AGILENT TECHNOLOGIES INC
Form 10-Q
June 07, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED APRIL 30, 2010

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 001-15405

AGILENT TECHNOLOGIES, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE (State or other jurisdiction of incorporation or organization)	**77-0518772** (IRS employer Identification no.)
5301 STEVENS CREEK BLVD., 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 x No o

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

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (do not check if a smaller reporting company)	Smaller reporting company o

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

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

CLASS	**OUTSTANDING AT APRIL 30, 2010**

COMMON STOCK, $0.01 PAR VALUE	348,062,907 SHARES

Table of Contents

AGILENT TECHNOLOGIES, INC.

TABLE OF CONTENTS

			Page Number
Part I.	Financial Information		3
	Item 1.	Condensed Consolidated Financial Statements (Unaudited)	3
		Condensed Consolidated Statement of Operations	3
		Condensed Consolidated Balance Sheet	4
		Condensed Consolidated Statement of Cash Flows	5
		Notes to Condensed Consolidated Financial Statements	6
	Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	23
	Item 3.	Quantitative and Qualitative Disclosures About Market Risk	36
	Item 4.	Controls and Procedures	36
Part II.	Other Information		36
	Item 1.	Legal Proceedings	36
	Item 1A.	Risk Factors	37
	Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	46
	Item 6.	Exhibits	47
Signature			48
Exhibit Index			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)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	**2009**	**2010**	**2009**
Net revenue:				
Products	$ 1,029	$ 864	$ 2,005	$ 1,801
Services and other	242	227	479	456
Total net revenue	1,271	1,091	2,484	2,257
Costs and expenses:				
Cost of products	431	436	852	889
Cost of services and other	129	125	261	249
Total costs	560	561	1,113	1,138
Research and development	150	170	299	339
Selling, general and administrative	407	407	824	803
Total costs and expenses	1,117	1,138	2,236	2,280
Income (loss) from operations	154	(47)	248	(23)
Interest income	3	6	6	20
Interest expense	(22)	(23)	(45)	(46)
Other income (expense), net	4	6	13	18
Income (loss) before taxes	139	(58)	222	(31)
Provision for income taxes	31	43	35	6
Net income (loss)	$ 108	$ (101)	$ 187	$ (37)
Net income (loss) per share basic:	$ 0.31	$ (0.29)	$ 0.54	$ (0.11)
Net income (loss) per share diluted:	$ 0.31	$ (0.29)	$ 0.53	$ (0.11)
Weighted average shares used in computing net income (loss) per share:				
Basic	348	344	348	348
Diluted	354	344	354	348

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)

	April 30, 2010	October 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,646	$ 2,479
Short-term restricted cash and cash equivalents	1,552	
Short-term investments	11	14
Accounts receivable, net	669	595
Inventory	546	552
Other current assets	288	321
Total current assets	5,712	3,961
Property, plant and equipment, net	831	845
Goodwill	644	655
Other intangible assets, net	126	167
Long-term restricted cash and cash equivalents	11	1,566
Long-term investments	158	163
Other assets	285	255
Total assets	$ 7,767	$ 7,612
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 362	$ 307
Employee compensation and benefits	346	336
Deferred revenue	311	285
Short-term debt	1,501	1
Other accrued liabilities	189	194
Total current liabilities	2,709	1,123
Long-term debt	1,393	2,904
Retirement and post-retirement benefits	483	498
Other long-term liabilities	550	573
Total liabilities	5,135	5,098
Total equity:		
Stockholders equity:		
Preferred stock; $0.01 par value; 125 million shares authorized; none issued and outstanding		
Common stock; $0.01 par value; 2 billion shares authorized; 576 million shares at April 30, 2010 and 566 million shares at October 31, 2009, issued	6	6
Treasury stock at cost; 228 million shares at April 30, 2010 and 220 million shares at October 31, 2009	(7,892)	(7,627)
Additional paid-in-capital	7,802	7,552
Retained earnings	2,947	2,760
Accumulated other comprehensive loss	(239)	(185)
Total stockholder s equity	2,624	2,506
Non-controlling interest	8	8
Total equity	2,632	2,514
Total liabilities and equity	$ 7,767	$ 7,612

