

AGILENT TECHNOLOGIES INC

Form 10-Q

June 04, 2012

[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, 2012**

**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 ☒ 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**

**OUTSTANDING AT APRIL 30, 2012**

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COMMON STOCK, \$0.01 PAR VALUE

347,500,865 SHARES

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Table of Contents

AGILENT TECHNOLOGIES, INC.

TABLE OF CONTENTS

|                      |                                                                                              | <b>Page<br/>Number</b> |
|----------------------|----------------------------------------------------------------------------------------------|------------------------|
| <u>Part I.</u>       | <u>Financial Information</u>                                                                 |                        |
|                      | <u>Item 1.</u>                                                                               | 3                      |
|                      | <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>                                                                               | 21                     |
|                      | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 21                     |
|                      | <u>Item 3.</u>                                                                               | 32                     |
|                      | <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | 32                     |
|                      | <u>Item 4.</u>                                                                               | 33                     |
|                      | <u>Controls and Procedures</u>                                                               | 33                     |
| <u>Part II.</u>      | <u>Other Information</u>                                                                     | 33                     |
|                      | <u>Item 1.</u>                                                                               | 33                     |
|                      | <u>Legal Proceedings</u>                                                                     | 33                     |
|                      | <u>Item 1A.</u>                                                                              | 34                     |
|                      | <u>Risk Factors</u>                                                                          | 34                     |
|                      | <u>Item 2.</u>                                                                               | 43                     |
|                      | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 43                     |
|                      | <u>Item 6.</u>                                                                               | 43                     |
|                      | <u>Exhibits</u>                                                                              | 43                     |
| <u>Signature</u>     |                                                                                              | 44                     |
| <u>Exhibit Index</u> |                                                                                              | 45                     |

[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<br>April 30, |          | Six Months Ended<br>April 30, |          |
|-----------------------------------------------------------------|---------------------------------|----------|-------------------------------|----------|
|                                                                 | 2012                            | 2011     | 2012                          | 2011     |
| Net revenue:                                                    |                                 |          |                               |          |
| Products                                                        | \$ 1,435                        | \$ 1,389 | \$ 2,777                      | \$ 2,647 |
| Services and other                                              | 298                             | 288      | 591                           | 549      |
| Total net revenue                                               | 1,733                           | 1,677    | 3,368                         | 3,196    |
| Costs and expenses:                                             |                                 |          |                               |          |
| Cost of products                                                | 650                             | 622      | 1,251                         | 1,179    |
| Cost of services and other                                      | 165                             | 155      | 325                           | 301      |
| Total costs                                                     | 815                             | 777      | 1,576                         | 1,480    |
| Research and development                                        | 166                             | 165      | 328                           | 324      |
| Selling, general and administrative                             | 452                             | 469      | 893                           | 915      |
| Total costs and expenses                                        | 1,433                           | 1,411    | 2,797                         | 2,719    |
| Income from operations                                          | 300                             | 266      | 571                           | 477      |
| Interest income                                                 | 2                               | 3        | 5                             | 7        |
| Interest expense                                                | (25)                            | (20)     | (51)                          | (43)     |
| Other income (expense), net                                     | 16                              | 11       | 24                            | 17       |
| Income before taxes                                             | 293                             | 260      | 549                           | 458      |
| Provision for income taxes                                      | 38                              | 60       | 64                            | 65       |
| Net income                                                      | \$ 255                          | \$ 200   | \$ 485                        | \$ 393   |
| Net income per share:                                           |                                 |          |                               |          |
| Basic                                                           | \$ 0.73                         | \$ 0.58  | \$ 1.39                       | \$ 1.13  |
| Diluted                                                         | \$ 0.72                         | \$ 0.56  | \$ 1.37                       | \$ 1.11  |
| Weighted average shares used in computing net income per share: |                                 |          |                               |          |
| Basic                                                           | 348                             | 347      | 348                           | 347      |
| Diluted                                                         | 354                             | 355      | 353                           | 355      |
| Cash dividends declared per common share                        | \$                              | \$       | \$ 0.10                       | \$       |

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)**

|                                                                                                                                                      | <b>April 30,<br/>2012</b> | <b>October 31,<br/>2011</b> |
|------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-----------------------------|
| <b>ASSETS</b>                                                                                                                                        |                           |                             |
| Current assets:                                                                                                                                      |                           |                             |
| Cash and cash equivalents                                                                                                                            | \$ 3,896                  | \$ 3,527                    |
| Accounts receivable, net                                                                                                                             | 909                       | 860                         |
| Inventory                                                                                                                                            | 947                       | 898                         |
| Other current assets                                                                                                                                 | 258                       | 284                         |
| Total current assets                                                                                                                                 | 6,010                     | 5,569                       |
| Property, plant and equipment, net                                                                                                                   | 996                       | 1,006                       |
| Goodwill                                                                                                                                             | 1,597                     | 1,567                       |
| Other intangible assets, net                                                                                                                         | 394                       | 429                         |
| Long-term investments                                                                                                                                | 111                       | 117                         |
| Other assets                                                                                                                                         | 305                       | 369                         |
| Total assets                                                                                                                                         | \$ 9,413                  | \$ 9,057                    |
| <b>LIABILITIES AND EQUITY</b>                                                                                                                        |                           |                             |
| Current liabilities:                                                                                                                                 |                           |                             |
| Accounts payable                                                                                                                                     | \$ 457                    | \$ 472                      |
| Employee compensation and benefits                                                                                                                   | 396                       | 424                         |
| Deferred revenue                                                                                                                                     | 423                       | 389                         |
| Short-term debt                                                                                                                                      | 251                       | 253                         |
| Other accrued liabilities                                                                                                                            | 308                       | 299                         |
| Total current liabilities                                                                                                                            | 1,835                     | 1,837                       |
| Long-term debt                                                                                                                                       | 1,926                     | 1,932                       |
| Retirement and post-retirement benefits                                                                                                              | 281                       | 329                         |
| Other long-term liabilities                                                                                                                          | 646                       | 643                         |
| Total liabilities                                                                                                                                    | 4,688                     | 4,741                       |
| Commitments and contingencies (Note 11)                                                                                                              |                           |                             |
| 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; 594 million shares at April 30, 2012 and 591 million shares at October 31, 2011, issued | 6                         | 6                           |
| Treasury stock at cost; 246 million shares at April 30, 2012 and 244 million shares at October 31, 2011                                              | (8,612)                   | (8,535)                     |
| Additional paid-in-capital                                                                                                                           | 8,354                     | 8,265                       |
| Retained earnings                                                                                                                                    | 4,906                     | 4,456                       |
| Accumulated other comprehensive income                                                                                                               | 68                        | 116                         |
| Total stockholders' equity                                                                                                                           | 4,722                     | 4,308                       |
| Non-controlling interest                                                                                                                             | 3                         | 8                           |
| Total equity                                                                                                                                         | 4,725                     | 4,316                       |
| Total liabilities and equity                                                                                                                         | \$ 9,413                  | \$ 9,057                    |

