

AGILENT TECHNOLOGIES INC

Form 10-Q

March 09, 2011

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(MARK ONE)

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

**FOR THE QUARTERLY PERIOD ENDED JANUARY 31, 2011**

**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)

Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**77-0518772**

(IRS employer  
Identification no.)

**5301 STEVENS CREEK BLVD.,  
SANTA CLARA, CALIFORNIA**

(Address of principal executive offices)

**95051**

(Zip Code)

Registrant's telephone number, including area code: **(408) 553-2424**

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(do not check if a smaller reporting company)

Smaller reporting company

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

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

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

**OUTSTANDING AT JANUARY 31, 2011**  
**345,122,160 SHARES**

Table of Contents

AGILENT TECHNOLOGIES, INC.

TABLE OF CONTENTS

		<b>Page Number</b>
<u>Part I.</u>	<u>Financial Information</u>	
	<u>Item 1.</u>	
	<u>Condensed Consolidated Financial Statements (Unaudited)</u>	3
	<u>Condensed Consolidated Statement of Operations</u>	3
	<u>Condensed Consolidated Balance Sheet</u>	4
	<u>Condensed Consolidated Statement of Cash Flows</u>	5
	<u>Notes to Condensed Consolidated Financial Statements</u>	6
	<u>Item 2.</u>	
	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
	<u>Item 3.</u>	
	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	35
	<u>Item 4.</u>	
	<u>Controls and Procedures</u>	35
<u>Part II.</u>	<u>Other Information</u>	
	<u>Item 1.</u>	
	<u>Legal Proceedings</u>	35
	<u>Item 1A.</u>	
	<u>Risk Factors</u>	37
	<u>Item 2.</u>	
	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	46
	<u>Item 6.</u>	
	<u>Exhibits</u>	47
<u>Signature</u>		48
<u>Exhibit Index</u>		49

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

	<b>Three Months Ended January 31,</b>	
	<b>2011</b>	<b>2010</b>
Net revenue:		
Products	\$ 1,258	\$ 976
Services and other	261	237
Total net revenue	1,519	1,213
Costs and expenses:		
Cost of products	557	421
Cost of services and other	146	132
Total costs	703	553
Research and development	159	149
Selling, general and administrative	446	417
Total costs and expenses	1,308	1,119
Income from operations	211	94
Interest income	4	3
Interest expense	(23)	(23)
Other income (expense), net	6	9
Income before taxes	198	83
Provision for income taxes	5	4
Net income	\$ 193	\$ 79
Net income per share basic:	\$ 0.56	\$ 0.23
Net income per share diluted:	\$ 0.54	\$ 0.22
Weighted average shares used in computing net income per share:		
Basic	347	348
Diluted	355	354

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

Table of Contents

## AGILENT TECHNOLOGIES, INC.

## CONDENSED CONSOLIDATED BALANCE SHEET

(in millions, except par value and share amounts)

(Unaudited)

	January 31, 2011	October 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,638	\$ 2,649
Short-term restricted cash and cash equivalents	17	1,550
Accounts receivable, net	854	869
Inventory	797	716
Other current assets	292	385
Total current assets	4,598	6,169
Property, plant and equipment, net	982	980
Goodwill	1,448	1,456
Other intangible assets, net	467	494
Long-term investments	134	142
Other assets	415	455
Total assets	\$ 8,044	\$ 9,696
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 444	\$ 499
Employee compensation and benefits	314	395
Deferred revenue	413	358
Short-term debt	1	1,501
Other accrued liabilities	234	330
Total current liabilities	1,406	3,083
Long-term debt	2,138	2,190
Retirement and post-retirement benefits	469	477
Other long-term liabilities	692	710
Total liabilities	4,705	6,460
Total equity:		
Stockholders' equity:		
Preferred stock; \$0.01 par value; 125 million shares authorized; none issued and outstanding		
Common stock; \$0.01 par value; 2 billion shares authorized; 584 million shares at January 31, 2011 and 579 million shares at October 31, 2010, issued	6	6
Treasury stock at cost; 239 million shares at January 31, 2011 and 233 million shares at October 31, 2010	(8,308)	(8,038)
Additional paid-in-capital	8,060	7,904
Retained earnings	3,637	3,444
Accumulated other comprehensive loss	(63)	(88)
Total stockholders' equity	3,332	3,228
Non-controlling interest	7	8
Total equity	3,339	3,236
Total liabilities and equity	\$ 8,044	\$ 9,696

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



Table of Contents

## AGILENT TECHNOLOGIES, INC.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions)

(Unaudited)

	Three Months Ended January 31,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 193	\$ 79
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	63	39
Share-based compensation	28	25
Deferred taxes	4	84
Excess and obsolete and inventory-related charges	6	6
Asset impairment charges		19
Other	2	
Changes in assets and liabilities:		
Accounts receivable	13	(42)
Inventory	(85)	(1)
Accounts payable	(56)	8
Employee compensation and benefits	(81)	(61)
Other assets and liabilities	33	(126)
Net cash provided by operating activities	120	30
Cash flows from investing activities:		
Investments in property, plant and equipment	(38)	(25)
Proceeds from sale of investments	5	4
Acquisitions of businesses and intangible assets, net of cash acquired		(12)
Change in restricted cash and cash equivalents, net	1,533	2
Net cash provided by (used in) investing activities	1,500	(31)
Cash flows from financing activities:		
Issuance of common stock under employee stock plans	136	103
Repayment of debt	(1,500)	
Treasury stock repurchases	(270)	(100)
Net cash provided by (used in) financing activities	(1,634)	3
Effect of exchange rate movements	3	
Net increase (decrease) in cash and cash equivalents	(11)	2
Cash and cash equivalents at beginning of period	2,649	2,479
Cash and cash equivalents at end of period	\$ 2,638	\$ 2,481

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

Table of Contents

**AGILENT TECHNOLOGIES, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

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

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

Our fiscal year-end is October 31, and our fiscal quarters end on January 31, April 30 and July 31. Unless otherwise stated, all dates refer to our fiscal year and fiscal quarters.

*Acquisition of Varian, Inc.* On May 14, 2010, we completed our acquisition of Varian, Inc. ( Varian ) by means of a merger of one of our wholly-owned subsidiaries with and into Varian such that Varian became a wholly-owned subsidiary of Agilent. We financed the purchase price of Varian using the proceeds from our September 2009 offering of senior notes and other existing cash. The Varian merger has been accounted for in accordance with the authoritative accounting guidance and the results of Varian are included in Agilent 's consolidated financial statements from the date of merger. The company expects the combined entity to achieve significant savings in corporate and divisional overhead costs. The company also anticipates opportunities for growth through expanded geographic and customer segment diversity and the ability to leverage additional products and capabilities. For additional details related to the acquisition of Varian, see Note 3, Acquisition of Varian .

*Basis of Presentation.* We have prepared the accompanying financial data for the three months ended January 31, 2011 and 2010 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 2010 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, 2011 and October 31, 2010, condensed consolidated statement of operations for the three months ended January 31, 2011 and 2010, and condensed consolidated statement of cash flows for the three months ended January 31, 2011 and 2010.

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



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

post-retirement benefit plan assumptions, goodwill and purchased intangible assets, restructuring and asset impairment charges and accounting for income taxes.

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

*Update to Significant Accounting Policies.* With the exception of the adoption of the new accounting pronouncements related to revenue recognition, which are discussed below, there have been no material changes to our significant accounting policies, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2010.

*Revenue Recognition for Arrangements with Multiple Deliverables.* On November 1, 2010, we adopted accounting update regarding revenue recognition for multiple deliverable arrangements and accounting update for certain revenue arrangements that include software elements.

We adopted the above accounting updates on a prospective basis for applicable transactions originating or materially modified after November 1, 2010. The amended update for multiple deliverable arrangements did not change the units of accounting for our revenue transactions, and most products and services qualify as separate units of accounting. Under the previous guidance for multiple deliverable arrangements with software elements, we typically applied the residual method to allocate revenue if we were unable to determine vendor specific objective evidence of fair value or verifiable objective evidence of fair value for the delivered element but were able to obtain fair value for any undelivered elements.

The adoption of the amended revenue recognition rules did not significantly change the timing of revenue recognition and did not have a material impact on our consolidated financial statements for the three months ended January 31, 2011. We cannot reasonably

Table of Contents

estimate the effect of adopting these standards on future financial periods as the impact will vary depending on the nature and volume of new or materially modified sales arrangements in any given period.

Our multiple-element arrangements are generally comprised of a combination of measurement instruments, installation or other start-up services and/or software and/or support or services. Hardware and software elements are typically delivered at the same time and revenue is recognized upon delivery once title and risk of loss pass to the customer. Delivery of installation, start-up services and other services varies based on the complexity of the equipment, staffing levels in a geographic location and customer preferences, and can range from a few days to a few months. Service revenue is deferred and recognized over the contractual period or as services are rendered and accepted by the customer. Revenue from the sale of software products that are not required to deliver the tangible product's essential functionality are accounted for under software revenue recognition rules which require vendor specific objective evidence (VSOE) of fair value to allocate revenue in a multiple element arrangement. Our arrangements generally do not include any provisions for cancellation, termination, or refunds that would significantly impact recognized revenue.

We have evaluated the deliverables in our multiple-element arrangements and concluded that they are separate units of accounting if the delivered item or items have value to the customer on a standalone basis and for an arrangement that includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in our control. We allocate revenue to each element in our multiple-element arrangements based upon their relative selling prices. We determine the selling price for each deliverable based on a selling price hierarchy. The selling price for a deliverable is based on VSOE if available, third-party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available. Revenue allocated to each element is then recognized when the basic revenue recognition criteria for that element have been met.

We use VSOE of selling price in the selling price allocation in all instances where it exists. VSOE of selling price for products and services is determined when a substantial majority of the selling prices fall within a reasonable range when sold separately. TPE of selling price can be established by evaluating largely interchangeable competitor products or services in standalone sales to similarly situated customers. As our products contain a significant element of proprietary technology and the solution offered differs substantially from that of competitors, it is difficult to obtain the reliable standalone competitive pricing necessary to establish TPE. ESP represents the best estimate of the price at which we would transact a sale if the product or service were sold on a standalone basis. We determine ESP for a product or service by using historical selling prices which reflect multiple factors including, but not limited to customer type, geography, market conditions, competitive landscape, gross margin objectives and pricing practices. The determination of ESP is made through consultation with and approval by management. We may modify or develop new pricing practices and strategies in the future. As these pricing strategies evolve, we may modify our pricing practices in the future, which may result in changes in ESP. The aforementioned factors may result in a different allocation of revenue to the deliverables in multiple element arrangements from the current fiscal quarter, which may change the pattern and timing of revenue recognition for these elements but will not change the total revenue recognized for the arrangement.

*Fair Value of Financial Instruments.* The carrying values of certain of our financial instruments including cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, accounts payable, short-term debt, accrued compensation and other accrued liabilities approximate fair value because of their short maturities. Agilent determines the fair value of short-term and long-term investments in debt securities considering information obtained from independent pricing sources. The fair value of long-term equity investments is determined using quoted market prices for those securities when available. The fair value of foreign currency contracts used for hedging purposes is estimated internally by using inputs tied to active markets. See also Note 9, *Fair Value Measurements* for additional information on the fair value of financial instruments.

*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 the authoritative guidance. The circumstances

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

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 or if our market capitalization is below our net book value.

The provisions of authoritative guidance require that we perform a two-step impairment test on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. The second step (if necessary) measures the amount of impairment by applying fair-value-based tests to the individual assets and liabilities within each reporting unit. As defined in the authoritative guidance, a reporting unit is an operating segment, or one level below an operating segment. Accordingly, we have aggregated components of an operating segment that have similar economic characteristics into our reporting units. At the time of an acquisition,

Table of Contents

we assign goodwill to the reporting unit that is expected to benefit from the synergies of the combination. Agilent has three reporting units, which are the same as our operating segments: life sciences, chemical analysis and electronic measurement.

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.

Purchased intangible assets consist primarily of acquired developed technologies, proprietary know-how, trademarks, and customer relationships and are amortized using the straight-line method over estimated useful lives ranging from 6 months to 15 years. In process research and development (IPR&D) is initially capitalized at fair value as an intangible asset with an indefinite life and assessed for impairment thereafter. When the IPR&D project is complete, it is reclassified as an amortizable purchased intangible asset and is amortized over its estimated useful life. If an IPR&D project is abandoned, Agilent will record a charge for the value of the related intangible asset to Agilent's consolidated statement of operations in the period it is abandoned.