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)

	Six Months Ended April 30,	
	2010	**2009**
Cash flows from operating activities:		
Net income (loss)	$ 187	$ (37)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	75	81
Share-based compensation	38	39
Deferred taxes	45	34
Excess and obsolete and inventory-related charges	13	41
Asset impairment charges	20	32
Loss on sale of assets and divestiture	4	
Allowance for doubtful accounts		4
Other		4
Changes in assets and liabilities:		
Accounts receivable	(93)	203
Inventory	(17)	13
Accounts payable	55	(58)
Employee compensation and benefits	18	(108)
Interest rate swap proceeds		43
Other assets and liabilities	(90)	(137)
Net cash provided by operating activities	255	154
Cash flows from investing activities:		
Investments in property, plant and equipment	(54)	(68)
Proceeds from sale of property, plant and equipment	1	
Purchase of investments		(30)
Proceeds from sale of investments	8	62
Proceeds from divestiture, net of cash divested	20	
Acquisitions of businesses and intangible assets, net of cash acquired	(12)	(2)
Change in restricted cash and cash equivalents, net	4	10
Net cash used in investing activities	(33)	(28)
Cash flows from financing activities:		
Issuance of common stock under employee stock plans	224	27
Repayment of long-term debt	(15)	
Proceeds from revolving credit facility		325
Repayment of revolving credit facility		(325)
Treasury stock repurchases	(265)	(157)
Net cash used in financing activities	(56)	(130)
Effect of exchange rate movements	1	(1)
Net increase (decrease) in cash and cash equivalents	167	(5)
Cash and cash equivalents at beginning of period	2,479	1,405
Cash and cash equivalents at end of period	$ 2,646	$ 1,400

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), a leading supplier of scientific instrumentation and associated consumables for life science and applied market applications, 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. The $1.5 billion total purchase price of Varian includes $52 cash per share of Varian s outstanding common stock including vested and non-vested in-the-money stock options at $52 cash per share less their exercise price. Varian s non-vested restricted stock awards, non-vested performance shares, at 100 percent of target, and non-vested director s stock units were also paid at $52 per share. Varian s cash acquired at completion of the acquisition was approximately $225 million. As part of the European Commission s merger approval and the Federal Trade Commission consent order, Agilent had previously committed to sell Varian s laboratory gas chromatography (GC) business; Varian s triple quadrupole gas chromatography-mass spectrometry (GC-MS) business; Varian s inductively-coupled plasma-mass spectrometry (ICP-MS) business; and Agilent s micro GC business. On May 19, 2010 we completed the sale of the Agilent micro GC business and the Varian laboratory GC business, the triple quadrupole GC-MS business and the ICP-MS business for approximately $40 million subject to post-closing adjustments. 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 will be accounted for in accordance with the authoritative accounting guidance. The initial accounting for the acquisition of Varian is incomplete. The acquired assets and assumed liabilities will be recorded by Agilent at their estimated fair values. Agilent will determine the estimated fair values with the assistance of valuations performed by independent third party specialists, discounted cash flow analyses, quoted market prices where available, and estimates made by management.

Sale of Network Solutions Division. On May 1, 2010, we completed the sale of the Network Solutions Division (NSD) of our electronic measurement business to JDS Uniphase Corporation (JDSU), a leading communications test and measurement company. JDSU paid Agilent $165 million which is subject to post-closing working capital and other adjustments. We anticipate recording a significant gain on the sale of NSD in the third quarter of fiscal 2010. NSD includes Agilent s network assurance solutions, network protocol test and drive test products.

Basis of Presentation. We have prepared the accompanying financial data for the three and six months ended April 30, 2010 and 2009 pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles (GAAP) in the U.S. have been condensed or omitted pursuant to such rules and regulations. The following discussion should be read in conjunction with our 2009 Annual Report on

Form 10-K.

In the opinion of management, the accompanying condensed consolidated financial statements contain all normal and recurring adjustments necessary to present fairly our condensed consolidated balance sheet as of April 30, 2010 and October 31, 2009, condensed consolidated statement of operations for the three and six months ended April 30, 2010 and 2009, and condensed consolidated statement of cash flows for the six months ended April 30, 2010 and 2009.