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)**

|                                                                                             | <b>Six Months Ended</b> |             |
|---------------------------------------------------------------------------------------------|-------------------------|-------------|
|                                                                                             | <b>April 30,</b>        |             |
|                                                                                             | <b>2012</b>             | <b>2011</b> |
| Cash flows from operating activities:                                                       |                         |             |
| Net income                                                                                  | \$ 485                  | \$ 393      |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                         |             |
| Depreciation and amortization                                                               | 123                     | 127         |
| Share-based compensation                                                                    | 43                      | 44          |
| Deferred taxes                                                                              | (4)                     | 38          |
| Excess and obsolete inventory and inventory-related charges                                 | 13                      | 13          |
| Other non-cash expenses, net                                                                | 2                       | 5           |
| Changes in assets and liabilities:                                                          |                         |             |
| Accounts receivable                                                                         | (63)                    | (26)        |
| Inventory                                                                                   | (64)                    | (139)       |
| Accounts payable                                                                            | (6)                     | (19)        |
| Employee compensation and benefits                                                          | (23)                    | 14          |
| Other assets and liabilities                                                                | (3)                     | 48          |
| Net cash provided by operating activities                                                   | 503                     | 498         |
| Cash flows from investing activities:                                                       |                         |             |
| Investments in property, plant and equipment                                                | (83)                    | (89)        |
| Proceeds from lease receivable                                                              | 80                      |             |
| Proceeds from sale of investments                                                           | 5                       | 14          |
| Purchase of non-controlling interest                                                        | (6)                     |             |
| Acquisitions of businesses and intangible assets, net of cash acquired                      | (76)                    | (96)        |
| Change in restricted cash and cash equivalents, net                                         |                         | 1,545       |
| Net cash provided by (used in) investing activities                                         | (80)                    | 1,374       |
| Cash flows from financing activities:                                                       |                         |             |
| Issuance of common stock under employee stock plans                                         | 61                      | 204         |
| Payment of dividend                                                                         | (35)                    |             |
| Repayment of debt                                                                           |                         | (1,500)     |
| Treasury stock repurchases                                                                  | (78)                    | (270)       |
| Net cash used in financing activities                                                       | (52)                    | (1,566)     |
| Effect of exchange rate movements                                                           | (2)                     | 20          |
| Net increase in cash and cash equivalents                                                   | 369                     | 326         |
| Cash and cash equivalents at beginning of period                                            | 3,527                   | 2,649       |
| Cash and cash equivalents at end of period                                                  | \$ 3,896                | \$ 2,975    |

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.

*Basis of Presentation.* We have prepared the accompanying financial data for the three and six months ended April 30, 2012 and 2011 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 2011 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, 2012 and October 31, 2011, condensed consolidated statement of operations for the three and six months ended April 30, 2012 and 2011, and condensed consolidated statement of cash flows for the six months ended April 30, 2012 and 2011.

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

*Update to Significant Accounting Policies.* 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, 2011.

*Fair Value of Financial Instruments.* The carrying values of certain of our financial instruments including cash and cash equivalents, accounts receivable, accounts payable, accrued compensation and other accrued liabilities approximate fair value because of their short maturities. The fair value of long-term equity investments is determined using quoted market prices for those securities when available. For those long-term equity investments accounted for under the cost method, their carrying value approximates their estimated fair value. The fair value of our short-term and long-term debt, calculated from quoted prices which are Level 1 inputs under the accounting guidance fair value hierarchy, exceeds the balance sheet carrying value by approximately \$2 million and \$190 million, respectively as of April 30, 2012. The fair value of foreign currency contracts used for hedging purposes is estimated internally by using inputs tied to active markets. These inputs, for example, interest rate yield curves, foreign exchange rates, and forward and spot prices for currencies are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. See also Note 8, Fair Value Measurements for additional information on the fair value of financial instruments.

*Goodwill and Purchased Intangible Assets.* In September 2011, the FASB approved changes to the goodwill impairment guidance which are intended to reduce the cost and complexity of the annual impairment test. The changes provide entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The revised standard gives an entity the option to first assess qualitative factors to determine whether performing the current two-step test is necessary. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not (i.e. greater than 50% chance) that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test will be required. Otherwise, no further testing will be required.

The revised guidance includes examples of events and circumstances that might indicate that a reporting unit's fair value is less than its carrying amount. These include macro-economic conditions such as deterioration in the entity's operating environment or industry or market considerations; entity-specific events such as increasing costs, declining financial performance, or loss of key personnel; or other events such as an expectation that a reporting unit will be sold or a sustained decrease in the stock price on either an absolute basis or relative to peers.

Table of Contents

The changes were effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. However, earlier adoption is permitted. Agilent opted to early adopt this guidance for the year ended October 31, 2011.

If it is determined, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, 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. We have aggregated components of an operating segment that have similar economic characteristics into our reporting units. Accordingly, Agilent has three reporting units, which are the same as our operating segments: life sciences, chemical analysis and electronic measurement. At the time of an acquisition, we assign goodwill to the reporting unit that is expected to benefit from the synergies of the combination. Based on our results of our qualitative test for goodwill impairment, as of September 30, 2011, we believe that it is more-likely-than-not that the fair value of each of our three reporting units, life sciences, chemical analysis and electronic measurement was greater than their respective carrying values. There was no impairment of goodwill during the three and six months ended April 30, 2012 and 2011.