Table of Contents

2. NEW ACCOUNTING PRONOUNCEMENTS

In October 2009, the FASB amended revenue recognition guidance for arrangements with multiple deliverables. The guidance eliminates the residual method of revenue recognition and allows the use of management's best estimate of selling price for individual elements of an arrangement when vendor specific objective evidence (VSOE), or third-party evidence (TPE) is unavailable. The FASB also amended the scope of existing software revenue recognition accounting. Tangible products containing software components and non-software components that function together to deliver the product's essential functionality would be scoped out of the accounting guidance on software and accounted for based on other appropriate revenue recognition guidance. We adopted both of the above guidance effective November 1, 2010 on a prospective basis. The adoption of the amended revenue recognition rules did not have a material impact on our consolidated financial statements. See Note 1, Overview, Basis of Presentation and Summary of Significant Accounting Policies for additional information.

In January 2010, the FASB issued guidance that requires new disclosures for fair value measurements and provides clarification for existing disclosure requirements. The guidance is effective for interim and annual periods beginning after December 15, 2009, except for gross presentation of activity in level 3 which is effective for annual periods beginning after December 15, 2010, and for interim periods in those years. We adopted the guidance for new disclosures for fair value measurements and clarification for existing disclosure requirements as of February 1, 2010 and there was no material impact on our consolidated financial statements. Additionally, we will adopt the guidance regarding level 3 activity on November 1, 2011 and we do not expect there to be a material impact to our consolidated financial statements. See Note 9, Fair Value Measurements for additional information on the fair value of financial instruments.

In April 2010, the FASB issued guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. The guidance is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010, with early adoption permitted. We adopted the guidance in the first quarter of 2011 and there was no material impact on our consolidated financial statements.

3. ACQUISITION OF VARIAN

On May 14, 2010, we completed the previously announced acquisition of Varian through the merger of Varian and Cobalt Acquisition Corp., a direct wholly-owned subsidiary of Agilent (the Purchaser) under the Merger Agreement, dated July 26, 2009. As a result of the merger, Varian has become a wholly-owned subsidiary of Agilent. Accordingly, the results of Varian are included in Agilent's consolidated financial statements from the date of the merger.

The consideration paid was approximately \$1,507 million, comprising \$52 cash per share of Varian's outstanding common stock. We also paid \$17 million to acquire Varian's vested in-the-money stock options at \$52 cash per share less their exercise price. In addition we paid \$12 million for Varian's non-vested in-the-money stock options at \$52 cash per share less their exercise price, Varian's non-vested restricted stock awards and non-vested performance shares, at 100 percent of target each at \$52 cash per share. In accordance with the authoritative accounting guidance, settlement of the non-vested awards is considered to be for the performance of post combination services and is therefore stock-based compensation expensed immediately after acquisition. Agilent funded the acquisition using the proceeds from our September 2009 offering of senior notes and other existing cash.

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

The Varian merger was accounted for in accordance with the authoritative accounting guidance. The acquired assets and assumed liabilities were recorded by Agilent at their estimated fair values. Agilent determined the estimated fair values with the assistance of appraisals or valuations performed by independent third party specialists, discounted cash flow analyses, quoted market prices where available, and estimates made by management. We expect to realize operational and cost synergies, leverage the existing sales channels and product development resources, and utilize the assembled workforce. The company expects the combined entity to achieve significant savings in corporate and divisional overhead costs. The company also anticipates opportunities for growth through expanded geographic and customer segment diversity and the ability to leverage additional products and capabilities. These factors, among others, contributed to a purchase price in excess of the estimated fair value of Varian's net identifiable assets acquired (see summary of net assets below), and, as a result, we have recorded goodwill in connection with this transaction.

Goodwill acquired was allocated to our operating segments and reporting units as a part of the purchase price allocation. We do not expect the goodwill recognized to be deductible for income tax purposes. Any impairment charges made in the future associated with goodwill will not be tax deductible.

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

## Table of Contents

The purchase price was allocated to the estimated fair values of the assets acquired and liabilities assumed on the closing date of May 14, 2010. For the completed purchase price allocation refer to Note 3 of Agilent's 2010 Form 10K.

The following represents pro forma operating results as if Varian had been included in the company's condensed consolidated statements of operations as of the beginning of the fiscal year presented (in millions, except per share amounts):

	<b>Three Months Ended January 31, 2010</b>	
Net revenue	\$	1,743
Net income	\$	123
Net income per share - basic	\$	0.35
Net income per share - diluted	\$	0.35

The pro forma financial information assumes that the companies were combined as of November 1, 2009 and include business combination accounting effects from the acquisition including amortization charges from acquired intangible assets, reduction in revenue and increase in cost of sales due to the respective estimated fair value adjustments to deferred revenue and inventory, decrease to interest income for cash used in the acquisition, acquisition related transaction costs and tax related effects. The pro forma information as presented above is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of fiscal 2010.

The unaudited pro forma financial information for the three months ended January 31, 2010 combine the historical results of Agilent for the three months ended January 31, 2010 and the historical results for Varian for the three months ended January 1, 2010 (due to differences in reporting periods).

## 4. SHARE-BASED COMPENSATION

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

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

	<b>Three Months Ended January 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(in millions)</b>	

Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

Cost of products and services	\$	7	\$	6
Research and development		4		4
Selling, general and administrative		17		15
Total share-based compensation expense	\$	28	\$	25

At January 31, 2011 there was no share-based compensation capitalized within inventory. The windfall tax benefit realized from exercised stock options and similar awards was not material for the three months ended January 31, 2011 and 2010.



Table of Contents

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

	Three Months Ended January 31,	
	2011	2010
<b>Stock Option Plans:</b>		
Weighted average risk-free interest rate	1.5%	2.2%
Dividend yield	0%	0%
Weighted average volatility	35%	37%
Expected life	5.8 yrs	4.4 yrs
<b>LTPP:</b>		
Volatility of Agilent shares	40%	39%
Volatility of selected peer-company shares	20-76%	20-80%
Price-wise correlation with selected peers	55%	53%

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

We use historical volatility to estimate the expected stock price volatility assumption for employee stock option awards. In reaching the conclusion, we have considered many factors including the extent to which our options are currently traded and our ability to find traded options in the current market with similar terms and prices to the options we are valuing. For the grants awarded under the 2009 stock plan after November 1, 2010, we increased the period available to retirement eligible employees to exercise their options from three years at retirement date to the full contractual term of ten years. In developing our estimated life of our employee stock options of 5.8 years, we considered the historical option exercise behavior of our executive employees who were granted the majority of the options during the three months ended January 31, 2011, which we believe is representative of future behavior.

5. PROVISION FOR INCOME TAXES

For the three months ended January 31, 2011, we recorded an income tax provision of \$5 million compared to an income tax provision of \$4 million in the same period last year. The income tax provision for the three months ended January 31, 2011 includes net discrete tax benefits of \$15 million. The net discrete benefits relate primarily to a tax settlement with a foreign tax authority. The income tax provision for the three months ended January 31, 2010 includes net discrete tax benefits of \$9 million. The net discrete benefits relate primarily to tax settlements, lapses of statutes of limitations and valuation allowance adjustments based on changes in other comprehensive income items. Without considering interest and penalties, the rate reflects taxes in all jurisdictions except the U.S. and foreign jurisdictions in which income tax expense or benefit continues to be offset by adjustments to valuation allowances. We intend to maintain partial or full valuation allowances in these jurisdictions until sufficient positive evidence exists to support its reversal.

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

In the U.S., tax years remain open back to the year 2006 for federal income tax purposes and the year 2000 for state purposes. In other major jurisdictions where we conduct business, the tax years generally remain open back to the year 2003. With these jurisdictions and the US, it is possible that there could be significant changes to our unrecognized tax benefits in the next twelve months due to either the expiration of a statute of limitation or a tax audit settlement. Because of the uncertainty as to the timing of a potential settlement or the completion of tax audits, an estimate cannot be made of the range of tax increases or decreases that could occur in the next twelve months.

In December 2010, Agilent reached an agreement with the IRS for tax years 2003-2005. In addition, Agilent and the IRS reached an agreement on transfer pricing issues covering years 2003-2007. Tax adjustments resulting from these agreements were offset by applying available net operating losses and tax credit carry forwards. Primarily as a result of these agreements, unrecognized tax benefits were reduced from \$656 million at October 31, 2010 to \$555 million at January 31, 2011. Agilent's U.S. federal income tax returns for 2006 through 2007 are currently under audit by the IRS.

Table of Contents

## 6. NET INCOME PER SHARE

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

	Three Months Ended	
	2011	2010
	January 31, (in millions)	
Numerator:		
Net income	\$ 193	\$ 79
Denominators:		
Basic weighted-average shares	347	348
Potentially dilutive common stock equivalents and other employee stock plans	8	6
Diluted weighted-average shares	355	354

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 and the dilutive effect of in-the-money options and non-vested restricted stock units. Under the treasury stock method, the amount the employee must pay for exercising stock options and unamortized share-based compensation expense are assumed proceeds to be used to repurchase hypothetical shares. An increase in the fair market value of the company's common stock can result in a greater dilutive effect from potentially dilutive awards.

For the quarter ended January 31, 2011, options to purchase 27,000 shares with a weighted average exercise price of \$43 were excluded from the calculation of diluted earnings per share as their effect was anti-dilutive. For the quarter ended January 31, 2010, options to purchase 16 million shares with a weighted average exercise price of \$34 were excluded from the calculation of diluted earnings per share as their effect was anti-dilutive. For the quarters ended January 31, 2011 and January 31, 2010 the average stock price was \$39 and \$29, respectively.

## 7. INVENTORY

	January 31,	October 31,
	2011	2010
	(in millions)	
Finished goods	\$ 378	\$ 338
Purchased parts and fabricated assemblies	419	378
Inventory	\$ 797	\$ 716

## 8. GOODWILL AND OTHER INTANGIBLE ASSETS

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

The following table presents goodwill balances and the movements for each of our reportable segments during the three months ended January 31, 2011:

	Life Sciences	Chemical Analysis	Electronic Measurement	Total
	(in millions)			
Goodwill as of October 31, 2010	\$ 311	\$ 747	\$ 398	\$ 1,456
Foreign currency translation impact and other adjustments	(1)	(4)	(3)	(8)
Goodwill as of January 31, 2011	\$ 310	\$ 743	\$ 395	\$ 1,448

Table of Contents

The components of other intangibles as of January 31, 2011 and October 31, 2010 are shown in the table below:

	Gross Carrying Amount	Purchased Other Intangible Assets Accumulated Amortization and Impairments (in millions)		Net Book Value
<b>As of October 31, 2010:</b>				
Purchased technology	\$ 466	\$	176	\$ 290
Backlog	12		12	
Trademark/Tradenname	39		13	26
Customer relationships	236		77	159
Total amortizable intangible assets	\$ 753	\$	278	\$ 475
In-Process R&D	19			19
Total	\$ 772	\$	278	\$ 494
<b>As of January 31, 2011:</b>				
Purchased technology	\$ 465	\$	193	\$ 272
Backlog	12		12	
Trademark/Tradenname	40		16	24
Customer relationships	237		85	152
Total amortizable intangible assets	\$ 754	\$	306	\$ 448
In-Process R&D	19			19
Total	\$ 773	\$	306	\$ 467

There were no additions or impairments of other intangibles during the first three months ended January 31, 2011. Amortization of intangible assets was \$28 million for the three months ended January 31, 2011 and \$10 million for the same period in the prior year. Future amortization expense related to existing purchased intangible assets is estimated to be \$78 million for the remainder of 2011, \$86 million for 2012, \$70 million for 2013, \$61 million for 2014, \$50 million for 2015, \$44 million for 2016, and \$78 million thereafter.

## 9. FAIR VALUE MEASUREMENTS

The authoritative guidance defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, we consider the principal or most advantageous market and assumptions that market participants would use when pricing the asset or liability.

### *Fair Value Hierarchy*

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

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

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

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

Table of Contents*Assets and Liabilities Measured at Fair Value on a Recurring Basis*

Assets and liabilities measured at fair value on a recurring basis as of January 31, 2011 were as follows:

	January 31, 2011	Fair Value Measurement at January 31, 2011 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in millions)				
<b>Assets:</b>				
Short-term				
Cash equivalents (money market funds)	\$ 1,189	\$ 1,189	\$	\$
Derivative instruments (foreign exchange contracts)	24		24	
Long-term				
Trading securities	49	49		
Derivative instruments (interest rate contracts)	9		9	
Available-for-sale investments	10	10		
Total assets measured at fair value	\$ 1,281	\$ 1,248	\$ 33	\$
<b>Liabilities:</b>				
Short-term				
Derivative instruments (foreign exchange contracts)	\$ 18	\$	\$ 18	\$
Long-term				
Deferred compensation liability	47		47	
Total liabilities measured at fair value	\$ 65	\$	\$ 65	\$

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

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

For assets measured at fair value using significant unobservable inputs (level 3), the following table summarizes the change in balances during the three months ended January 31, 2011 and 2010:

Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

	Three Months Ended January 31,	
	2011	2010
	(in millions)	
Balance, beginning of period	\$	\$ 6
Realized losses related to amortization of premium		
Unrealized gains included in accumulated other comprehensive income		
Realized losses related to investment impairments		
Sales		(2)
Transfers into level 3		
Transfers out of level 3		(1)
Balance, end of period	\$	\$ 3
Total losses included in net income attributable to change in unrealized losses relating to assets still held at the reporting date, reported in interest and other income, net	\$	\$



Table of Contents

*Impairment of Investments.* All of our investments, excluding trading securities, are subject to periodic impairment review. The impairment analysis requires significant judgment to identify events or circumstances that would likely have significant adverse effect on the future value of the investment. We consider various factors in determining whether an impairment is other-than-temporary, including the severity and duration of the impairment, forecasted recovery, the financial condition and near-term prospects of the investee, and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. There were no other than temporary impairments for investments for the three months ended January 31, 2011 and 2010.