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

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

Table of Contents

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

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 our long-term debt approximates the carrying value. The fair value of foreign currency contracts used for hedging purposes is estimated internally by using inputs tied to active markets. See Note 8, Fair Value Measurements for additional information on the fair value of financial instruments.

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

The provisions of authoritative guidance require that we perform a two-step impairment test on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. The second step (if necessary) measures the amount of impairment by applying fair-value-based tests to the individual assets and liabilities within each reporting unit. As defined in the authoritative guidance, a reporting unit is an operating segment, or one level below an operating segment. Accordingly, we aggregated components of operating segments with similar economic characteristics into our reporting units. At the time of an acquisition, we assign goodwill to the reporting unit that is expected to benefit from the synergies of the combination. The results of our test for goodwill impairment during our fourth quarter of 2009 showed that the estimated fair values of our previous reporting units which were electronic measurement, bio-analytical measurement, and semiconductor and board test, exceeded their carrying values. During 2010 we will assess for potential impairment of goodwill on our three new reporting units life sciences, chemical analysis and electronic measurement. For these reporting unit changes, we applied the relative fair value method to determine the impact to the reporting units.

For the six months ended April 30, 2010, no impairments were recorded.

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 is amortized using the straight-line method over estimated useful lives ranging from 1 to 15 years.

Table of Contents

2. NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued guidance on measurements of fair value. The guidance defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP, and expands disclosures about fair value measurements. The guidance does not require any new fair value measurements; rather, it applies to other accounting pronouncements that require or permit fair value measurements. In February 2008, the FASB issued authoritative guidance which allowed for the delay of the effective date of the authoritative guidance for nonfinancial assets and nonfinancial liabilities, except for certain items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Effective November 1, 2008, we adopted the measurement and disclosure requirements related to financial assets and financial liabilities. The adoption of the guidance for financial assets and financial liabilities did not have a material impact on the company s results of operations or the fair values of its financial assets and liabilities. We adopted the provisions for nonfinancial assets and nonfinancial liabilities as of November 1, 2009 and there was no material impact on our consolidated financial statements.

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

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

In January 2010, the FASB issued guidance that requires new disclosures for fair value measurements and provides clarification for existing 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. We do not expect a material impact on our consolidated financial statements when we adopt the guidance for level 3 activity. See Note 8, 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 do not expect a material impact on our consolidated financial statements due to the adoption of this guidance.

3. SHARE-BASED COMPENSATION

Agilent accounts for share-based awards in accordance with the provisions of the revised accounting guidance which requires the measurement and recognition of compensation expense for all share-based compensation 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.

Table of Contents

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2009	2010	2009
	(in millions)			
Cost of products and services	$ 2	$ 3	$ 8	$ 8
Research and development	2	2	6	6
Selling, general and administrative	9	13	24	25
Total share-based compensation expense	$ 13	$ 18	$ 38	$ 39

Included in the expense amount for the three months ended April 30, 2010 and April 30, 2009 is approximately $1 million and $3 million, respectively, of incremental expense for the acceleration of share-based compensation related to the announced workforce reduction plan. Upon termination of the employees impacted by workforce reduction, the non-vested Agilent awards held by these employees immediately vest. Employees have a period of up to three months in which to exercise the Agilent options before such options are cancelled. In addition, during the three months ended April 30, 2010, we reversed approximately $3 million of expense for the cancellation of non-vested awards related to the separation of a senior executive.

At April 30, 2010 there was no share-based compensation capitalized within inventory. The windfall tax benefit realized from exercised stock options and similar awards was not material for the three and six months ended April 30, 2010 and 2009.