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.

## 2. NEW ACCOUNTING PRONOUNCEMENTS

In January 2010, the Financial Accounting Standards Board ( 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 adopted the guidance regarding level 3 activity on November 1, 2011 and there was no material impact to our consolidated financial statements. See Note 8, Fair Value Measurements for additional information on the fair value of financial instruments.

In May 2011, the FASB amended fair value measurement and disclosure guidance to achieve convergence with International Financial Reporting Standards ( IFRS ). The amended guidance modifies the measurement of fair value, clarifies verbiage, and changes disclosure or other requirements in US GAAP and IFRS. The guidance is effective during interim and annual periods beginning after December 15, 2011. We adopted the guidance as of February 1, 2012 and there was no material impact on our consolidated financial statements.

In June 2011, the FASB issued guidance related to the presentation of comprehensive income. The guidance aims to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We expect to make presentational changes to our consolidated financial statements upon adoption of this guidance. Given that this guidance impacts financial statement presentation requirements only its adoption will not have a material impact on our consolidated financial statements.

In December 2011, the FASB issued guidance related to the enhanced disclosures that will enable the users of financial statements to evaluate the effect or potential effect of netting arrangements of an entity's financial position. The amendments require improved information about financial instruments and derivative instruments that are either offset or subject to enforceable master netting arrangements or similar agreement. The guidance is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. We do not expect a material impact to our consolidated financial statements due to the adoption of this guidance.

# [Table of Contents](#)

## 3. SHARE-BASED COMPENSATION

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

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

|                                        | Three Months Ended<br>April 30, |       |       | Six Months Ended<br>April 30, |      |  |
|----------------------------------------|---------------------------------|-------|-------|-------------------------------|------|--|
|                                        | 2012                            | 2011  |       | 2012                          | 2011 |  |
|                                        | (in millions)                   |       |       |                               |      |  |
| Cost of products and services          | \$ 4                            | \$ 3  | \$ 10 | \$ 10                         |      |  |
| Research and development               | 2                               | 2     | 6     | 6                             |      |  |
| Selling, general and administrative    | 12                              | 11    | 29    | 28                            |      |  |
| Total share-based compensation expense | \$ 18                           | \$ 16 | \$ 45 | \$ 44                         |      |  |

At April 30, 2012 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, 2012 and 2011.

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

|                                            | Three Months Ended<br>April 30, |         | Six Months Ended<br>April 30, |         |
|--------------------------------------------|---------------------------------|---------|-------------------------------|---------|
|                                            | 2012                            | 2011    | 2012                          | 2011    |
| <b>Stock Option Plans:</b>                 |                                 |         |                               |         |
| Weighted average risk-free interest rate   | 1.2%                            |         | 0.9%                          | 1.5%    |
| Dividend yield                             | 1%                              |         | 0%                            | 0%      |
| Weighted average volatility                | 38%                             |         | 38%                           | 35%     |
| Expected life                              | 5.8yrs                          |         | 5.8 yrs                       | 5.8yrs  |
| <b>LTPP:</b>                               |                                 |         |                               |         |
| Volatility of Agilent shares               | 41%                             | 40%     | 41%                           | 40%     |
| Volatility of selected peer-company shares | 17%-75%                         | 20%-76% | 17%-75%                       | 20%-76% |
| Price-wise correlation with selected peers | 62%                             | 55%     | 62%                           | 55%     |

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

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the date of grant adjusted for expected dividend yield. On January 17, 2012, the Company's Board of Directors approved the initiation of quarterly cash dividends to the Company's shareholders. The fair value of all the awards granted prior to the declaration of quarterly cash dividend was measured based on an expected dividend yield of 0%. 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 executives, which we believe is representative of future behavior.

### 4. PROVISION FOR INCOME TAXES

For the three and six months ended April 30, 2012, we recorded an income tax provision of \$38 million and \$64 million compared to an income tax provision of \$60 million and \$65 million, respectively, for the same periods last year. The income tax provision for the three and six months ended April 30, 2012 includes net discrete tax expense of \$10 million and \$14 million,



## Table of Contents

respectively. The net discrete tax charges for the three months ended April 30, 2012 primarily relate to U.S. penalties and withholding taxes. The income tax provision for the three and six months ended April 30, 2011 includes net discrete tax expense of \$31 million and \$16 million, respectively. The net discrete tax expense for the three months ended April 30, 2011 includes a \$29 million out of period adjustment to reduce the carrying value of certain U.K. deferred tax assets. The net discrete tax expense for the six months ended April 30, 2011 includes a \$16 million discrete benefit relating to a tax settlement with a foreign tax authority.

Without considering interest and penalties, the effective tax 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. Our effective tax rate is affected by foreign 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. As of April 30, 2012, we intend to maintain valuation allowances in these jurisdictions until sufficient positive evidence exists to support reversal. We currently have a valuation allowance of \$338 million of which \$276 million relates to U.S. jurisdictions. Due to improvements in the U.S. operating results over the past three years, management believes a reasonable possibility exists that, within the year, sufficient positive evidence may become available to reach a conclusion that the U.S. valuation allowance will no longer be needed.

In the U.S., tax years remain open back to the year 2006 for federal income tax purposes and the year 2000 for significant states. In 2011, Agilent and the Internal Revenue Service ( IRS ) reached an agreement on transfer pricing issues covering years 2003 – 2007. Tax adjustments resulting from these agreements will be offset with net operating losses and tax credit carryforwards. Agilent's U.S. federal income tax returns for 2006 through 2007 are currently under audit by the IRS. In other major jurisdictions where we conduct business, the tax years generally remain open back to the year 2003. With these jurisdictions and the U.S., 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.