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

*Impairment of Long-Lived Assets.* There were no impairments of long-lived assets for the three months ended January 31, 2011. For the three months ended January 31, 2010, long-lived assets held and used with a carrying amount of \$28 million were written down to their fair value of \$23 million, resulting in an impairment charge of \$5 million, which was included in net income for the period. Long-lived assets held for sale with a carrying amount of \$30 million were written down to their fair value of \$16 million, resulting in an impairment charge of \$14 million, which was included in net income for the period. Fair value for the impaired long-lived assets were measured using level 2 inputs.

10. DERIVATIVES

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

*Fair Value Hedges*

The company enters into fair value hedges to reduce the exposure of our debt portfolio to interest rate risk. We issue long-term senior notes in U.S. dollars based on market conditions at the time of financing. We use interest rate swaps to modify the market risk exposure in connection with fixed interest rate senior notes to U.S. dollar London inter-bank offered rate ( LIBOR )-based floating interest rate. Alternatively, we may choose not to swap fixed for floating interest rate or may terminate a previously executed swap. We designate and qualify these interest rate swaps as fair value hedges of the interest rate risk inherent in the debt. For derivative instruments that are designated and qualify as fair value hedges, we recognize the gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, in interest expense, in the consolidated statement of operations. The fair value of the swaps is recorded on the consolidated balance sheet at each period end, with an offsetting entry in senior notes. As of January 31, 2011, there were 14 interest rate swap contracts designated as fair value hedges associated with our 2012, 2015 and 2020 senior notes. The notional amount of these interest rate swap contracts, receive-fixed/pay-variable, was \$1,250 million. On November 25, 2008, we terminated two interest rate swap contracts associated with our 2017 senior notes that represented the notional amount of \$400 million. The asset value upon termination was approximately \$43 million and the amount to be amortized at January 31, 2011 was \$34 million. The proceeds were recorded as operating cash flows and the gain is being deferred and amortized over the remaining life of the 2017 senior notes.

*Cash Flow Hedges*

The company also enters into foreign exchange contracts to hedge our forecasted operational cash flow exposures resulting from changes in foreign currency exchange rates. These foreign exchange contracts, carried at fair value, have maturities between one and twelve months. These derivative instruments are designated and qualify as cash flow hedges under the criteria prescribed in the authoritative guidance. The changes in the value of the effective portion of the derivative instrument are recognized in accumulated other comprehensive income. Amounts associated with cash flow hedges are reclassified to cost of sales in the 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 consolidated statement of operations in the current period.

***Other Hedges***

Additionally, the company enters into foreign exchange contracts to hedge monetary assets and liabilities that are denominated in currencies other than the functional currency of our subsidiaries. These foreign exchange contracts are carried at fair value and do not qualify for hedge accounting treatment and are not designated as hedging instruments. Changes in value of the derivative are recognized in other income (expense) in the consolidated statement of operations, in the current period, along with the offsetting foreign currency gain or loss on the underlying assets or liabilities.

Table of Contents

The company's use of derivative instruments exposes it to credit risk to the extent that the counterparties may be unable to meet the terms of the agreement. The company does, however, seek to mitigate such risks by limiting its counterparties to major financial institutions which are selected based on their credit ratings and other factors. We have established policies and procedures for mitigating credit risk that include establishing counterparty credit limits, monitoring credit exposures, and continually assessing the creditworthiness of counterparties.

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 investment grade, the counterparties to the derivative instruments may request collateralization on derivative instruments in net liability positions.

The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position as of January 31, 2011, was approximately \$5 million for forward contracts and \$6 million for interest rate swap derivatives. The credit-risk-related contingent features underlying these agreements had not been triggered as of January 31, 2011.

There were 80 foreign exchange forward contracts and 7 foreign exchange option contracts open as of January 31, 2011 and designated as cash flow hedges. There were 242 foreign exchange forward contracts open as of January 31, 2011 not designated as hedging instruments. The aggregated U.S. Dollar notional amounts by currency and designation as of January 31, 2011 were as follows:

Currency	Derivatives in Cash Flow Hedging Relationships		Option Contracts Buy/(Sell) (in millions)	Derivatives Not Designated as Hedging Instruments Forward Contracts Buy/(Sell)
	Forward Contracts Buy/(Sell)	Option Contracts Buy/(Sell)		
Euro	\$ (38)	\$	\$	43
British Pound	(27)			141
Canadian Dollar	(34)			18
Australian Dollars	35			(1)
Malaysian Ringgit	92			29
Japanese Yen	(65)		(126)	(44)
Other	20			4
	\$ (17)	\$	(126)	\$ 190

Derivative instruments are subject to master netting arrangements and qualify for net presentation in the balance sheet. The gross fair values and balance sheet location of derivative instruments held in the condensed consolidated balance sheet as of January 31, 2011 and October 31, 2010 were as follows:

Balance Sheet Location	Fair Values of Derivative Instruments				
	Asset Derivatives		Liability Derivatives		
	Fair Value		Fair Value		
	January 31, 2011	October 31, 2010	Balance Sheet Location	January 31, 2011	October 31, 2010

Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

(in millions)

**Derivatives designated as hedging instruments:**

*Fair value hedges*

Interest rate contracts

Other assets	\$	25	\$	61	Other assets	\$	16	\$
--------------	----	----	----	----	--------------	----	----	----

*Cash flow hedges*

Foreign exchange contracts

Other current assets	\$	6	\$	13	Other accrued liabilities	\$	7	\$	15
	\$	31	\$	74		\$	23	\$	15

**Derivatives not designated as hedging instruments:**

Foreign exchange contracts

Other current assets	\$	18	\$	11	Other accrued liabilities	\$	11	\$	7
	\$	18	\$	11		\$	11	\$	7

Total derivatives	\$	49	\$	85		\$	34	\$	22
-------------------	----	----	----	----	--	----	----	----	----

Table of Contents

The effect of derivative instruments for foreign exchange contracts designated as hedging instruments and not designated as hedging instruments in our consolidated statement of operations were as follows:

	Three Months Ended January 31,	
	2011	2010
	(in millions)	
<b>Derivatives designated as hedging instruments:</b>		
<i>Fair Value Hedges</i>		
Gain on interest rate swap contracts in interest expense	\$ 8	\$ 4
<i>Cash Flow Hedges</i>		
Gain (loss) recognized in accumulated other comprehensive income	\$ (2)	\$ 2
Gain (loss) reclassified from accumulated other comprehensive income into cost of sales	\$ (1)	\$
<b>Derivatives not designated as hedging instruments:</b>		
Gain (loss) recognized in other income (expense)	\$ 4	\$ (12)

The estimated net amount of existing gains at January 31, 2011 that is expected to be reclassified from other comprehensive income to the cost of sales within the next twelve months is \$2 million.

11. RESTRUCTURING COSTS, ASSET IMPAIRMENTS AND OTHER SPECIAL CHARGES

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

Our 2009 restructuring program, the ( FY 2009 Plan ), announced in the first half of 2009, was conceived in response to deteriorating economic conditions and was designed to deliver sufficient savings to enable our businesses to reach their profitability targets throughout the cycle. Workforce reduction payments, primarily severance, were largely complete in fiscal year 2010. Lease payments should primarily be complete by the end of fiscal 2014. As of January 31, 2011, a small number of employees outside of the U.S. within electronic measurement are pending termination under the FY 2009 Plan.

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

	Workforce Reduction	Consolidation of Excess Facilities	Special Charges related to Inventory	Total
	(in millions)			
<b>Balance as of October 31, 2010</b>	\$ 8	\$ 26	\$ 1	\$ 35
Income statement expense	1	1		2

Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

Asset impairments/inventory charges				
Cash payments	(5)	(3)	(1)	(9)
<b>Balance as of January 31, 2011</b>	<b>\$ 4</b>	<b>\$ 24</b>	<b>\$</b>	<b>28</b>

The restructuring and other special accruals for all plans, which totaled \$28 million at January 31, 2011, are recorded in other accrued liabilities and other long-term liabilities on the condensed consolidated balance sheet. These balances reflect estimated future cash outlays.

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

	Three Months Ended January 31,	
	2011	2010
	(in millions)	
Cost of products and services	\$	\$ 3
Research and development		1
Selling, general and administrative	2	30
Total restructuring, asset impairments and other special charges	\$ 2	\$ 34

Table of Contents

12. RETIREMENT PLANS AND POST RETIREMENT PENSION PLANS

*Components of net periodic costs.* For the three months ended January 31, 2011 and 2010, 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	
	2011	2010	Three Months Ended January 31,		Three Months Ended January 31,		2011	2010
			2011	2010	2011	2010		
	(in millions)							
Service cost benefits earned during the period	\$ 10	\$ 10	\$ 8	\$ 8	\$ 1	\$ 1	\$ 1	\$ 1
Interest cost on benefit obligation	7	7	17	18	7	7	7	7
Expected return on plan assets	(11)	(10)	(23)	(22)	(5)	(5)	(5)	(5)
Amortization and deferrals:								
Actuarial losses	1	2	10	13	4	4	4	4
Prior service cost	(3)	(3)			(4)	(4)	(4)	(4)
Total net plan costs	\$ 4	\$ 6	\$ 12	\$ 17	\$ 3	\$ 3	\$ 3	\$ 3

We contributed approximately \$3 million to our U.S. defined benefit plans and \$13 million to our non-U.S. defined benefit plans during the three months ended January 31, 2011 and \$2 million and \$12 million, respectively, for the same period in 2010. We expect to contribute approximately \$30 million to our U.S. defined benefit plans and \$38 million to our non-U.S. defined benefit plans during the remainder of 2011.

13. WARRANTIES

We accrue for standard warranty costs based on historical trends in warranty charges as a percentage of net product shipments. The accrual is reviewed regularly and periodically adjusted to reflect changes in warranty cost estimates. Estimated warranty charges are recorded within cost of products at the time products are sold. The standard warranty accrual balances are held in other accrued and other long-term liabilities on our condensed consolidated balance sheet. Our warranty terms typically extend for one year from the date of delivery.

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

	FY 2011		FY 2010	
	(in millions)			
Beginning balance as of November 1	\$	45	\$	28
Accruals for warranties issued during the period		17		13

Changes in estimates				(1)
Settlements made during the period		(15)		(12)
Ending balance as of January 31	\$	47	\$	28

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

*Credit Facility*

On May 11, 2007, we entered into a five-year credit agreement, which provides for a \$300 million unsecured credit facility that will expire on May 11, 2012. On September 8, 2009, we entered into an Accession Agreement, increasing the credit facility from \$300 million to \$330 million. The company may use amounts borrowed under the facility for general corporate purposes. As of January 31, 2011 the company has no borrowings outstanding under the facility.

On August 17, 2009 the credit facility agreement was amended to provide additional financing flexibility in advance of the acquisition of Varian, Inc. The amendment allows for up to \$1 billion of additional indebtedness, incurred during the period from August 17, 2009 through the closing of the acquisition, May 14, 2010, to be excluded from the leverage ratio covenant until March 1, 2011. It also temporarily reduces the basket for other secured financing we are permitted to incur from \$300 million to \$75 million during this period. The amendment also increases by \$500 million the amount of repurchase obligations (such as those of Agilent



Table of Contents

Technologies World Trade, Inc., a consolidated wholly-owned subsidiary of Agilent ( World Trade ), that we are permitted to incur. We were in compliance with the covenants for the credit facility during the three months ended January 31, 2011.

**World Trade Debt**

We satisfied the financing obligation of World Trade in its entirety on December 10, 2010 using the proceeds of our senior notes issued in July 2010 and existing cash on our balance sheet.

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

As of October 31, 2010, \$1,550 million was reported as short-term restricted cash and cash equivalents in our consolidated balance sheet which was held in commercial paper maintained in connection with our World Trade repurchase obligation. This restricted cash, held by one of our wholly-owned subsidiaries, has been reclassified to cash and cash equivalents following the December 10, 2010 settlement of the World Trade repurchase obligation.

