have revised our consolidated balance sheet as of October 31, 2008 to correct an error in the classification of deferred tax assets and liabilities. This revision does not impact the consolidated statement of operations or the consolidated statement of cash flows for any period. During the April 30, 2009 quarter-end process, we noted that the October 31, 2008 U.S. deferred tax valuation allowances and certain deferred tax assets/ deferred tax liabilities were misclassified on the balance sheet as a result of improperly applying the jurisdictional netting rules of SFAS No. 109. We have therefore revised our balance sheet as of October 31, 2008 by decreasing other long-term liabilities by \$435 million and decreasing other long-term assets by \$404 million, decreasing other current assets by \$26 million and increasing other accrued liabilities by \$5 million.

Executive Summary

Agilent Technologies, Inc. (we , Agilent or the company) is the world's premier measurement company, providing core bio-analytical and electronic measurement solutions to the communications, electronics, life sciences and chemical analysis industries. Agilent has three primary businesses that are focused on the electronic measurement market, the semiconductor and board test market and the bio-analytical measurement market.

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For the three and six months ended April 30, 2009 we continued to experience order and revenue weakness in our electronic measurement and semiconductor and board test businesses. The major driver of the order and corresponding revenue decline was the continued reduction of investment in the manufacturing test markets. We continued to experience overall weakness in the bio-analytical measurement business; however, the academic and government and food safety markets showed improvement and increased revenue in the three and six months ended April 30, 2009 when compared to last year.

For the three and six months ended April 30, 2009, total orders were \$1,026 million and \$2,141 million, respectively, a decrease of 33 percent and 27 percent in comparison to the same periods last year. For the three and six months ended April 30, 2009, bio-analytical orders decreased 16 percent and 9 percent, respectively, electronic measurement orders decreased 39 percent and 34 percent, respectively, and semiconductor and board test orders decreased 75 percent and 71 percent, respectively, when compared to the same periods last year.

Net revenue of \$1,091 million and \$2,257 million for the three and six months ended April 30, 2009, respectively, decreased 25 percent and 21 percent, respectively, from the same periods last year. Bio-analytical revenues decreased 6 percent and 4 percent in the three and six months ended April 30, 2009, respectively, with chemical analysis down 6 percent and 3 percent and life science down 7 percent and 4 percent, respectively, compared to the same periods last year. Geographically, weakness was most pronounced for bio-analytical in Europe with a revenue decrease of 16 percent and revenues in the Americas decreased 10 percent while Asia was generally strong, with Japan up 7 percent and other Asia up 12 percent in the three months ended April 30, 2009 compared to the same period last year. Electronic measurement revenues decreased 33 percent and 28 percent in the three and six months ended April 30, 2009, respectively. Within electronic measurement, revenues in general purpose test decreased 28 percent and 25 percent and

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revenues in communications test decreased 39 percent and 31 percent in the three and six months ended April 30, 2009, respectively, compared to the same period last year. Geographically, electronic measurement revenues for the three months ended April 30, 2009 decreased in Europe by 30 percent, in Americas by 31 percent, in Japan by 43 percent and in other Asia by 32 percent compared to the same period last year. Semiconductor and board test measurement revenues decreased 63 percent and 56 percent when compared to the three and six months ended April 30, 2009, respectively, with all markets down compared to the same periods last year. On a geographic basis, revenue declined 63 percent in the Americas, 59 percent in Europe, 52 percent in Japan and 72 percent in other Asia in the three months ended April 30, 2009 when compared to the same period last year.

Net loss for the three and six months ended April 30, 2009 was \$101 million and \$37 million, respectively, as compared to net income of \$173 million and \$293 million for the corresponding periods last year. For the three and six months ended April 30, 2009, net income decreased mainly due to reduced revenue. Tax expense decreased \$44 million when compared to the six months ended April 30, 2008 primarily due to net discrete tax benefits associated with lapses of statutes of limitations and tax settlements.

In the six months ended April 30, 2009, we generated \$154 million of cash from operations compared with \$329 million generated in the six months of last year.

In March 2009, we announced additional actions to restructure our electronic measurement and semiconductor and board test segments in response to the continuing deterioration of economic conditions. When completed, this restructuring is expected to result in future annual operating savings of approximately \$310 million. We expect workforce reductions of approximately 2,700 regular positions from these actions.

The March 2009 restructuring activities are combined with those actions previously announced in December 2008 and February 2009 under a single restructuring plan and are part of a series of actions being taken by Agilent in response to the current 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. We expect that a significant proportion of these charges will result in cash expenditures. 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. Total restructuring and other special charges of \$134 million have been incurred in the six months ended April 30, 2009 with respect to these actions. Of the expected 3,800 reduction in regular positions, approximately 650 employees have left Agilent as of April 30, 2009.

Looking forward, we face continued challenging business conditions as the global economic environment continues to deteriorate and the outlook is highly uncertain. We are 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

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management. Those policies are revenue recognition, inventory valuation, investment impairments, share-based compensation, retirement and post-retirement benefit plan assumptions, restructuring and asset impairment charges, valuation of long-lived assets and accounting for income taxes. 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 esti