## 5. NET INCOME PER SHARE

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

|                                                                                               | Three Months Ended<br>April 30, |        | Six Months Ended<br>April 30, |        |
|-----------------------------------------------------------------------------------------------|---------------------------------|--------|-------------------------------|--------|
|                                                                                               | 2012                            | 2011   | 2012                          | 2011   |
|                                                                                               | (in millions)                   |        |                               |        |
| <b>Numerator:</b>                                                                             |                                 |        |                               |        |
| Net income                                                                                    | \$ 255                          | \$ 200 | \$ 485                        | \$ 393 |
| <b>Denominators:</b>                                                                          |                                 |        |                               |        |
| Basic weighted-average shares                                                                 | 348                             | 347    | 348                           | 347    |
| Potentially dilutive common stock equivalents<br>stock options and other employee stock plans | 6                               | 8      | 5                             | 8      |
| Diluted weighted-average shares                                                               | 354                             | 355    | 353                           | 355    |

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

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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 three and six months ended April 30, 2012, options to purchase 6,000 shares and 862,000 shares, respectively, were excluded from the calculation of diluted earnings per share as their effect was anti-dilutive. For the three and six months ended April 30, 2011, no options to purchase shares were excluded from the calculation of diluted earnings per share.

### 6. INVENTORY

|                                           | April 30,<br>2012 | (in millions) | October 31,<br>2011 |
|-------------------------------------------|-------------------|---------------|---------------------|
| Finished goods                            | \$                | 466           | \$ 452              |
| Purchased parts and fabricated assemblies |                   | 481           | 446                 |
| Inventory                                 | \$                | 947           | \$ 898              |

[Table of Contents](#)

## 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, 2012:

|                                     | Life Sciences | Chemical Analysis | Electronic Measurement | Total    |
|-------------------------------------|---------------|-------------------|------------------------|----------|
|                                     |               | (in millions)     |                        |          |
| Goodwill as of October 31, 2011     | \$ 367        | \$ 765            | \$ 435                 | \$ 1,567 |
| Foreign currency translation impact | (4)           | (9)               | (10)                   | (23)     |
| Goodwill arising from acquisitions  | 35            | 1                 | 17                     | 53       |
| Goodwill as of April 30, 2012       | \$ 398        | \$ 757            | \$ 442                 | \$ 1,597 |

The components of other intangibles as of April 30, 2012 and October 31, 2011 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, 2011:</b>      |                       |                                                                                          |                |
| Purchased technology                | \$ 510                | \$ 246                                                                                   | \$ 264         |
| Backlog                             | 12                    | 12                                                                                       |                |
| Trademark/Tradenname                | 40                    | 20                                                                                       | 20             |
| Customer relationships              | 249                   | 114                                                                                      | 135            |
| Total amortizable intangible assets | 811                   | 392                                                                                      | 419            |
| In-Process R&D                      | 10                    |                                                                                          | 10             |
| Total                               | \$ 821                | \$ 392                                                                                   | \$ 429         |
| <b>As of April 30, 2012:</b>        |                       |                                                                                          |                |
| Purchased technology                | 526                   | \$ 280                                                                                   | \$ 246         |
| Backlog                             | 14                    | 13                                                                                       | 1              |
| Trademark/Tradenname                | 40                    | 22                                                                                       | 18             |
| Customer relationships              | 248                   | 130                                                                                      | 118            |
| Total amortizable intangible assets | 828                   | 445                                                                                      | 383            |
| In-Process R&D                      | 11                    |                                                                                          | 11             |
| Total                               | \$ 839                | \$ 445                                                                                   | \$ 394         |

During the three and six months ended April 30, 2012, we recorded additions to goodwill of \$14 million and \$53 million, respectively, related to the purchase of six businesses. During the three and six months ended April 30, 2011, we recorded additions to goodwill of \$64 million. During the three and six months ended April 30, 2012, we recorded additions to other intangible assets of \$8 million and \$24 million, respectively, related to the purchase of six businesses during the year. During the three and six months ended April 30, 2011, we recorded additions to other intangible assets of \$42 million. During the six months ended April 30, 2012, we also reduced intangible assets by \$6 million due to the impact of foreign exchange translation. Amortization of intangible assets was \$26 million and \$53 million for the three and six months ended April 30, 2012, respectively. Amortization and impairments of intangible assets was \$31 million and \$59 million for the three and six months ended April 30, 2011, respectively. Future amortization expense related to existing purchased intangible assets is estimated to be \$47 million for the remainder of 2012, \$84 million for 2013, \$73 million for 2014, \$59 million for 2015, \$51 million for 2016, \$36 million for 2017, and \$44 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.

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, 2012 were as follows:

|                                                                            | April 30,<br>2012 | Fair Value Measurement at April 30, 2012 Using                             |                                                           |                                                    |
|----------------------------------------------------------------------------|-------------------|----------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                                                                            |                   | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|                                                                            |                   | (in millions)                                                              |                                                           |                                                    |
| Assets:                                                                    |                   |                                                                            |                                                           |                                                    |
| Short-term                                                                 |                   |                                                                            |                                                           |                                                    |
| Cash equivalents (money market funds)                                      | \$ 2,791          | \$ 2,791                                                                   | \$                                                        | \$                                                 |
| Derivative instruments (foreign exchange and interest rate swap contracts) | 17                |                                                                            | 17                                                        |                                                    |
| Long-term                                                                  |                   |                                                                            |                                                           |                                                    |
| Trading securities                                                         | 49                | 49                                                                         |                                                           |                                                    |
| Total assets measured at fair value                                        | \$ 2,857          | \$ 2,840                                                                   | \$ 17                                                     | \$                                                 |
| Liabilities:                                                               |                   |                                                                            |                                                           |                                                    |
| Short-term                                                                 |                   |                                                                            |                                                           |                                                    |
|                                                                            | \$ 7              | \$                                                                         | \$ 7                                                      | \$                                                 |

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Derivative instruments (foreign exchange contracts)

Long-term

|                                          |    |    |    |    |    |    |
|------------------------------------------|----|----|----|----|----|----|
| Deferred compensation liability          |    | 47 |    |    | 47 |    |
| Total liabilities measured at fair value | \$ | 54 | \$ | \$ | 54 | \$ |