15. LONG-TERM DEBT

**Senior Notes**

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

	January 31, 2011			October 31, 2010		
	Discounted Principal	Swap	Total	Discounted Principal	Swap	Total
	(in millions)					
2012 Senior Notes	\$ 250	\$ 5	\$ 255	\$ 250	\$ 6	\$ 256
2013 Senior Notes	250		250	249		249
2015 Senior Notes	499	20	519	499	37	536
2017 Senior Notes	598	34	632	598	35	633
2020 Senior Notes	498	(16)	482	498	18	516
Total	\$ 2,095	\$ 43	\$ 2,138	\$ 2,094	\$ 96	\$ 2,190

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

### 2012 Senior Notes

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

### 2013 Senior Notes

In July 2010, the company issued an aggregate principal amount of \$250 million in senior notes. The senior notes were issued at 99.82% of their principal amount. The notes will mature on July 15, 2013, and bear interest at a fixed rate of 2.50% per annum. The interest is payable semi-annually on January 15th and July 15th of each year, payments commenced on January 15, 2011.

### 2015 Senior Notes

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

### 2017 Senior Notes

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

Table of Contents

2020 Senior Notes

In July 2010, the company issued an aggregate principal amount of \$500 million in senior notes. The senior notes were issued at 99.54% of their principal amount. The notes will mature on July 15, 2020, and bear interest at a fixed rate of 5.00% per annum. The interest is payable semi-annually on January 15th and July 15th of each year, payments commenced on January 15, 2011.

All notes issued are unsecured and rank equally in right of payment with all of Agilent's other senior unsecured indebtedness. The company incurred issuance costs of \$5 million in connection with the 2017 senior notes, incurred \$5 million in connection with the 2015 and 2012 senior notes and incurred \$5 million in connection with 2013 and 2020 senior notes. These costs were capitalized in other assets on the 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 two interest rate swap contracts associated with our 2017 senior notes that represented the notional amount of \$400 million. The asset value upon termination was approximately \$43 million and the amount to be amortized at January 31, 2011 was \$34 million. The gain is being deferred and amortized over the remaining life of the senior notes.

Upon the closing of the offering of the 2015 and 2012 senior notes, we entered into interest rate swaps with an aggregate notional amount of \$750 million. Also concurrent with issuing the 2020 senior notes in July 2010, we entered into interest rate swaps with an aggregate notional amount of \$500 million. Under the interest rate swaps, we will receive fixed-rate interest payments and will make payments based on the U.S. dollar LIBOR plus 253 basis points, 258 basis points and 179 basis points with respect to the 2015, 2012 and 2020 senior notes, respectively. The economic effect of these swaps will be to convert the fixed-rate interest expense on the senior notes to a variable LIBOR-based interest rate. The hedging relationship qualifies for the shortcut method of assessing hedge effectiveness, and consequently we do not expect any ineffectiveness during the life of the swap and any movement in the value of the swap would be reflected in the movement in fair value of the senior notes. At January 31, 2011, the fair value of the swaps on 2015 and 2012 senior notes was an asset of \$25 million, with a corresponding increase in the carrying value of senior notes, and a liability of \$16 million on 2020 senior notes with a corresponding decrease in carrying value of the senior notes.

16. COMPREHENSIVE INCOME

The following table presents the components of comprehensive income:

	Three Months Ended January 31,	
	2011	2010
	(in millions)	
Net income	\$ 193	\$ 79
Other comprehensive income:		
Change in unrealized gain and loss on investments		1
Change in unrealized gain and loss on derivative instruments	(2)	2
Reclassification of losses into earnings related to derivative instruments	1	

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

Foreign currency translation	21	(27)
Change in deferred net pension cost	8	12
Deferred taxes	(3)	(4)
Comprehensive income	\$ 218	\$ 63

### 17. STOCK REPURCHASE PROGRAM

On November 19, 2009 our Board of Directors approved a share-repurchase program to reduce or eliminate dilution of basic outstanding shares in connection with issuances of stock under the company's equity incentive plans. The share-repurchase program does not require the company to acquire a specific number of shares and may be suspended or discontinued at any time. There is no fixed termination date for the new share-repurchase program. For the three months ended January 31, 2011 and 2010, we repurchased 6 million shares for \$270 million and 3 million shares for \$100 million, respectively, using settlement date calculation. All such shares and related costs are held as treasury stock and accounted for using the cost method.

### 18. SEGMENT INFORMATION

*Description of segments.* We are a measurement company, providing core bio-analytical and electronic measurement solutions to the life sciences, chemical analysis, communications and electronics industries. The three operating segments were determined based primarily on how the chief operating decision maker views and evaluates our operations. Operating results are regularly

Table of Contents

reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Other factors, including market separation and customer specific applications, go-to-market channels, products and services and manufacturing are considered in determining the formation of these operating segments.

A description of our three reportable segments is as follows:

Our life sciences business provides application-focused solutions that include instruments, software, consumables, and services that enable customers to identify, quantify and analyze the physical and biological properties of substances and products. Key product categories in life sciences include: DNA and RNA microarrays and associated scanner, software, and reagents; microfluidics-based sample analysis systems; liquid chromatography (LC) systems, columns and components; liquid chromatography mass spectrometry (LCMS) systems; capillary electrophoresis systems; laboratory software and informatics systems; bio-reagents and related products; laboratory automation and robotic systems, dissolution testing; Nuclear Magnetic Resonance (NMR) and Magnetic Resonance Imaging (MRI) systems along with X-Ray Crystallography, and services and support for the aforementioned products.

Our chemical analysis business provides application-focused solutions that include instruments, software, consumables, and services that enable customers to identify, quantify and analyze the physical and biological properties of substances and products. Key product categories in chemical analysis include: gas chromatography systems, columns and components; gas chromatography mass spectrometry systems; inductively coupled plasma mass spectrometry products; spectroscopy products; software and data systems; vacuum pumps and measurement technologies; services and support for the aforementioned products.

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

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 consider to be a reasonable reflection of the utilization of services provided to or benefits received by the segments.

The following tables reflect the results of our reportable segments under our management reporting system. These results are not necessarily in conformity with U.S. GAAP. The performance of each segment is measured based on several metrics, including adjusted income from operations. These results are used, in part, by the chief operating decision maker in evaluating the performance of, and in allocating resources to, each of the segments.

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

	Life Sciences	Chemical Analysis	Electronic Measurement	Total
	(in millions)			
<b>Three months ended</b>				
<b>January 31, 2011:</b>				
Total segment revenue	\$ 404	\$ 349	\$ 771	\$ 1,524
Varian acquisition deferred revenue fair value adjustment	\$ (3)	\$ (2)	\$	\$ (5)
Total net revenue	\$ 401	\$ 347	\$ 771	\$ 1,519
Segment income from operations	\$ 48	\$ 65	\$ 156	\$ 269
<b>Three months ended</b>				
<b>January 31, 2010:</b>				
Total net revenue	\$ 340	\$ 244	\$ 629	\$ 1,213
Segment income from operations	\$ 55	\$ 67	\$ 58	\$ 180

Table of Contents

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

	<b>Three Months Ended</b>	
	<b>2011</b>	<b>January 31,</b>
	<b>2010</b>	
	<b>(in millions)</b>	
Total reportable segments' income from operations	\$ 269	\$ 180
Restructuring related costs and asset impairments	(2)	(48)
Transformational programs	(11)	
Interest income	4	3
Interest expense	(23)	(23)
Other income (expense), net	6	9
Varian acquisition and integration costs	(15)	(17)
Varian acquisition related fair value adjustments	(4)	
Amortization of intangibles and other	(26)	(21)
Income from operations before taxes, as reported	\$ 198	\$ 83

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

	<b>Life Sciences</b>	<b>Chemical Analysis</b>	<b>Electronic Measurement</b>	<b>Total</b>
	<b>(in millions)</b>			
<b>Assets:</b>				
As of January 31, 2011	\$ 1,707	\$ 1,716	\$ 2,092	\$ 5,515
As of October 31, 2010	\$ 1,564	\$ 1,635	\$ 2,245	\$ 5,444

Table of Contents

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

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

**Basis of Presentation**

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

**Executive Summary**

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

Total orders for the three months ended January 31, 2011 were \$1,627 million, an increase of 33 percent above the same period last year with each business segment showing significant order growth in the quarter when compared to last year. For the three months ended January 31, 2011, life sciences orders increased 32 percent, chemical analysis orders increased 60 percent and electronic measurement orders increased 24 percent when compared to the first quarter of 2010. The increase in orders associated with the Varian, Inc. (Varian) acquisition less the orders attributable to our recently divested businesses (the network solutions and Hycor businesses) accounted for 11 percentage points of order growth for the three months ended January 31, 2011 when compared to the same period in 2010.

Net revenue of \$1,519 million for the three months ended January 31, 2011 increased 25 percent from the same period last year. The revenue increase associated with the Varian acquisition less the revenue attributable to our divested businesses (the network solutions and Hycor businesses) accounted for 6 percentage points of revenue increase for the three months ended January 31, 2011 when compared to the same



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

period last year. Excluding the Varian acquisition and Hycor divestiture, revenue from life sciences products in academic and government markets increased strongly and demand within the pharmaceutical markets also increased when compared to the same period last year. Excluding the Varian acquisition, revenue from all end-markets grew across the chemical analysis business for the three months ended January 31, 2011 when compared to the same period last year. Within electronic measurement, revenue from general purpose end-markets improved strongly in the three months ended January 31, 2011 when compared to the same period last year led by increased sales to the semiconductor and computer markets. Also within electronic measurement, the communications test businesses improved in the three months ended January 31, 2011 when compared to the same period last year with wireless R&D and wireless manufacturing reporting strong revenue growth in the three months ended January 31, 2011.

Net income for the three months ended January 31, 2011 was \$193 million, compared to \$79 million for the corresponding period last year. In the three months ended January 31, 2011, we generated \$120 million of cash from operations compared with \$30 million generated in the same period last year.

On May 14, 2010, we completed our acquisition of Varian by means of a merger of one of our wholly-owned subsidiaries with and into Varian such that Varian became a wholly-owned subsidiary of Agilent. We financed the purchase price of Varian using the proceeds from our September 2009 offering of senior notes and other existing cash. The Varian merger has been accounted for in

Table of Contents

accordance with the authoritative accounting guidance and the results of Varian are included in Agilent's consolidated financial statements from the date of merger. The company expects the combined entity to achieve significant savings in corporate and divisional overhead costs. The company also anticipates opportunities for growth through expanded geographic and customer segment diversity and the ability to leverage additional products and capabilities. For additional details related to the acquisition of Varian, see Note 3, Acquisition of Varian.

Looking forward, we are focused on integrating Varian's order fulfillment systems and processes into Agilent and our priority is to continue to drive revenue and cost synergies, as well as drive technology sharing between our businesses. We are committed to achieving \$100 million in net savings as a result of the integration of Varian into Agilent. We are also looking to increase our electronic measurement business manufacturing capacity based on current demand.

**Critical Accounting Policies and Estimates**

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

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

*Revenue recognition.* We enter into agreements to sell products (hardware or software), services, and other arrangements (multiple element arrangements) that include combinations of products and services. Revenue from product sales, net of trade discounts and allowances, is recognized provided that persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, and collectability is reasonably assured. Delivery is considered to have occurred when title and risk of loss have transferred to the customer. Revenue is reduced for estimated product returns, when appropriate. For sales that include customer-specified acceptance criteria, revenue is recognized after the acceptance criteria have been met. For products that include installation, if the installation meets the criteria to be considered a separate element, product revenue is recognized upon delivery, and recognition of installation revenue occurs when the installation is complete. Otherwise, neither the product nor the installation revenue is recognized until the installation is complete. Revenue from services is deferred and recognized over the contractual period or as services are rendered and accepted by the customer. We allocate revenue to each element in our multiple-element arrangements based upon their relative selling prices. We determine the selling price for each deliverable based on a selling price hierarchy. The selling price for a deliverable is based on our vendor specific objective evidence (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available. Revenue from the sale of software products that are not required to deliver the tangible product's essential functionality are accounted for under software revenue recognition rules. Revenue allocated to each element is then recognized when the basic revenue recognition criteria for that element have been met. The amount of product revenue recognized is affected by our judgments as to whether an arrangement includes multiple elements. Changes to the elements in an arrangement could affect the timing of the revenue recognition.

*Share-based compensation.* We estimate the stock price volatility using the historical volatility of Agilent's stock options over the most recent historical period equivalent to the expected life of stock options. In reaching this conclusion, we have considered many factors including the extent to which our options are currently traded and our ability to find traded options in the current market with similar terms and prices to the options we are valuing. A 10 percent increase in our estimated historical volatility from 35 percent to 45 percent would generally increase the value of an award and the associated compensation cost by approximately 23 percent if no other factors were changed. In estimating the expected life of our options granted we considered the historical option exercise behavior of our executive employees, which we believe is representative of future behavior.