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2009	2010	2009
Stock Option Plans:				
Weighted average risk-free interest rate	2.4%	1.8%	2.2%	2.3%
Dividend yield	0%	0%	0%	0%
Weighted average volatility	36%	36%	37%	32%
Expected life	4.4 yrs	4.4 yrs	4.4 yrs	4.4 yrs
LTPP:				
Volatility of Agilent shares	39%	33%	39%	33%
Volatility of selected peer-company shares	21%-79%	17%-62%	20%-80%	17%-62%
Price-wise correlation with selected peers	53%	35%	53%	35%

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

We use historical volatility to estimate the expected stock price volatility assumption for employee stock option awards. In reaching the conclusion, we have considered many factors including the extent to which our options are currently traded and our ability to find traded options in the current market with similar terms and prices to the options we are valuing. In estimating the expected life of our options granted we considered the historical option exercise behavior of our employees, which we believe is representative of future behavior.

4. PROVISION FOR INCOME TAXES

For the three and six months ended April 30, 2010, we recorded an income tax provision of $31 million and $35 million, respectively, compared to an income tax provision of $43 million and $6 million, respectively, for the same periods last year. The income tax provision for the three and six months ended April 30, 2010 includes net discrete tax expense of $12 million and $3 million, respectively. The net discrete expense relates primarily to tax settlements, lapses of statutes of limitations and valuation allowance adjustments based on changes in other comprehensive income items. The income tax expense for the three and six months ended April 30, 2009 include net discrete benefits of zero and $42 million, respectively, and are primarily associated with lapses of statutes of limitations and tax settlements. Without considering interest and penalties, the rate reflects taxes in all jurisdictions except the U.S. and foreign jurisdictions in which income tax expense or benefit continues to be offset by adjustments to valuation

Table of Contents

allowances. We intend to maintain partial or full valuation allowances in these jurisdictions until sufficient positive evidence exists to support the reversal of the valuation allowances.

In the U.S., the tax years remain open to Internal Revenue Service (IRS) and state audits back to the year 2000. In other major jurisdictions where we conduct business, the tax years generally remain open to audit by local tax authorities back to the year 2003. As a result of audit activities, our disclosure of unrecognized tax benefits as of October 31, 2009 will change significantly during this fiscal year. Furthermore, it is reasonably possible that additional changes to our unrecognized tax benefits could be significant in the next twelve months due to lapses of statutes of limitation and tax audit settlements. As a result of uncertainties regarding the timing of the completion of tax audits in various jurisdictions and their possible outcomes, an estimate of the range of increase or decrease that could occur in the next twelve months cannot be made.

Our U.S. federal income tax returns for 2000 through 2002 and 2003 through 2007 are under audit by the IRS which is normal for taxpayers subject to the IRS s Large and Mid-Sized Business examination procedures. In August 2007, we received a Revenue Agent s Report (RAR) for 2000 through 2002. The RAR proposed several adjustments to taxable income. We disagreed with most of the proposed adjustments. In order to resolve the disagreements, representatives of Agilent met with the Appeals Office of the IRS. In April 2010, we reached resolution in principle with the Appeals Office on the last remaining significant proposed adjustment. Tax adjustments resulting from the Appeals Office agreements will be offset with net operating losses from subsequent years and tax credits. Federal deficiency interest for the intervening years is about $13 million, or $8 million net of federal tax benefit. This $8 million is reflected in our statements of operations.

5. NET INCOME (LOSS) PER SHARE

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2009	2010	2009
	(in millions)			
Numerator:				
Net income (loss)	$ 108	$ (101)	$ 187	$ (37)
Denominators:				
Basic weighted-average shares	348	344	348	348
Potentially dilutive common stock equivalents stock options and other employee stock plans	6		6	
Diluted weighted-average shares	354	344	354	348

The dilutive effect of share-based awards is reflected in diluted net income (loss) 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.

The following table presents options to purchase shares of common stock, which were not included in the computations of diluted net income (loss) per share because they were anti-dilutive.