# Table of Contents

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

|                                                                            | Fair Value Measurement at October 31, 2011 Using |                                                                            |                                                           |                                                    |    |
|----------------------------------------------------------------------------|--------------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|----|
|                                                                            |                                                  | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |    |
|                                                                            | October 31,<br>2011                              | (in millions)                                                              |                                                           |                                                    |    |
| Assets:                                                                    |                                                  |                                                                            |                                                           |                                                    |    |
| Short-term                                                                 |                                                  |                                                                            |                                                           |                                                    |    |
| Cash equivalents (money market funds)                                      | \$                                               | 1,972                                                                      | \$                                                        | 1,972                                              | \$ |
| Derivative instruments (foreign exchange and interest rate swap contracts) |                                                  | 37                                                                         |                                                           | 37                                                 |    |
| Long-term                                                                  |                                                  |                                                                            |                                                           |                                                    |    |
| Trading securities                                                         |                                                  | 49                                                                         |                                                           | 49                                                 |    |
| Available-for-sale investments                                             |                                                  | 3                                                                          |                                                           | 3                                                  |    |
| Total assets measured at fair value                                        | \$                                               | 2,061                                                                      | \$                                                        | 2,024                                              | \$ |
|                                                                            |                                                  |                                                                            |                                                           |                                                    |    |
| Liabilities:                                                               |                                                  |                                                                            |                                                           |                                                    |    |
| Short-term                                                                 |                                                  |                                                                            |                                                           |                                                    |    |
| Derivative instruments (foreign exchange contracts)                        | \$                                               | 11                                                                         | \$                                                        | 11                                                 | \$ |
| Long-term                                                                  |                                                  |                                                                            |                                                           |                                                    |    |
| Deferred compensation liability                                            |                                                  | 46                                                                         |                                                           | 46                                                 |    |
| Total liabilities measured at fair value                                   | \$                                               | 57                                                                         | \$                                                        | 57                                                 | \$ |

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.

*Impairment of Investments.* There were no impairments for investments for the three and six months ended April 30, 2012 and 2011.

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

*Long-Lived Assets*

For assets measured at fair value on a non-recurring basis, the following table summarizes the impairments included in net income during the three and six months ended April 30, 2012 and 2011:

|                                 | Three Months Ended<br>April 30, |      |               | Six Months Ended<br>April 30, |      |   |
|---------------------------------|---------------------------------|------|---------------|-------------------------------|------|---|
|                                 | 2012                            | 2011 | (in millions) | 2012                          | 2011 |   |
| Long-lived assets held and used | \$                              | \$   | 4             | \$                            | \$   | 4 |
| Long-lived assets held for sale |                                 |      | 1             |                               |      | 1 |

There were no impairments of long-lived assets for the three and six months ended April 30, 2012. For the three and six months ended April 30, 2011, long-lived assets held and used with a carrying value of \$4 million were written down to their fair value of zero. For the three and six months ended April 30, 2011, long-lived assets held for sale with a carrying value of \$4 million were written down to their fair value of \$3 million. Fair value for the impaired long-lived assets was measured using level 2 inputs and impairments were included in net income for the period stated.



Table of Contents

***Investments in Leases***

In December 2011, we terminated our leasehold interest in the municipal properties, received \$80 million in cash and recognized a loss of approximately \$2 million.

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***

We are 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 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. 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. These fair value hedges are 100 percent effective, and there is no impact on earnings due to hedge ineffectiveness. 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 April 30, 2012, there were four interest rate swap contracts designated as fair value hedges associated with our 2012 senior notes. The notional amount of these interest rate swap contracts, receive-fixed/pay-variable, was \$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 amount to be amortized at April 30, 2012 was \$29 million. On June 6, 2011, we also terminated five interest rate swap contracts associated with our 2015 senior notes that represented the notional amount of \$500 million. The amount to be amortized at April 30, 2012 was \$22 million. On Aug 9, 2011, we terminated five interest rate swap contracts related to our 2020 senior notes that represented the notional amount of \$500 million. The amount to be amortized at April 30, 2012 was \$30 million.

***Cash Flow Hedges***

We enter 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, we enter 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.

Our use of derivative instruments exposes us to credit risk to the extent that the counterparties may be unable to meet the terms of the agreement. We do, however, seek to mitigate such risks by limiting our 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.

# Table of Contents

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, 2012, was \$3 million. The credit-risk-related contingent features underlying these agreements had not been triggered as of April 30, 2012.

There were 152 foreign exchange forward contracts and 11 foreign exchange option contracts open as of April 30, 2012 and designated as cash flow hedges. There were 161 foreign exchange forward contracts open as of April 30, 2012 not designated as hedging instruments. The aggregated U.S. Dollar notional amounts by currency and designation as of April 30, 2012 were as follows:

| Currency           | Derivatives in Cash Flow<br>Hedging Relationships |                                                    | Derivatives<br>Not<br>Designated<br>as Hedging<br>Instruments<br>Forward<br>Contracts<br>Buy/(Sell) |
|--------------------|---------------------------------------------------|----------------------------------------------------|-----------------------------------------------------------------------------------------------------|
|                    | Forward<br>Contracts<br>Buy/(Sell)                | Option<br>Contracts<br>Buy/(Sell)<br>(in millions) |                                                                                                     |
| Euro               | \$ (74)                                           | \$                                                 | \$ 183                                                                                              |
| British Pound      |                                                   |                                                    | 110                                                                                                 |
| Canadian Dollar    | (36)                                              |                                                    |                                                                                                     |
| Australian Dollars | 38                                                |                                                    | 44                                                                                                  |
| Malaysian Ringgit  | 118                                               |                                                    | 2                                                                                                   |
| Japanese Yen       | (59)                                              | (126)                                              | 104                                                                                                 |
| Other              | (4)                                               |                                                    | (21)                                                                                                |
| Totals             | \$ (17)                                           | \$ (126)                                           | \$ 422                                                                                              |