*Goodwill and purchased intangible assets.* Agilent reviews goodwill for impairment annually during our fourth fiscal quarter and whenever events or changes in circumstances indicate the carrying value may not be recoverable. As defined in the authoritative guidance, a reporting unit is an operating segment, or one level below an operating segment. We have aggregated components of an operating segment that have similar economic characteristics into our reporting units. We have three reporting units for goodwill

Table of Contents

impairment testing purposes: life sciences, chemical analysis and electronic measurement. We test goodwill for possible impairment by first determining the fair value of the related reporting unit and comparing this value to the recorded net assets of the reporting unit, including goodwill.

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

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

The results of our test for goodwill impairment, as of September 30, 2010, showed that the estimated fair values of our life sciences, chemical analysis and electronic measurement reporting units exceeded their carrying values in excess of \$1 billion for each reporting unit. A 1 percent increase in the discount rate lowered the fair value by approximately 15 percent. There was no impairment of goodwill during the three months ended January 31, 2011 or for the year ended October 31, 2010. We continue to assess the overall environment to determine if we would trigger and fail step 1 of the goodwill impairment test.

Purchased intangible assets consist primarily of acquired developed technologies, proprietary know-how, trademarks, and customer relationships and are amortized using the straight-line method over estimated useful lives ranging from 6 months to 15 years. In process research and development (IPR&D) is initially capitalized at fair value as an intangible asset with an indefinite life and assessed for impairment thereafter. When the IPR&D project is complete, it is reclassified as an amortizable purchased intangible asset and is amortized over its estimated useful life. If an IPR&D project is abandoned, Agilent will record a charge for the value of the related intangible asset to Agilent's consolidated statement of operations in the period it is abandoned.

We continually monitor events and changes in circumstances that could indicate carrying amounts of long-lived assets, including purchased intangible assets, may not be recoverable. When such events or changes in circumstances occur, we assess the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the undiscounted future cash flows is less than the carrying amount of those assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets. Based on the analyses, there were no impairments of long-lived assets, including purchased intangible assets for the three months ended January 31, 2011.

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

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

Significant management judgment is also required in determining whether deferred tax assets will be realized in full or in part. When it is more likely than not that all or some portion of specific deferred tax assets such as net operating losses or foreign tax credit carryforwards will not be realized, a valuation allowance must be established for the amount of the deferred tax assets that cannot be realized. We consider all available positive and negative evidence on a jurisdiction-by-jurisdiction basis when assessing whether it is more likely than not that deferred tax assets are recoverable. We consider evidence such as our past operating results, the existence of cumulative losses in recent years and our forecast of future taxable income. At January 31, 2011, we provided a partial valuation allowance for our U.S. deferred tax assets and either a full or partial valuation allowance on certain foreign deferred tax assets. We intend to maintain a partial or full valuation allowance in these jurisdictions until sufficient positive evidence exists to support its reversal. We will continue to evaluate our ability to realize our deferred tax assets. It is reasonably possible that based on this evaluation, we may determine that it is appropriate to release up to the full amount of the U.S. valuation allowance.

Table of Contents

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

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

**Adoption of New Pronouncements**

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

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

Our 2009 restructuring program, the (FY 2009 Plan), announced in the first half of 2009, was conceived in response to deteriorating economic conditions and was designed to deliver sufficient savings to enable our businesses to reach their profitability targets throughout the cycle. Workforce reduction payments, primarily severance, were largely complete in fiscal year 2010. Lease payments should primarily be complete by the end of fiscal 2014. As of January 31, 2011, a small number of employees outside of the U.S. within electronic measurement are pending termination under the FY 2009 Plan.

**Foreign Currency**

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

**Results from Operations**

## Orders and Net Revenue

	Three Months Ended January 31,		2011 over 2010
	2011	2010	
	(in millions)		
Orders	\$ 1,627	\$ 1,220	33%
Net revenue:			
Products	1,258	976	29%
Services and other	261	237	10%
Total net revenue	\$ 1,519	\$ 1,213	25%

Net revenue of \$1,519 million for the three months ended January 31, 2011 increased 25 percent from the same period last year. The revenue increase associated with the Varian acquisition less the revenue attributable to our divested businesses (the network solutions and Hycor businesses) accounted for 6 percentage points of revenue increase for the three months ended January 31, 2011 when compared to the same period last year. Excluding the Varian acquisition and Hycor divestiture, revenue from life sciences products in academic and government markets increased strongly and demand within the pharmaceutical markets also increased when compared to the same period last year. Excluding the Varian acquisition, revenue from all end-markets grew across the chemical analysis business for the three months ended January 31, 2011 when compared to the same period last year. Within electronic measurement, revenue from general purpose end-markets improved strongly in the three months ended January 31, 2011 when compared to the same period last year led by increased sales to the semiconductor and computer markets. Also within electronic measurement, the communications test businesses improved in the three months ended January 31, 2011 when compared to the same period last year with wireless R&D and wireless manufacturing reporting strong revenue growth in the three months ended January 31, 2011. For the three months ended January 31, 2011 Agilent's segment revenue was \$1,524 million, an increase of 26 percent when compared to the same period last year. Note 18 shows a reconciliation between segment revenue and net revenue.

Table of Contents

Services and other revenue include revenue generated from servicing our installed base of products, warranty extensions and consulting. Services and other revenue increased 10 percent in the three months ended January 31, 2011 as compared to the same period in 2010. The increase in services and other revenue associated with the Varian acquisition less the revenue attributable to the network solutions divestiture accounted for 1 percentage point of revenue increase in the three months ended January 31, 2011. The service and other revenue growth is lower than product revenue growth due to only a proportion of product sales attracting service contracts, the recognition of warranty revenue over an extended period and a portion of the revenue being driven more by the previously installed base than current period product sales.

**Operating Results**

	Three Months Ended January 31,		2011 over 2010	
	2011	2010		
Total gross margin	53.8%	54.4%		(1)ppt
Operating margin	13.9%	7.8%		6ppts
<b>(in millions)</b>				
Research and development	\$ 159	\$ 149		7%
Selling, general and administrative	\$ 446	\$ 417		7%

Total gross margins for the three months ended January 31, 2011 showed a 1 percentage point decrease compared to the same period last year. The decrease in gross margins was mostly due to the unfavorable impact of the Varian acquisition (including fair value adjustments). Operating margins have increased 6 percentage points for the three months ended January 31, 2011 compared to the same period last year. The increase in operating margin is due to higher volume, reduction in restructuring expenses, benefits from our previously completed restructuring program offset by the impact of the Varian acquisition.

Research and development expenses increased 7 percent for the three months ended January 31, 2011 compared to the same period last year. Increased expenditures, compared to the same period last year, were mostly due to the Varian acquisition. We remain committed to invest about 10 percent of revenues in research and development and have focused our development efforts on key strategic opportunities in order to align our business with available markets and position ourselves to capture market share.

Selling, general and administrative expenses increased 7 percent for the three months ended January 31, 2011 compared to the same period last year. Increased expenditures were due to the Varian acquisition and higher variable and incentive pay offset by the impact of decreased restructuring expenses and costs associated with divested businesses.

At January 31, 2011, our headcount was approximately 18,385 as compared to approximately 16,350 at January 31, 2010. The increase was mainly due to the Varian acquisition.

**Provision for Income Taxes**



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

For the three months ended January 31, 2011, we recorded an income tax provision of \$5 million compared to an income tax provision of \$4 million in the same period last year. The income tax provision for the three months ended January 31, 2011 includes net discrete tax benefits of \$15 million. The net discrete benefits relate primarily to a tax settlement with a foreign tax authority. The income tax provision for the three months ended January 31, 2010 includes net discrete tax benefits of \$9 million. The net discrete benefits relate primarily to tax settlements, lapses of statutes of limitations and valuation allowance adjustments based on changes in other comprehensive income items. Without considering interest and penalties, the rate reflects taxes in all jurisdictions except the U.S. and foreign jurisdictions in which income tax expense or benefit continues to be offset by adjustments to valuation allowances. We intend to maintain partial or full valuation allowances in these jurisdictions until sufficient positive evidence exists to support its reversal.

At January 31, 2011, our estimate of the annual effective tax rate, including discrete items was 9 percent. The effective income tax rate including discrete items, for the three months ended January 31, 2011 was 2.5 percent for the three months ended January 31, 2011. The company determines its interim tax provision using an estimated annual effective tax rate methodology except in jurisdictions where the company anticipates or has a year-to-date ordinary loss for which no tax benefit can be recognized. In these jurisdictions, tax expense is computed based on an actual or discrete method. Our effective tax rate is affected by research tax credits, the expected level of other tax benefits, the effects of business acquisitions and dispositions, the impact of changes to valuation allowances, changes in other comprehensive income, as well as changes in the mix of income and losses in the jurisdictions in which we operate that have varying statutory rates.

Table of Contents

In the U.S., tax years remain open back to the year 2006 for federal income tax purposes and the year 2000 for state purposes. In other major jurisdictions where we conduct business, the tax years generally remain open back to the year 2003. With these jurisdictions and the US, it is possible that there could be significant changes to our unrecognized tax benefits in the next twelve months due to either the expiration of a statute of limitation or a tax audit settlement. Because of the uncertainty as to the timing of a potential settlement or the completion of tax audits, an estimate cannot be made of the range of tax increases or decreases that could occur in the next twelve months.

In December 2010, Agilent reached an agreement with the IRS for tax years 2003-2005. In addition, Agilent and the IRS reached an agreement on transfer pricing issues covering years 2003-2007. Tax adjustments resulting from these agreements were offset by applying available net operating losses and tax credit carry forwards. Primarily as a result of these agreements, unrecognized tax benefits were reduced from \$656 million at October 31, 2010 to \$555 million at January 31, 2011. Agilent's U.S. federal income tax returns for 2006 through 2007 are currently under audit by the IRS.

**Global Infrastructure Organization**

Agilent's global infrastructure organization (GIO) remains a key component of our operating model. For the three months ended January 31, 2011, GIO, which includes IT, workplace services, human resources, legal, finance and other corporate functions, has reduced its cost structure when compared the same period last year, excluding Varian infrastructure costs. We will continue to efficiently manage and leverage our infrastructure resources to support our businesses in the coming year.

**Segment Overview**

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

**Life Sciences**

Our life sciences business provides application-focused solutions that include instruments, software, consumables, and services that enable customers to identify, quantify and analyze the physical and biological properties of substances and products. Key product categories in life sciences include: DNA and RNA microarrays and associated scanner, software, and reagents; microfluidics-based sample analysis systems; liquid chromatography (LC) systems, columns and components; liquid chromatography mass spectrometry (LC-MS) systems; capillary electrophoresis systems; laboratory software and informatics systems; bio-reagents and related products; laboratory automation and robotic systems, dissolution testing; Nuclear Magnetic Resonance (NMR) and Magnetic Resonance Imaging (MRI) systems along with X-Ray crystallography, and services and support for the aforementioned products.

**Orders and Net Revenue**

	Three Months Ended			2011 over 2010	
	2011	January 31, (in millions)	2010		
Orders	\$	442	\$	336	32%
Net revenue	\$	404	\$	340	19%

Life sciences orders for the three months ended January 31, 2011 increased 32 percent when compared to the same period last year. Excluding the Varian acquisition and the Hycor divestiture, orders grew 11 percent year over year. Order results were led by strength in the LC, LC-MS, automation, consumables, and services portfolios, along with research products including NMR and MRI. We saw solid performance in key products, such as the 1200 Infinity LC Series, SureSelect Target Enrichment System, and automated workflow solutions. Geographically, excluding the impact of the Varian acquisition and the Hycor divestiture, orders grew 11 percent in the Americas, 8 percent in Europe, 4 percent in Japan, and 19 percent in other Asia Pacific for the three months ended January 31, 2011, when compared to the same period last year. In China, we are seeing increased demand of high-end analytical techniques such as LC/Quadrupole-Time of Flight (Q-TOF), LC/Triple Quadrupole (QQQ), NMR and X-ray diffraction instrumentation.

Life sciences revenues for the three months ended January 31, 2011 increased 19 percent when compared to the same period last year. Excluding the Varian acquisition and the Hycor divestiture, revenues grew 7 percent year over year. Foreign currency

Table of Contents

movements for the three months ended January 31, 2011 had an unfavorable currency impact of 1 percentage point on the growth in revenues when compared to the same period last year. During the three months ending January 31, 2011, we integrated the majority of the former Varian businesses to the Agilent quote to cash systems and processes. This transition led to shipment and invoicing delays which had a negative impact on revenue in the quarter. Looking forward, we expect to have these issues corrected during the second quarter of 2011. Revenue growth in the three months ended January 31, 2011, was led by the LC, LC-MS, automation, consumables, and services portfolios. While demand remains very strong for Research Products Division's NMR and MRI products, the long production cycle will remain a drag on life sciences growth for the year. Geographically, excluding the impact of the Varian acquisition and the Hycor divestiture, revenues grew 9 percent in the Americas, 1 percent in Europe, 4 percent in Japan, and 15 percent in other Asia Pacific for the three months ended January 31, 2011, when compared to the same period last year.