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2009	2010	2009
Options to purchase shares of common stock (in millions)	4	33	12	33
Weighted-average exercise price	$ 40	$ 29	$ 35	$ 29
Average common stock price	$ 33	$ 16	$ 31	$ 17

Table of Contents

6. INVENTORY

	April 30, 2010	October 31, 2009
	(in millions)	
Finished goods	$ 274	$ 285
Purchased parts and fabricated assemblies	272	267
Inventory	$ 546	$ 552

7. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents goodwill balances and the movements for each of our reportable segments during the six months ended April 30, 2010:

	Life Sciences	Chemical Analysis	Electronic Measurement	Total
		(in millions)		
Goodwill as of October 31, 2009	$ 123	$ 151	$ 381	$ 655
Foreign currency translation impact			(15)	(15)
Divestitures	(1)			(1)
Goodwill arising from acquisitions			5	5
Goodwill as of April 30, 2010	$ 122	$ 151	$ 371	$ 644

The components of other intangibles as of April 30, 2010 and October 31, 2009 are shown in the table below:

	Purchased Other Intangible Assets		
	Gross Carrying Amount	Accumulated Amortization and Impairments	Net Book Value
		(in millions)	
As of October 31, 2009:			
Purchased technology	$ 281	$ 170	$ 111
Trademark/Tradename	32	6	26
Customer relationships	85	55	30
Total	$ 398	$ 231	$ 167
As of April 30, 2010:			
Purchased technology	$ 249	$ 156	$ 93
Trademark/Tradename	29	9	20
Customer relationships	79	66	13
Total	$ 357	$ 231	$ 126

We reduced goodwill by $1 million, due to a divestiture, during the three and six months ended April 30, 2010 and recorded zero and $5 million of goodwill relating to the purchase of two businesses during the three and six months ended April 30, 2010, respectively. We reduced other

intangibles by $13 million, due to the same divestiture in the three months ended April 30, 2010 and in the six months ended April 30, 2010 we reduced other intangibles by $25 million including $12 million of impairments related to the same divestiture and recorded $3 million of additions related to acquisitions.

Amortization of intangible assets was $9 million and $19 million for the three and six months ended April 30, 2010 and $11 million and $23 million for the same periods in the prior year. Future amortization expense related to existing purchased intangible assets is estimated to be $16 million for the remainder of 2010 , $29 million for 2011, $24 million for 2012, $15 million for 2013, $11 million for 2014, $8 million for 2015, and $23 million thereafter.

8. FAIR VALUE MEASUREMENTS

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

Table of Contents

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.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis as of April 30, 2010 were as follows:

		Fair Value Measurement at April 30, 2010 Using		
	April 30, 2010	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(in millions)		
Assets:				
Short-term				
Cash equivalents (money market funds)	$ 2,141	$ 2,141	$	$
Available-for-sale investments	11		10	1
Derivative instruments (foreign exchange contracts)	18		18	
Restricted cash (commercial paper)	1,552		1,552	
Long-term				
Trading securities	51	51		
Derivative instruments (interest rate contracts)	10		10	
Available-for-sale investments	30	11	19	
Total assets measured at fair value	$ 3,813	$ 2,203	$ 1,609	$ 1

Liabilities:				
Short-term				
Derivative instruments (foreign exchange contracts)	$ 10	$	$ 10	$
Long-term				
Deferred compensation liability	48		48	
Total liabilities measured at fair value	$ 58	$	$ 58	$

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

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

Table of Contents

For assets measured at fair value using significant unobservable inputs (level 3), the following table summarizes the change in balances during the three and six months ended April 30, 2010 and 2009:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2009	2010	2009
	(in millions)			
Balance, beginning of period	$ 3	$ 16	$ 6	$ 19
Realized losses related to amortization of premium	(1)	(1)	(1)	(2)
Realized losses related to investment impairments		(1)		(4)
Sales		(3)	(2)	(6)
Transfers into level 3		2		6
Transfers out of level 3	(1)		(2)	
Balance, end of period	$ 1	$ 13	$ 1	$ 13
Total losses included in net income attributable to change in unrealized losses relating to assets still held at the reporting date, reported in interest and other income, net	$ (1)	$ (1)	$ (1)	$ (2)

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 a 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 and six months ended April 30, 2010 and we recognized $2 million and $8 million of other than temporary impairments for investments for the three and six months ended April 30, 2009, respectively. Fair values for the impaired investments in the three and six months ended April 30, 2010 and 2009 were measured using both level 2 and level 3 inputs.