Derivative instruments are subject to master netting arrangements and are disclosed gross in the balance sheet. The gross fair values and balance sheet location of derivative instruments held in the consolidated balance sheet as of April 30, 2012 and October 31, 2011 were as follows:

|                                                |                | Fair Values of Derivative Instruments |  |                           |                |                  |  |
|------------------------------------------------|----------------|---------------------------------------|--|---------------------------|----------------|------------------|--|
| Asset Derivatives                              |                | Fair Value                            |  | Liability Derivatives     |                | Fair Value       |  |
| Balance Sheet Location                         | April 30, 2012 | October 31, 2011                      |  | Balance Sheet Location    | April 30, 2012 | October 31, 2011 |  |
| (in millions)                                  |                |                                       |  |                           |                |                  |  |
| Derivatives designated as hedging instruments: |                |                                       |  |                           |                |                  |  |
| Fair value hedges                              |                |                                       |  |                           |                |                  |  |
| Interest rate contracts                        |                |                                       |  |                           |                |                  |  |
| Other current assets                           | \$ 1           | \$ 3                                  |  | Other accrued liabilities | \$             | \$               |  |
|                                                |                |                                       |  |                           |                |                  |  |
| Cash flow hedges                               |                |                                       |  |                           |                |                  |  |
| Foreign exchange contracts                     |                |                                       |  |                           |                |                  |  |

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|                      |    |    |    |    |                           |    |   |    |   |
|----------------------|----|----|----|----|---------------------------|----|---|----|---|
| Other current assets | \$ | 10 | \$ | 7  | Other accrued liabilities | \$ | 4 | \$ | 3 |
|                      | \$ | 11 | \$ | 10 |                           | \$ | 4 | \$ | 3 |

**Derivatives not designated as  
hedging instruments:**

|                            |    |    |    |    |                           |    |   |    |    |
|----------------------------|----|----|----|----|---------------------------|----|---|----|----|
| Foreign exchange contracts |    |    |    |    |                           |    |   |    |    |
| Other current assets       | \$ | 6  | \$ | 27 | Other accrued liabilities | \$ | 3 | \$ | 8  |
| Total derivatives          | \$ | 17 | \$ | 37 |                           | \$ | 7 | \$ | 11 |

# 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<br>April 30, |   |      | Six Months Ended<br>April 30, |      |      |
|---------------------------------------------------------------------------------------------------------|---------------------------------|---|------|-------------------------------|------|------|
|                                                                                                         | 2012                            |   | 2011 |                               | 2012 | 2011 |
|                                                                                                         | (in millions)                   |   |      |                               |      |      |
| <b>Derivatives designated as hedging instruments:</b>                                                   |                                 |   |      |                               |      |      |
| <i>Fair Value Hedges</i>                                                                                |                                 |   |      |                               |      |      |
| Gain (loss) on interest rate swap contracts, including interest accrual, recognized in interest expense | \$                              |   | \$   | 16                            | \$   | (28) |
| Gain (loss) on hedged item, recognized in interest expense                                              | \$                              | 1 | \$   | (8)                           | \$   | 2    |
|                                                                                                         |                                 |   |      |                               |      | 44   |
| <i>Cash Flow Hedges</i>                                                                                 |                                 |   |      |                               |      |      |
| Gain (loss) recognized in accumulated other comprehensive income                                        | \$                              |   | \$   |                               | \$   | 6    |
|                                                                                                         |                                 |   |      |                               |      | (2)  |
| Gain (loss) reclassified from accumulated other comprehensive income into cost of sales                 | \$                              | 4 | \$   | (1)                           | \$   | 5    |
|                                                                                                         |                                 |   |      |                               |      | (2)  |
| <b>Derivatives not designated as hedging instruments:</b>                                               |                                 |   |      |                               |      |      |
| Gain (loss) recognized in other income (expense)                                                        | \$                              | 6 | \$   | 24                            | \$   | (10) |
|                                                                                                         |                                 |   |      |                               |      | 28   |

The estimated net amount of existing gain at April 30, 2012 that is expected to be reclassified from other comprehensive income to the cost of sales within the next twelve months is \$5 million.

## 10. RETIREMENT PLANS AND POST RETIREMENT PENSION PLANS

*Components of net periodic costs.* For the three and six months ended April 30, 2012 and 2011, our net pension and post retirement benefit costs were comprised of the following:

|                                                | Pensions      |       | Non-U.S. Plans                    |                                   | U.S. Post Retirement Benefit Plans |      |
|------------------------------------------------|---------------|-------|-----------------------------------|-----------------------------------|------------------------------------|------|
|                                                | U.S. Plans    |       | Non-U.S. Plans                    |                                   | U.S. Post Retirement Benefit Plans |      |
|                                                | 2012          | 2011  | Three Months Ended April 30, 2012 | Three Months Ended April 30, 2011 | 2012                               | 2011 |
|                                                | (in millions) |       |                                   |                                   |                                    |      |
| Service cost benefits earned during the period | \$ 10         | \$ 11 | \$ 8                              | \$ 8                              | \$ 1                               | \$ 1 |
| Interest cost on benefit obligation            | 7             | 7     | 19                                | 18                                | 4                                  | 6    |
| Expected return on plan assets                 | (11)          | (11)  | (23)                              | (23)                              | (5)                                | (5)  |
| Amortization and deferrals:                    |               |       |                                   |                                   |                                    |      |
| Actuarial losses                               | 1             | 1     | 10                                | 9                                 | 4                                  | 3    |
| Prior service cost                             | (3)           | (3)   |                                   |                                   | (9)                                | (5)  |

|                      |    |   |    |   |    |    |    |    |    |     |    |
|----------------------|----|---|----|---|----|----|----|----|----|-----|----|
| Total net plan costs | \$ | 4 | \$ | 5 | \$ | 14 | \$ | 12 | \$ | (5) | \$ |
|----------------------|----|---|----|---|----|----|----|----|----|-----|----|

We contributed approximately \$30 million to our U.S. defined benefit plans and \$11 million to our non-U.S. defined benefit plans during the three months ended April 30, 2012 and \$30 million and \$23 million, respectively, for the six months ended April 30, 2012. We contributed approximately \$30 million to our U.S. defined benefit plans and \$21 million to our non-U.S. defined benefit plans during the three months ended April 30, 2011 and \$33 million and \$34 million, respectively, for the six months ended April 30, 2011. We do not expect to contribute to our U.S. defined benefit plans during the remainder of 2012 and expect to contribute \$29 million to our non-U.S. defined benefit plans during the remainder of 2012.