We saw growth in the pharmaceutical and biotech, academic and government, as well as other applied markets including petrochemical. Fiscal year-end budgetary spending drove strong growth in academia and government. Next generation sequencing continues to be active and well funded in academia. Growth is sustained in other applied markets such as petrochemical.

Looking forward, we expect solid investments in markets such as pharmaceutical and biotech to drive further demand in our instruments and application solutions. In our life sciences sales channel coverage model, we are specifically adding capabilities to address life science applications expertise. We continue to make excellent progress in penetrating academic and government accounts. The life sciences business also remains focused on expanding our application portfolio for our customers.

In addition, our strategic focus is to continue the successful integration of Varian. With the acquisition of Varian, the life sciences business now has an expanded product portfolio, including complementary products in liquid chromatography, mass spectrometry, consumables, new offerings in dissolution testing, and magnetic resonance (NMR, MRI). We are focusing on improving the research product division growth and profitability with investment in sales, services and R&D, and in gross margin improvement, with attention on supply efficiency and assurance of parts inventory.

**Operating Results**

	Three Months Ended January 31,		2011 over 2010	
	2011	2010		
Gross margin	53.3%	54.4%	(1)	ppt
Operating margin	11.8%	16.3%	(4)	ppts
<b>(in millions)</b>				
Research and development	\$ 42	\$ 33	29	%
Selling, general and administrative	\$ 125	\$ 97	29	%

Gross margins for products and services for the three months ended January 31, 2011 decreased 1 percentage point compared to the same period last year. The change was due to the impact of the Varian acquisition and higher consumables production variances partially offset by favorable product mix and lower variable and incentive pay.

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

Research and development expenses for the three months ended January 31, 2011 increased 29 percent compared to the same period last year. The increase was due to the Varian acquisition and investments in product R&D partially offset by lower variable and incentive pay and the Hycor divestiture.

Selling, general and administrative expenses for the three months ended January 31, 2011 increased 29 percent compared to the same period last year. Increases were due to the Varian acquisition and higher commissions partially offset by lower variable and incentive pay and the Hycor divestiture.

Operating margins for products and services for the three months ended January 31, 2011 decreased 4 percentage points compared to the same period last year. Factors which led to operating margin variances for this period are collectively highlighted in the above discussions on gross margins, research and development expenses, and selling, general and administrative expenses.

Table of Contents***Income from Operations***

Income from operations for the three months ended January 31, 2011 decreased \$7 million while revenue increased \$64 million compared to the same period last year.

**Chemical Analysis**

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

***Orders and Net Revenue***

		Three Months Ended January 31,			2011 over 2010
	2011	(in millions)	2010		
Orders	\$	388	\$	242	60%
Net revenue	\$	349	\$	244	43%

Chemical analysis orders for the three months ended January 31, 2011 increased 60 percent when compared to the same period last year. Excluding the Varian acquisition, orders grew 16 percent year over year. Order results were led by solid performance in the GC, GC-MS, along with consumables and services. Growth in the services and support business was driven by strong instrument orders. The reemergence of replacement cycle purchasing drove solid performance in key products such as our 7890A gas chromatograph. Geographically, excluding the impact of the Varian acquisition, orders grew 15 percent in the Americas, 13 percent in Europe, 7 percent in Japan, and 22 percent in other Asia Pacific for the three months ended January 31, 2011 when compared to the same period last year.

Chemical analysis revenues for the three months ended January 31, 2011 increased 43 percent when compared to the same period last year. Excluding the Varian acquisition, revenues grew 8 percent year over year. Foreign currency movements for the three months ended January 31, 2011 had an unfavorable currency impact of 1 percentage point of the growth in revenues when compared to the same period last year. During the three months ending January 31, 2011, we integrated the majority of the former Varian businesses to the Agilent quote to cash systems and processes. This transition led to shipment and invoicing delays which had a negative impact on revenue in the quarter. Looking forward, we expect to have these issues corrected during the second quarter of 2011. Revenue growth in the three months ended January 31, 2011, was led by the GC, GC-MS, and ICP-MS portfolios, along with services. Geographically, excluding the impact of the Varian acquisition, revenues grew 17 percent in the Americas, grew 8 percent in Europe, declined 9 percent in Japan, and grew 5 percent in other Asia Pacific for the three months ended January 31, 2011 when compared to the same period last year. The decline in Japan was primarily due to very strong results in Japan for the three months ended January 31, 2010, making year over year comparisons difficult.

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

We saw continued strength across all chemical analysis end-markets. The hydrocarbon processing industry within the petrochemical market is recovering from the recession, with the petroleum and chemical industries expected to continue to improve their profitability through the year and to reinvest in their business. In addition, demand continues to increase for basic petrochemicals which are driving capital spending for upstream and downstream laboratories. The food market continues to grow for pesticide, veterinary medicine, and emerging applications worldwide. United States stimulus funding has prompted increased construction projects, leading to growth in air, water, and soil testing. China's government continues to invest in environmental protection and improvement, with emphasis on drinking water quality. European directives continue to be the major business drivers for environmental analysis in both the public and private sector, with emphasis on emissions testing for construction materials.

Looking forward, we will continue to focus on the successful integration of Varian. With Varian, the chemical analysis product portfolio now has new offerings in spectroscopy and vacuum technologies, complementary mass spectrometry products, and an expanded consumables portfolio which are being leveraged globally with an integrated sales team. We are focusing on improvements in profitability of the Varian portfolio via infrastructure efficiencies and targeted programs to drive gross margin improvements. Organically, we continue to focus on product and application expansion, and leveraging our strong presence in emerging geographies to drive growth.

Table of Contents**Operating Results**

	Three Months Ended January 31,			
	2011	2010		2011 over 2010
Gross margin	51.1%	55.1%		(4)ppts
Operating margin	18.7%	27.5%		(9)ppts

**(in millions)**

Research and development	\$	23	\$	13	74%
Selling, general and administrative	\$	90	\$	54	67%

Gross margins for products and services for the three months ended January 31, 2011 decreased 4 percentage points compared to the same period last year. The change was due to the impact of the Varian acquisition, unfavorable currency movements, and higher consumables production variances partially offset by lower variable and incentive pay.

Research and development expenses for the three months ended January 31, 2011 increased 74 percent compared to the same period last year. The increase was due to the Varian acquisition and investments in product R&D partially offset by lower variable and incentive pay.

Selling, general and administrative expenses for the three months ended January 31, 2011 increased 67 percent compared to the same period last year. Increases were due to the Varian acquisition and higher commissions partially offset by lower variable and incentive pay.

Operating margins for products and services for the three months ended January 31, 2011 decreased 9 percentage points compared to the same period last year. Factors which led to operating margin variances for this period are collectively highlighted in the above discussions on gross margins, research and development expenses, and selling, general and administrative expenses.

**Income from Operations**

Income from operations for the three months ended January 31, 2011 decreased \$2 million while revenue increased \$105 million compared to the same period last year.

**Electronic Measurement**

Our electronic measurement business provides electronic measurement instruments and systems, software design tools and related services that are used in the design, development, manufacture, installation, deployment and operation of electronics equipment, and microscopy products.



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

Related services include start-up assistance, instrument productivity and application services and instrument calibration and repair. We also offer customization, consulting and optimization services throughout the customer's product lifecycle.

### *Orders and Net Revenue*

	Three Months Ended January 31,		2011 over 2010	
	2011	2010		
	(in millions)			
Orders	\$ 797	\$ 642		24%
Net revenue	\$ 771	\$ 629		23%

Electronic measurement orders for the three months ended January 31, 2011, increased 24 percent when compared to the same period last year. Excluding the network solutions business divestiture, orders grew 31 percent year-over-year. Foreign currency movements accounted for approximately 1 percentage point of the year-over-year increase. Order strength was broad across geographies and market segments, particularly for digital applications, computers and semiconductor, and wireless communications test. On a geographic basis, orders grew 12 percent in the Americas, 5 percent in Europe, 34 percent in Japan, and 46 percent in other Asia Pacific compared to the same period last year.

Electronic measurement revenues for the three months ended January 31, 2011, increased 23 percent when compared to the same period last year. Excluding the impact of the network solutions business, revenues increased 31 percent year-over-year. Foreign currency movements contributed 1 percentage point of revenue growth year-over-year. Regionally, revenue from the Americas increased 20 percent, Europe grew 13 percent, Japan was 41 percent higher, and other Asia Pacific increased 26 percent compared to the same period last year.

Table of Contents

General purpose test, representing approximately 63 percent of electronic measurement revenues, reflected significant growth in the computers and semiconductor business, strong demand in industrial applications, and solid performance in aerospace and defense. The computers and semiconductor business included sales related to foundry capacity expansion driven by smartphones, cell phones, and tablet computers. Our digital test business was significantly higher year-over-year driven by growth in high speed data transmission. Sustained improvement in economic conditions contributed to higher demand from customers with industrial or general purpose applications. Aerospace and defense growth was solid reflecting a continuing focus on information management, particularly surveillance and intelligence, but dampened by uncertainty of funding levels for the United States Department of Defense.

Communications test, representing approximately 37 percent of electronic measurement revenues, experienced strong growth across product categories in wireless and broadband communications, offset partially by a decline in network monitoring business resulting from the divestiture of the network solutions business. Wireless R&D growth continued with investment in high data rate applications, including long-term evolution (LTE), that drove demand across the value chain, including chipsets, modules, devices, and infrastructure. Wireless manufacturing business grew substantially, reflecting high growth in smartphones and 3G expansion. Demand for broadband applications test was strong, driven by capacity expansion for components used in optical networks.

Looking forward, we expect growth rates will moderate as a result of comparisons to stronger 2010 results, particularly for the general purpose test business that includes computers and semiconductors. While we expect continuing strength from our communications and digital test business and solid performance relating to industrial applications, we are cautious about our aerospace and defense related business. Given the sustained order levels, we will focus on expanding manufacturing capacity to address this higher demand.

**Operating Results**

	Three Months Ended January 31,		2011 over 2010
	2011	2010	
Gross margin	58.1%	57.3%	1ppt
Operating margin	20.3%	9.3%	11ppts

**(in millions)**

Research and development	\$	94	\$	100	(7)%
Selling, general and administrative	\$	198	\$	202	(2)%

Gross margins for products and services for the three months ended January 31, 2011, increased 1 percentage point compared to the same period last year. Volume-adjusted gross margins decreased approximately 1 percentage point primarily due to higher variable and incentive pay, increased infrastructure costs, and unfavorable currency impact.

Research and development expenses for the three months ended January 31, 2011, decreased 7 percent compared to the same period last year. The decline reflected savings from our restructuring program, spending eliminated with the divestiture of the networks solutions business, and lower infrastructure costs offset by higher variable and incentive pay and the unfavorable impact of currency movements.

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

Selling, general and administrative expenses for the three months ended January 31, 2011, decreased 2 percent compared to the same period last year. Year-over-year reductions were similar to research and development and driven by savings from our restructuring program, elimination of spending associated with the divested networks solutions business, and lower infrastructure costs, which were offset by higher variable and incentive pay, higher commissions, and the unfavorable impact of currency movements.

Operating margins for products and services for the three months ended January 31, 2011, increased 11 percentage points compared to the same period last year. The margin improvements were primarily driven by significantly higher volume and lower structural and operating expenses.

### *Income from Operations*

Income from operations for the three months ended January 31, 2011, increased \$98 million on a corresponding revenue increase of \$142 million. The resultant year-over-year operating margin incremental of 69 percent is expected to moderate going forward as compares are made against improved prior period results.

Table of Contents

**FINANCIAL CONDITION**

*Liquidity and Capital Resources*

Our cash balances are held in numerous locations throughout the world, including substantial amounts held outside of the U.S. Most of the amounts held outside of the U.S. could be repatriated to the U.S. but, under current law, would be subject to U.S. federal and state income taxes, less applicable foreign tax credits. Agilent has accrued for U.S. federal and state tax liabilities on the earnings of its foreign subsidiaries except when the earnings are considered indefinitely reinvested outside of the U.S. Repatriation could result in additional U.S. federal and state income tax payments in future years. We utilize a variety of financing strategies in an effort to ensure that our worldwide cash is available in the locations in which it is needed.