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

Impairment of Long-Lived Assets. Long-lived assets held and used with a carrying amount of $1 million were written down to their fair value of zero, resulting in an impairment charge of $1 million, which was included in net income for the three months ended April 30, 2010. Long-lived assets held and used with a carrying amount of $29 million were written down to their fair value of $23 million, resulting in an impairment charge of $6 million, which was included in net income for the six months ended April 30, 2010. Impairments of long-lived assets held for sale were zero for the three months ended April 30, 2010. 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 six months ended April 30, 2010. These long-lived assets held for sale with a fair value of $16 million were sold during the second quarter. Fair value for the impairment of long-lived assets were measured using level 2 inputs.

9. DERIVATIVES

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

Fair Value Hedges

The company enters into fair value hedges to reduce the exposure of our debt portfolio to interest rate risk. We issue long-term senior notes in U.S. dollars based on market conditions at the time of financing. We use interest rate swaps to modify the market risk

Table of Contents

exposure in connection with fixed interest rate senior notes to U.S. dollar London inter bank offered rate (LIBOR)-based floating interest rate. Alternatively, we may choose not to swap fixed for floating interest rate or may terminate a previously executed swap. We designate and qualify these interest rate swaps as fair value hedges of the interest rate risk inherent in the debt. For derivative instruments that are designated and qualify as fair value hedges, we recognize the gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, in interest expense, in the condensed consolidated statement of operations. The fair value of the swaps is recorded on the condensed consolidated balance sheet at each period end, with an offsetting entry in senior notes. As of April 30, 2010, there were 9 interest rate swap contracts designated as fair value hedges associated with our 2012 and 2015 senior notes. The notional amount of these interest rate swap contracts, receive-fixed/pay-variable, was $750 million. On November 25, 2008, we terminated the two remaining interest rate swap contracts associated with our 2017 senior notes that represented the notional amount of $400 million. The asset value upon termination was approximately $43 million. The proceeds were recorded as operating cash flows and the gain is being deferred and amortized over the remaining life of the 2017 senior notes.

Cash Flow Hedges

The company also enters into foreign exchange contracts to hedge our forecasted operational cash flow exposures resulting from changes in foreign currency exchange rates. These foreign exchange contracts, carried at fair value, have maturities between one and twelve months. These derivative instruments are designated and qualify as cash flow hedges under the criteria prescribed in the authoritative guidance. The changes in the value of the effective portion of the derivative instrument are recognized in accumulated other comprehensive income. Amounts associated with cash flow hedges are reclassified to cost of sales in the condensed consolidated statement of operations when either the forecasted transaction occurs or it becomes probable that the forecasted transaction will not occur. Changes in the fair value of the ineffective portion of derivative instruments are recognized in cost of sales in the condensed consolidated statement of operations in the current period.

Other Hedges

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

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 April 30, 2010, was approximately $3 million. The credit-risk-related contingent features underlying these agreements had not been triggered as of April 30, 2010.

There were 123 foreign exchange forward contracts and 7 foreign exchange option contracts open as of April 30, 2010 and designated as cash flow hedges. There were 122 foreign exchange forward contracts open as of April 30, 2010 not designated as hedging instruments. The aggregated notional amounts by currency and designation as of April 30, 2010 were as follows:

	Derivatives in Cash Flow Hedging Relationships		Derivatives Not Designated as Hedging Instruments
Currency	**Forward Contracts Buy/(Sell)**	**Option Contracts Buy/(Sell)**	**Forward Contracts Buy/(Sell)**
		(in millions)	
Euro	$ (71)	$	$ 199
British Pound	(17)		145
Swiss Franc	(20)		29
Malaysian Ringgit	93		19
Japanese Yen	(48)	(64)	(45)
Other	(9)		14
	$ (72)	$ (64)	$ 361

Table of Contents

Derivative instruments are subject to master netting arrangements and qualify for net presentation in the balance sheet. The gross fair values and balance sheet location of derivative instruments held in the condensed consolidated balance sheet as of April 30, 2010 and October 31, 2009 were as follows:

Fair Values of Derivative Instruments

Asset Derivatives			Liability Derivatives		
	Fair Value			Fair Value	
Balance Sheet Location	**April 30, 2010**	**October 31, 2009**	**Balance Sheet Location**	**April 30, 2010**	**October 31, 2009**
		(in millions)			
Derivatives designated as hedging instruments:					
Fair value hedges					
Interest rate contracts					
Other assets	$ 10	$ 3	Other long-term liabilities	$	$
Cash flow hedges					
Foreign exchange contracts					
Other current assets	$ 14	$ 8	Other accrued liabilities	$ 4	$ 5
Other accrued liabilities			Other current assets		1
	$ 24	$ 11		$ 4	$ 6
Derivatives not designated as hedging instruments:					
Foreign exchange contracts					
Other current assets	$ 4	$ 8	Other accrued liabilities	$ 6	$ 3
Other accrued liabilities			Other current assets		1
	$ 4	$ 8		$ 6	$ 4
Total derivatives	$ 28	$ 19		$ 10	$ 10

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	**2009**	**2010**	**2009**
		(in millions)		
Derivatives designated as hedging instruments:				
Fair Value Hedges				
Gain on interest rate swap contracts in interest expense	$ 5	$	$ 9	$
Cash Flow Hedges				
Gain recognized in accumulated other comprehensive income	$ 9	$ 7	$ 11	$
Gain (loss) reclassified from accumulated other comprehensive income into cost of sales	$ 3	$ (10)	$ 3	$ (19)
Derivatives not designated as hedging instruments:				
Gain (loss) recognized in other income (expense)	$ (11)	$ 23	$ (23)	$ 25

Table of Contents

The estimated net amount of existing gains at April 30, 2010 that is expected to be reclassified from other comprehensive income to the cost of sales within the next twelve months is $10 million.

10. RESTRUCTURING COSTS, ASSET IMPAIRMENTS AND OTHER SPECIAL CHARGES

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

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. We expect workforce reduction payments, primarily severance, to be largely complete by the end of fiscal year 2010. Lease payments should primarily be complete in approximately four years, and payments to suppliers in connection with inventory should be complete by the end of fiscal year 2010. As of April 30, 2010, approximately 150 employees within electronic measurement are pending termination under the FY 2009 Plan.

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

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

	Workforce Reduction	Consolidation of Excess Facilities	Impairment of Building and Purchased Intangible Assets	Special Charges related to Inventory	Total
			(in millions)		
Balance as of October 31, 2009	$ 49	$ 19	$	$ 1	$ 69
Income statement expense	29	15	6		50
Asset impairments/inventory charges			(6)		(6)
Cash payments	(57)	(6)			(63)
Balance as of April 30, 2010	$ 21	$ 28	$	$ 1	$ 50

The restructuring and other special accruals for all plans, which totaled $50 million at April 30, 2010, are recorded in other accrued liabilities and other long-term liabilities on the condensed consolidated balance sheet. These balances reflect estimated future cash outlays.

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2009	2010	2009
	(in millions)			
Cost of products and services	$ 3	$ 22	$ 6	$ 55
Research and development		17	1	21
Selling, general and administrative	13	47	43	58
Total restructuring, asset impairments and other special charges	$ 16	$ 86	$ 50	$ 134

Table of Contents

11. RETIREMENT PLANS AND POST RETIREMENT PENSION PLANS

Components of net periodic costs. For the three and six months ended April 30, 2010 and 2009, our net pension and post retirement benefit costs were comprised of the following:

	Pensions					
	U.S. Plans		Non-U.S. Plans		U.S. Post Retirement Benefit Plans	
	Three Months Ended April 30,					
	2010	2009	2010	2009	2010	2009
	(in millions)					
Service cost benefits earned during the period	$ 10	$ 7	$ 8	$ 8	$ 1	$ 1
Interest cost on benefit obligation	7	12	17	16	7	7
Expected return on plan assets	(10)	(9)	(21)	(19)	(5)	(5)
Amortization and deferrals:						
Actuarial loss	1		7	8	4	1
Prior service cost	(3)				(4)	(3)
Total net plan costs	$ 5	$ 10	$ 11	$ 13	$ 3	$ 1

	Pensions				
	U.S. Plans		Non-U.S. Plans		U.S. Post Retirement Benefit Plans
	Six Months Ended April 30,				
	2010	2009	2010	2009	2010