Table of Contents

## 11. WARRANTIES AND CONTINGENCIES

*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:

|                                                  | Six Months Ended April 30, |       |
|--------------------------------------------------|----------------------------|-------|
|                                                  | 2012                       | 2011  |
|                                                  | (in millions)              |       |
| Beginning balance as of November 1               | \$ 50                      | \$ 45 |
| Accruals for warranties issued during the period | 33                         | 33    |
| Changes in estimates                             | 10                         | 3     |
| Settlements made during the period               | (37)                       | (32)  |
| Ending balance as of April 30                    | \$ 56                      | \$ 49 |

*Contingencies*

We are involved in lawsuits, claims, investigations and proceedings, including patent, commercial and environmental matters. There are no matters pending that we currently believe are reasonably possible of having a material impact to our business, consolidated financial condition, results of operations or cash flows.

## 12. SHORT-TERM DEBT

*Credit Facility*

On October 20, 2011, we entered into a five-year credit agreement, which provides for a \$400 million unsecured credit facility that will expire on October 20, 2016. The company may use amounts borrowed under the facility for general corporate purposes. As of April 30, 2012 the company had no borrowings outstanding under the facility. We were in compliance with the covenants for the credit facilities during the six months ended April 30, 2012.

*2012 Senior Notes*

On September 9, 2009, the company issued an aggregate principal amount of \$250 million in senior notes maturing on September 14, 2012 ( 2012 senior notes ). There have been no changes to the principal, maturity, interest rates and interest payment terms of the 2012 senior notes in the three and six months ended April 30, 2012 as compared to the 2012 senior notes described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2011.

Upon the closing of the offering of the 2012 senior notes, we entered into interest rate swaps with an aggregate notional amount of \$250 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 258 basis points with respect to the 2012 senior notes. 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 April 30, 2012, the fair value of the swaps on 2012 senior notes was an asset of \$1 million, with a corresponding increase in the carrying value of senior notes.

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 \$2 million in connection with the 2012 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.



Table of Contents

## 13. LONG-TERM DEBT

*Senior Notes*

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

|                   | April 30, 2012         |       |          | October 31, 2011       |       |          |
|-------------------|------------------------|-------|----------|------------------------|-------|----------|
|                   | Amortized<br>Principal | Swap  | Total    | Amortized<br>Principal | Swap  | Total    |
|                   | (in millions)          |       |          |                        |       |          |
| 2013 Senior Notes | \$ 250                 | \$    | \$ 250   | \$ 250                 | \$    | \$ 250   |
| 2015 Senior Notes | 499                    | 22    | 521      | 499                    | 24    | 523      |
| 2017 Senior Notes | 598                    | 29    | 627      | 598                    | 31    | 629      |
| 2020 Senior Notes | 498                    | 30    | 528      | 498                    | 32    | 530      |
| Total             | \$ 1,845               | \$ 81 | \$ 1,926 | \$ 1,845               | \$ 87 | \$ 1,932 |

All notes issued are unsecured and rank equally in right of payment with all of Agilent's other senior unsecured indebtedness. There have been no changes to the principal, maturity, interest rates and interest payment terms of the senior notes in the three and six months ended April 30, 2012 as compared to the senior notes described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2011. All swap contracts have been terminated and amounts to be amortized over the remaining life of the senior notes as of April 30, 2012 and October 31, 2011 are detailed above.

The company incurred issuance costs of \$5 million in connection with the 2017 senior notes, incurred \$3 million in connection with the 2015 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.

## 14. STOCKHOLDERS' EQUITY

**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 and six months ended April 30, 2012, we repurchased 1 million shares for \$44 million and 2 million shares for \$78 million, respectively. For the three months ended April 30, 2011, we did not repurchase any shares and for the six months ended

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April 30, 2011, we repurchased 6 million shares for \$270 million. All such shares and related costs are held as treasury stock and accounted for using the cost method.

### Cash Dividends on Shares of Common Stock

On April 25, 2012 we paid \$35 million of dividends previously declared on January 17, 2012. On May 16, 2012, we declared a quarterly dividend of \$0.10 per share of common stock, or approximately \$35 million which will be paid on July 25, 2012 to shareholders of record as of close of business on July 3, 2012. The timing and amounts of any future dividends are subject to determination and approval by our board of directors.

### Comprehensive Income

The following table presents the components of comprehensive income, net of deferred tax expense (benefit):

|                                                                                                                      | Three Months Ended<br>April 30, |        |
|----------------------------------------------------------------------------------------------------------------------|---------------------------------|--------|
|                                                                                                                      | 2012                            | 2011   |
|                                                                                                                      | (in millions)                   |        |
| Net income                                                                                                           | \$ 255                          | \$ 200 |
| Other comprehensive income:                                                                                          |                                 |        |
| Change in unrealized gain on investments                                                                             |                                 | (5)    |
| Change in unrealized gain and loss on derivative instruments                                                         |                                 |        |
| Reclassification of (gains) and losses into earnings related to derivative instruments, net of \$(1) and zero of tax | (3)                             | 1      |
| Foreign currency translation                                                                                         | (19)                            | 135    |
| Change in deferred net defined benefit pension cost and post retirement plan costs:                                  |                                 |        |
| Net gain, net of \$3 and \$4 of tax                                                                                  | 15                              | 4      |
| Prior service (loss) and gain                                                                                        | (12)                            | 206    |
| Comprehensive income                                                                                                 | \$ 236                          | \$ 541 |

Table of Contents

|                                                                                                                    | Six Months Ended<br>April 30, |        |
|--------------------------------------------------------------------------------------------------------------------|-------------------------------|--------|
|                                                                                                                    | 2012                          | 2011   |
|                                                                                                                    | (in millions)                 |        |
| Net income                                                                                                         | \$ 485                        | \$ 393 |
| Other comprehensive income:                                                                                        |                               |        |
| Change in unrealized gain on investments, net of \$(8) and zero of tax                                             | 6                             | (5)    |
| Change in unrealized gain and loss on derivative instruments                                                       | 6                             | (2)    |
| Reclassification of (gains) and losses into earnings related to derivative instruments, net of \$1 and zero of tax | (6)                           | 2      |
| Foreign currency translation                                                                                       | (58)                          | 156    |
| Change in deferred net defined benefit pension cost and post retirement plan costs:                                |                               |        |
| Net gain, net of \$6 and \$7 of tax                                                                                | 28                            | 16     |
| Prior service (loss) and gain                                                                                      | (24)                          | 199    |
| Comprehensive income                                                                                               | \$ 437                        | \$ 759 |

## 15. 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 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; capillary electrophoresis systems; liquid chromatography ( LC ) systems, columns and components; liquid chromatography mass spectrometry ( LCMS ) 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 ( GC ) systems, columns and components; gas chromatography mass spectrometry ( GC-MS ) systems; inductively coupled plasma mass spectrometry ( ICP-MS ) instruments; atomic absorption ( AA ) instruments; inductively coupled plasma optical emission spectrometry ( ICP-OES ) instruments; microwave plasma-atomic emission spectroscopy ( MPAES ); Fourier transform infrared ( FTIR ) instruments; software and data systems; vacuum pumps and measurement technologies; services and support for our products.