Our financial position as of January 31, 2011 consisted of cash and cash equivalents of \$2,638 million as compared to \$2,649 million as of October 31, 2010.

*Net Cash Provided by Operating Activities*

Net cash provided by operating activities was \$120 million for the three months ended January 31, 2011 compared to cash provided of \$30 million for the same period in 2010. In the first quarter of 2011, we paid approximately \$95 million under our variable and incentive pay programs, as compared to \$53 million paid out during the same period of 2010. We paid approximately \$22 million in taxes in the three months ended January 31, 2011 and January 31, 2010.

In the three months ended January 31, 2011, accounts receivable provided cash of \$13 million compared to cash used of \$42 million for the same period in 2010. Agilent revenues increased by approximately 25 percent in the three months ended January 31, 2011 as compared to the same period in 2010. Days sales outstanding increased to 51 days as of January 31, 2011 from 47 days a year ago. Accounts payable used cash of \$56 million for the three months ended January 31, 2011 compared to cash provided of \$8 million in the same period in 2010. Cash used for inventory was \$85 million for the three months ended January 31, 2011 compared to cash used of \$1 million for the same period in 2010. Inventory days on-hand increased to 102 days as of January 31, 2011 compared to 89 days as of the end of the same period last year. The increase was mainly due to inventory build-up in anticipation of additional revenue growth.

We contributed approximately \$16 million to our defined benefit plans in the first three months of 2011 compared to \$14 million in the same period of 2010. Our annual contributions are highly dependent on the relative performance of our assets versus our projected liabilities, among other factors. We expect to contribute approximately \$68 million to our defined benefit plans during the remainder of 2011.

*Net Cash Provided by/Used in Investing Activities*

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

Net cash provided by investing activities was \$1,500 million for the three months ended January 31, 2011 compared to cash used of \$31 million for the same period of 2010. Investments in property, plant and equipment were \$38 million for the three months ended January 31, 2011 compared to \$25 million in the same period of 2010. We expect that total capital expenditures for the current year will be more than last years expenditures which were \$121 million for 2010. In the three months ended January 31, 2011, there were no investment for business acquisitions and intangible assets, compared to \$12 million invested during the same period of 2010.

### *Net Cash Provided by/Used in Financing Activities*

Net cash used in financing activities for the three months ended January 31, 2011 was \$1,634 million compared to cash provided of \$3 million for the same period of 2010 mainly due to the settlement of the World Trade obligation and share repurchases.

### *Treasury stock repurchases*

On November 19, 2009 our Board of Directors approved a share-repurchase program to reduce or eliminate dilution in connection with issuances of stock under the company's equity incentive plans. The share-repurchase program does not require the company to acquire a specific number of shares and may be suspended or discontinued at any time. There is no fixed termination date for the new share-repurchase program. For the three months ended January 31, 2011 and 2010, we repurchased 6 million shares for \$270 million and 3 million shares for \$100 million, respectively, using settlement date calculation.

Table of Contents

*Credit Facility*

On May 11, 2007, we entered into a five-year credit agreement, which provides for a \$300 million unsecured credit facility that will expire on May 11, 2012. On September 8, 2009, we entered into an Accession Agreement, increasing the credit facility from \$300 million to \$330 million. The company may use amounts borrowed under the facility for general corporate purposes. As of January 31, 2011 the company has no borrowings outstanding under the facility. We were in compliance with the covenants for the credit facility during the three months ended January 31, 2011.

*Short-term debt*

We satisfied the financing obligation of World Trade in its entirety on December 10, 2010 using the proceeds of our senior notes issued in July 2010 and existing cash on our balance sheet.

*Long-term debt*

On October 24, 2007, the company issued an aggregate principal amount of \$600 million in senior notes. The senior notes were issued at 99.60% of their principal amount. The notes will mature on November 1, 2017, and bear interest at a fixed rate of 6.50% per annum. The interest is payable semi-annually on May 1st and November 1st of each year and payments commenced on May 1, 2008.

On September 9, 2009, Agilent issued two tranches of senior notes with an aggregate principal amount of \$750 million, a \$250 million tranche maturing in 2012 (the 2012 notes ) and a \$500 million tranche maturing in 2015 (the 2015 notes ). The 2012 notes were issued at 99.91% of their principal amount, bear interest at a fixed rate of 4.45% per annum, and mature on September 14, 2012. The 2015 notes were issued at 99.69% of their principal amount, bear interest at a fixed rate of 5.50% per annum, and mature on September 14, 2015. Interest on both tranches is payable semi-annually on March 14th and September 14th of each year, and payments commenced on March 14, 2010.

On July 13, 2010, Agilent issued two tranches of senior notes with an aggregate principal amount of \$750 million, a \$250 million tranche maturing in 2013 (the 2013 notes ) and a \$500 million tranche maturing in 2020 (the 2020 notes ). The 2013 notes were issued at 99.82% of their principal amount, bear interest at a fixed rate of 2.50% per annum and mature on July 15, 2013. The 2020 notes were issued at 99.54% of their principal amount, bear interest at a fixed rate of 5.00% per annum, and mature on July 15, 2020. Interest on both tranches is payable semi-annually on January 15th and July 15th of each year, payments commenced on January 15, 2011.

On November 25, 2008, we terminated two interest rate swap contracts associated with our 2017 senior notes that represented the notional amount of \$400 million. The asset value upon termination was approximately \$43 million and the amount to be amortized at January 31, 2011 was \$34 million.

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

Upon the closing of the offering of the 2015 and 2012 senior notes, we entered into interest rate swaps with an aggregate notional amount of \$750 million. Also concurrent with issuing the 2020 senior notes in July 2010, we entered into interest rate swaps with an aggregate notional amount of \$500 million. Under the interest rate swaps, we will receive fixed-rate interest payments and will make payments based on the U.S. dollar LIBOR plus 253 basis points, 258 basis points and 179 basis points with respect to the 2015, 2012 and 2020 senior notes, respectively. The economic effect of these swaps will be to convert the fixed-rate interest expense on the senior notes to a variable LIBOR-based interest rate. The hedging relationship qualifies for the shortcut method of assessing hedge effectiveness, and consequently we do not expect any ineffectiveness during the life of the swap and any movement in the value of the swap would be reflected in the movement in fair value of the senior notes. At January 31, 2011, the fair value of the swaps on 2015 and 2012 senior notes was an asset of \$25 million with a corresponding increase in the carrying value of senior notes, and a liability of \$16 million on 2020 senior notes with a corresponding decrease in carrying value of the senior notes.

### *Other*

There were no other substantial changes from our 2010 Annual Report on Form 10-K to our contractual commitments in the first three months of 2011. We have contractual commitments for non-cancelable operating leases. We have no other material non-cancelable guarantees or commitments.

Other long-term liabilities include \$444 million and \$430 million of taxes payable as of January 31, 2011 and October 31, 2010, respectively. We are unable to accurately predict when these amounts will be realized or released.

Table of Contents

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

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

Our operations generate non-functional currency cash flows such as revenues, third party vendor payments and inter-company payments. In anticipation of these foreign currency cash flows and in view of volatility of the currency market, we enter into such foreign exchange contracts as are described above to manage our currency risk. Approximately 63 percent of our revenues were generated in U.S. dollars during the first quarter of 2011 and 2010.

We performed a sensitivity analysis assuming a hypothetical 10 percent adverse movement in foreign exchange rates to the hedging contracts and the underlying exposures described above. As of January 31, 2011, the analysis indicated that these hypothetical market movements would not have a material effect on our condensed consolidated financial position, results of operations or cash flows.

We are also exposed to interest rate risk due to the mismatch between the interest expense we pay on our loans at fixed rates and the variable rates of interest we receive from cash, cash equivalents and other short-term investments. We have issued long-term debt in U.S. dollars or foreign currencies at fixed interest rates based on the market conditions at the time of financing. We believe that the fair value of our fixed rate debt changes when the underlying market rates of interest change, and we may use interest rate swaps to modify such market risk. The interest rate swaps effectively change our fixed interest rate payments to U.S. dollar LIBOR-based variable interest expense to match the floating interest income from our cash, cash equivalents and other short term investments. By entering into these interest rate swaps we are also hedging the movements in the fair value of the fixed-rate debt on our balance sheet. However, not all of our fixed rate debt's fair value is hedged in this manner, and in the future we may choose to terminate previously executed swaps.

We performed a sensitivity analysis assuming a hypothetical 10 percent adverse movement in interest rates relating to the underlying fair value of our fixed rate debt. As of January 31, 2011, the sensitivity analyses indicated that a hypothetical 10 percent adverse movement in interest rates would result in an immaterial impact to the fair value of our fixed interest rate debt.

**ITEM 4. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures*

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period



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

covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

### *Changes in Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting during the quarter ended January 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

In November 2001, a securities class action, *Kassin v. Agilent Technologies, Inc., et al.*, Civil Action No. 01-CV-10639, was filed in United States District Court for the Southern District of New York (the Court) against certain investment bank underwriters for our initial public offering (IPO), Agilent and various of our officers and directors at the time of the IPO. In 2003, the Court granted Agilent's motion to dismiss the claims against Agilent based on Section 10 of the Securities Exchange Act, but denied Agilent's motion to dismiss the claims based on Section 11 of the Securities Act. On June 14, 2004, papers formalizing a settlement among the plaintiffs, Agilent and more than 200 other issuer defendants and insurers were presented to the Court. Under the proposed settlement, plaintiffs' claims against Agilent and its directors and officers would be released, in exchange for a contingent payment (which, if made, would be paid by Agilent's insurer) and an assignment of certain potential claims. However, class certification of plaintiffs' underlying action against the underwriter defendants was a condition of the settlement. On December 5, 2006, the Court of Appeals for the Second Circuit reversed the Court's order certifying such a class in several test cases that had been selected by the

Table of Contents

underwriter defendants and plaintiffs. On January 5, 2007, plaintiffs filed a petition for rehearing to the full bench of the Second Circuit. On April 6, 2007, the Second Circuit issued an order denying rehearing but noted that plaintiffs are free to seek certification of a more modest class. On June 25, 2007, the Court entered an order terminating the proposed settlement between plaintiffs and the issuer defendants based on a stipulation among the parties. Plaintiffs have amended their allegations and filed amended complaints in six test cases (none of which involve Agilent). Defendants in these cases have moved to dismiss the amended complaints. On March 26, 2008, the Court denied the defendants' motion to dismiss. The parties have again reached a global settlement of the litigation and filed a motion for preliminary approval of the settlement on April 2, 2009. Under the settlement, the insurers would pay the full amount of settlement share allocated to Agilent, and Agilent would bear no financial liability. Agilent, as well as the officer and director defendants who were previously dismissed from the action pursuant to tolling agreements, would receive complete dismissals from the case. On October 5, 2009, the Court entered an order granting final approval of the settlement. Certain objectors have appealed the Court's October 5, 2009 order to the Second Circuit Court of Appeals. That appeal is pending.

On August 5, 2009, a putative class action was filed in California Superior Court, County of Santa Clara, entitled *Feivel Gottlieb Plan Administrator Feivel Gottlieb Defined Benefit Pension Plan DTD 01-01-04 v. Garry W. Rogerson, et al.*, No. 1-09-CV-149132. The action was allegedly brought on behalf of a class of shareholders of Varian, Inc. (Varian) against Varian, its board of directors, Agilent and Cobalt Acquisition Corp. (Cobalt), a wholly owned subsidiary of Agilent, in connection with the proposed acquisition of Varian. A similar action, entitled *Stuart Kreisberg v. Garry W. Rogerson, et al.*, No. 1-09-CV-149383, was filed in the same court on August 7, 2009. The actions were subsequently consolidated under the caption *In re Varian, Inc. Shareholder Litigation*, Lead Case No. 1-09-CV-149132, and a consolidated amended complaint was filed on August 14, 2009. The consolidated amended complaint is also filed on behalf of an alleged class of Varian shareholders against Varian, its directors, Agilent and Cobalt. The consolidated amended complaint alleges that Varian's directors breached their fiduciary duties in connection with the proposed acquisition and asserts, among other things, that the price and other terms are unfair, that Varian's directors have engaged in self-dealing, and that the disclosures in Varian's August 7, 2009 proxy filing are inadequate. Agilent and Cobalt are alleged to have aided and abetted the Varian directors' purported breaches of fiduciary duties. Plaintiffs seek injunctive and other relief, including attorneys' fees and costs. On August 19, 2009, another substantially similar putative class action, entitled *Hawaii Laborers Pension Fund v. Varian, Inc., et al.*, No. 1-09-CV-150234, was filed in the same court against Varian, its directors, and Agilent. Like the consolidated amended complaint, it asserts claims on behalf of a class of Varian shareholders, alleges that Varian's directors breached their fiduciary duties in connection with the proposed acquisition by, *inter alia*, failing to value Varian properly, agreeing to improper deal terms, engaging in self-dealing and making misleading disclosures, alleges that Agilent aided and abetted those purported breaches of fiduciary duties, and seeks injunctive and other relief (including attorneys' fees and costs). On September 25, 2009, the parties signed a memorandum of understanding to settle the class actions. The settlement provides, among other things, that: (i) Varian would make certain agreed-upon disclosures designed to supplement those contained in its definitive proxy statement filed on August 20, 2009; (ii) the litigation will be dismissed with prejudice as to all defendants; (iii) defendants believe the claims are without merit and continue to deny liability, but agree to settle in order to avoid the potential cost and distraction of continued litigation and to eliminate any risk of any delay to the acquisition; and (iv) plaintiffs' counsel may seek fees and costs of up to \$625,000, subject to court approval. There is to be no payment of money to the alleged class members. The Santa Clara Superior Court preliminarily approved the settlement, whereupon the Court notified the class of the settlement. One shareholder objected, but the Court found that the objection was not filed before the deadline set by the Court. On November 5, 2010, the Santa Clara Superior Court issued its order providing final approval of the settlement. The Court made one change to the proposed settlement; the Court awarded plaintiffs' counsel attorney's fees in the amount of \$476,600, rather than the \$625,000 they had sought. The time for any appeal of the Court's order has passed without any appeal, and we have paid the settlement.

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

Table of Contents

**ITEM 1A. RISK FACTORS**

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

*Depressed general economic conditions may adversely affect our operating results and financial condition.*

Our business is sensitive to changes in general economic conditions, both inside and outside the U.S. An economic downturn may adversely impact our business resulting in:

- reduced demand for our products and increases in order cancellations;
- increased risk of excess and obsolete inventories;
- increased price pressure for our products and services;
- reduced access to the credit markets to meet short term cash needs in the U.S.; and
- greater risk of impairment to the value, and a detriment to the liquidity, of our investment portfolio.

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

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

sustain profitability. Also, in such an environment, pricing pressures could intensify. Since a significant portion of our operating expenses is relatively fixed in nature due to sales, research and development and manufacturing costs, if we were unable to respond quickly enough these pricing pressures could further reduce our gross margins.

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

- interruption to transportation flows for delivery of parts to us and finished goods to our customers;
- changes in foreign currency exchange rates;
- changes in a specific country's or region's political, economic or other conditions;
- trade protection measures and import or export licensing requirements;

Table of Contents

- negative consequences from changes in tax laws;
- difficulty in staffing and managing widespread operations;
- differing labor regulations;
- differing protection of intellectual property;
- unexpected changes in regulatory requirements; and
- geopolitical turmoil, including terrorism and war.

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

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

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

Our future success depends partly on the continued service of our key research, engineering, sales, marketing, manufacturing, executive and administrative personnel. If we fail to retain and hire a sufficient number of these personnel, we will not be able to maintain or expand our business. The markets in which we operate are very dynamic, and our businesses continue to respond with reorganizations, workforce reductions and site closures. We believe our pay levels are very competitive within the regions that we operate. However, there is also intense competition for certain highly technical specialties in geographic areas where we continue to recruit, and it may become more difficult to retain our key

employees, especially in light of our ongoing restructuring efforts.

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

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

- diversion of senior management's attention from the management of daily operations to the integration of operations;
- difficulties in the assimilation of different corporate cultures, practices and sales and distribution methodologies, as well as in the assimilation and retention of geographically dispersed, decentralized operations and personnel;
- the potential loss of key personnel who choose not to join the combined business;
- the potential loss of key customers who choose not to do business with the combined business;
- the risk of higher than anticipated costs in continuing support and development of acquired products;
- difficulties and unanticipated expenses related to the integration of facilities, departments, systems, including accounting systems, computer and other technologies, books and records and procedures, as well as in maintaining uniform standards, including internal accounting controls, procedures and policies;



Table of Contents

- difficulties and uncertainties in achieving anticipated cost reductions and operational synergies; and
- the use of cash resources and increased capital expenditures on integration and implementation activities in excess of our current expectations, which could offset any such savings and other synergies resulting from the Varian acquisition and limit other potential uses of our cash, including stock repurchases and retirement of outstanding debt.

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

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

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

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

In the normal course of business, we frequently engage in discussions with third parties relating to possible acquisitions, strategic alliances, joint ventures and divestitures, and generally expect to complete several transactions per year. For example, in fiscal 2009, we completed a number of acquisitions and divestitures. In May 2010, we closed our acquisition of Varian, Inc. and the sale of our Network Solutions Division. As a result of such transactions, our financial results may differ from our own or the investment community's expectations in a given fiscal quarter, or over the long term. Such transactions often have post-closing arrangements including but not limited to post-closing adjustments, transition services, escrows or indemnifications, the financial results of which can be difficult to predict. In addition, acquisitions, including the Varian acquisition, and strategic alliances may require us to integrate a different company culture, management team and business infrastructure. We may have

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

difficulty developing, manufacturing and marketing the products of a newly acquired company in a way that enhances the performance of our combined businesses or product lines to realize the value from expected synergies. Depending on the size and complexity of an acquisition, our successful integration of the entity depends on a variety of factors, including:

- the retention of key employees;
- the management of facilities and employees in different geographic areas;
- the retention of key customers;
- the compatibility of our sales programs and facilities with those of the acquired company; and
- the compatibility of our existing infrastructure with that of an acquired company.

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

Table of Contents

lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock and our access to capital.

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

- effectively transfer liabilities, contracts, facilities and employees to the purchaser;
- identify and separate the intellectual property to be divested from the intellectual property that we wish to keep; and
- reduce fixed costs previously associated with the divested assets or business.

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

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

The electronic measurement and life sciences industries are intensely competitive and have been subject to increasing consolidation. For instance, in February 2010, Danaher Corporation completed its acquisition of the Life Sciences Instrumentation Businesses from MDS Inc. and Life Technologies Corp., and in December 2010, Thermo Fisher Scientific signed an agreement to acquire Dionex Corporation. Consolidation in the electronic measurement and life sciences industries could result in existing competitors increasing their market share through business combinations, which could have a material adverse effect on our business, financial condition and results of operations. We may not be able to compete successfully in an increasingly consolidated industry and cannot predict with certainty how industry consolidation will affect our competitors or us.

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

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

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

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

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

As part of our acquisition of Varian, we assumed the liabilities of Varian, including Varian's costs and potential liabilities for environmental matters. One such cost is our obligation, along with the obligation of Varian Semiconductor Equipment Associates, Inc. ( VSEA ) (under the terms of a Distribution Agreement between Varian, VSEA and Varian Medical Systems, Inc. ( VMS )) to each

Table of Contents

indemnify VMS for one-third of certain costs (after adjusting for any insurance proceeds and tax benefits recognized or realized by VMS for such costs) relating to (a) environmental investigation, monitoring and/or remediation activities at certain facilities previously operated by Varian Associates, Inc. ( VAI ) and third-party claims made in connection with environmental conditions at those facilities, and (b) U.S. Environmental Protection Agency or third-party claims alleging that VAI or VMS is a potentially responsible party under the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended ( CERCLA ) in connection with certain sites to which VAI allegedly shipped manufacturing waste for recycling, treatment or disposal (the CERCLA sites ). With respect to the facilities formerly operated by VAI, VMS is overseeing the environmental investigation, monitoring and/or remediation activities, in most cases under the direction of, or in consultation with, federal, state and/or local agencies, and handling third-party claims. VMS is also handling claims relating to the CERCLA sites. Although any ultimate liability arising from environmental- related matters could result in significant expenditures that, if aggregated and assumed to occur within a single fiscal year, could be material to our financial statements, the likelihood of such occurrence is considered remote. Based on information currently available and our best assessment of the ultimate amount and timing of environmental-related events, management believes that the costs of environmental-related matters are not reasonably likely to have a material adverse effect on our financial condition or results of operations.

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

Our businesses are subject to various significant international, federal, state and local regulations, including but not limited to health and safety, packaging, product content, labor and import/export regulations. These regulations are complex, change frequently and have tended to become more stringent over time. We may be required to incur significant expenses to comply with these regulations or to remedy violations of these regulations. Any failure by us to comply with applicable government regulations could also result in cessation of our operations or portions of our operations, product recalls or impositions of fines and restrictions on our ability to carry on or expand our operations. In addition, because many of our products are regulated or sold into regulated industries, we must comply with additional regulations in marketing our products.

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

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

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

We have agreements relating to the sale of our products to government entities and, as a result, we are subject to various statutes and regulations that apply to companies doing business with the government. The laws governing government contracts differ from the laws governing private

contracts. For example, many government contracts contain pricing terms and conditions that are not applicable to private contracts. We are also subject to investigation for compliance with the regulations governing government contracts. A failure to comply with these regulations might result in suspension of these contracts, or administrative penalties.

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

*If tax incentives change or cease to be in effect, our income taxes could increase significantly.*

Agilent benefits from tax incentives extended to its foreign subsidiaries to encourage investment or employment. Several jurisdictions have granted Agilent tax incentives which require renewal at various times in the future. The incentives are conditioned on achieving various thresholds of investments and employment, or specific types of income. Agilent's taxes could increase if the incentives are not renewed upon expiration. If Agilent cannot or does not wish to satisfy all or parts of the tax incentive conditions, we may lose the related tax incentive and could be required to refund tax incentives previously realized. As a result, our effective tax rate could be higher than it would have been had we maintained the benefits of the tax incentives.



Table of Contents

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

Although cash generated in the United States covers normal operating requirements and debt service requirements, a substantial amount of additional cash is required for special purposes such as the satisfaction of our ongoing debt obligations, including our senior notes coming due in September 2012, the repurchases of our stock and acquisitions of third parties. Our business operating results, financial condition, and strategic initiatives could be adversely impacted if we were unable to address our U.S. cash requirements through (1) the efficient and timely repatriations of overseas cash or (2) other sources of cash obtained at an acceptable cost.

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

We currently have outstanding an aggregate principal amount of \$2.1 billion in senior unsecured notes. We also are a party to a five-year senior unsecured revolving credit facility under which we may borrow up to \$330 million. We may borrow additional amounts in the future and use the proceeds from any future borrowing for general corporate purposes, other future acquisitions, expansion of our business or repurchases of our outstanding shares of common stock.

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

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

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

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

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

Table of Contents

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

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

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

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

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

As of January 31, 2011, we had cash and cash equivalents of approximately \$2.6 billion invested or held in a mix of money market funds, time deposit accounts and bank demand deposit accounts. Disruptions in the financial markets may, in some cases, result in an inability to access assets such as money market funds that traditionally have been viewed as highly liquid. Any failure of our counterparty financial institutions or funds in which we have invested may adversely impact our cash and cash equivalent positions and, in turn, our results and financial condition.

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

The table below summarizes information about the Company's purchases, based on trade date; of its equity securities registered pursuant to Section 12 of the Exchange Act during the quarterly period ended January 31, 2011.

<b>Period</b>	<b>Total Number of Shares of Common Stock Purchased (1)(2) (a)</b>	<b>Weighted Average Price Paid per Share of Common Stock (2) (b)</b>	<b>Total Number of Shares of Common Stock Purchased as Part of Publicly Announced Plans or Programs (1) (c)</b>	<b>Maximum Approximate Dollar Value of Shares of Common Stock that May Yet Be Purchased Under the Plans or Programs (in millions) (d)</b>
Nov. 1, 2010 through Nov. 30, 2010	617,000	\$ 35.89	617,000	\$ NA
Dec. 1, 2010 through Dec. 31, 2010	3,493,850	\$ 40.51	3,493,850	\$ NA
Jan. 1, 2011 through Jan. 31, 2011	2,500,000	\$ 42.47	2,500,000	\$ NA
<b>Total</b>	<b>6,610,850</b>	<b>\$ 40.82</b>	<b>6,610,850</b>	<b>\$ NA</b>

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

Table of Contents

**ITEM 6. EXHIBITS**

(a) Exhibits:

A list of exhibits is set forth in the Exhibit Index found on page 49 of this report.

Table of Contents

**AGILENT TECHNOLOGIES, INC.**

**SIGNATURE**

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

Dated: March 9, 2011

By: /s/ Didier Hirsch  
Didier Hirsch  
Senior Vice President and Chief Financial Officer  
(Principal Accounting Officer and Principal Financial Officer)

Table of Contents

**AGILENT TECHNOLOGIES, INC.**

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
11.1	See Note 6, Net Income Per Share, to our Condensed Consolidated Financial Statements on page 12.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS XBRL	Instance Document*
101.SCH XBRL	Schema Document*
101.CAL XBRL	Calculation Linkbase Document*
101.LAB XBRL	Labels Linkbase Document*
101.PRE XBRL	Presentation Linkbase Document*
101.DEF XBRL	Definition Linkbase Document*

---

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