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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.

# Table of Contents

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, acquisition and integration costs, non-cash amortization and other items as noted in the reconciliations below.

|                                                              | Life Sciences | Chemical<br>Analysis | Electronic<br>Measurement | Total    |
|--------------------------------------------------------------|---------------|----------------------|---------------------------|----------|
|                                                              | (in millions) |                      |                           |          |
| <b>Three months ended April 30, 2012:</b>                    |               |                      |                           |          |
| Total net revenue                                            | \$ 469        | \$ 388               | \$ 876                    | \$ 1,733 |
| Segment income from operations                               | \$ 59         | \$ 73                | \$ 205                    | \$ 337   |
| <b>Three months ended April 30, 2011:</b>                    |               |                      |                           |          |
| Total segment revenue                                        | \$ 464        | \$ 381               | \$ 834                    | \$ 1,679 |
| Varian acquisition deferred revenue<br>fair value adjustment | \$ (1)        | \$ (1)               | \$                        | \$ (2)   |
| Total net revenue                                            | \$ 463        | \$ 380               | \$ 834                    | \$ 1,677 |
| Segment income from operations                               | \$ 61         | \$ 72                | \$ 191                    | \$ 324   |

|                                                              | Life Sciences | Chemical<br>Analysis | Electronic<br>Measurement | Total    |
|--------------------------------------------------------------|---------------|----------------------|---------------------------|----------|
|                                                              | (in millions) |                      |                           |          |
| <b>Six months ended April 30, 2012:</b>                      |               |                      |                           |          |
| Total net revenue                                            | \$ 930        | \$ 784               | \$ 1,654                  | \$ 3,368 |
| Segment income from operations                               | \$ 125        | \$ 161               | \$ 365                    | \$ 651   |
| <b>Six months ended April 30, 2011:</b>                      |               |                      |                           |          |
| Total segment revenue                                        | \$ 868        | \$ 730               | \$ 1,605                  | \$ 3,203 |
| Varian acquisition deferred revenue<br>fair value adjustment | \$ (4)        | \$ (3)               | \$                        | \$ (7)   |
| Total net revenue                                            | \$ 864        | \$ 727               | \$ 1,605                  | \$ 3,196 |
| Segment income from operations                               | \$ 109        | \$ 137               | \$ 347                    | \$ 593   |

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

|                                                   | Three Months Ended<br>April 30, |        | Six Months Ended<br>April 30, |        |
|---------------------------------------------------|---------------------------------|--------|-------------------------------|--------|
|                                                   | 2012                            | 2011   | 2012                          | 2011   |
|                                                   | (in millions)                   |        |                               |        |
| Total reportable segments' income from operations | \$ 337                          | \$ 324 | \$ 651                        | \$ 593 |
| Restructuring related costs                       |                                 | (3)    |                               | (5)    |
| Transformational initiatives                      | (8)                             | (11)   | (16)                          | (22)   |
| Amortization of intangibles                       | (26)                            | (28)   | (53)                          | (54)   |
| Acquisition and integration costs                 | (4)                             | (13)   | (11)                          | (28)   |

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|                                                   |        |        |        |        |
|---------------------------------------------------|--------|--------|--------|--------|
| Varian acquisition related fair value adjustments |        | (3)    |        | (7)    |
| Other                                             | 1      |        |        |        |
| Interest income                                   | 2      | 3      | 5      | 7      |
| Interest expense                                  | (25)   | (20)   | (51)   | (43)   |
| Other income (expense), net                       | 16     | 11     | 24     | 17     |
| Income before taxes, as reported                  | \$ 293 | \$ 260 | \$ 549 | \$ 458 |

Table of Contents

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

|                        | Life Sciences | Chemical<br>Analysis | Electronic<br>Measurement | Total    |
|------------------------|---------------|----------------------|---------------------------|----------|
|                        | (in millions) |                      |                           |          |
| <b>Assets:</b>         |               |                      |                           |          |
| As of April 30, 2012   | \$ 1,826      | \$ 1,727             | \$ 2,149                  | \$ 5,702 |
| As of October 31, 2011 | \$ 1,837      | \$ 1,772             | \$ 2,156                  | \$ 5,765 |

## 16. SUBSEQUENT EVENT

On May 16, 2012, Agilent, Agilent Technologies Europe B.V., a limited liability company incorporated under the laws of the Netherlands and a wholly-owned subsidiary of Agilent ( Agilent Europe ), and Delphi S.a.r.l., a Luxembourg private limited liability company that is ultimately controlled by EQT V Limited, entered into a share purchase agreement which provides for the acquisition by Agilent Europe of 100% of the issued and outstanding share capital of Dako A/S ( Dako ), a limited liability company incorporated under the laws of Denmark, for a cash enterprise value of approximately \$2.2 billion, subject to a post-closing working capital and net debt adjustment. Dako provides antibodies, reagents, scientific instruments and software primarily to customers in pathology laboratories to raise the standards for fast and accurate diagnostic answers for cancer patients. The acquisition is subject to customary closing conditions and is scheduled to close upon receipt of approvals related to antitrust and competition laws, which is expected to occur within 60 days of signing. On May 30, 2012, the U.S. Federal Trade Commission granted early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, applicable to the proposed acquisition. Satisfaction of additional closing conditions remain pending. Agilent will utilize existing cash on hand to pay for the acquisition. To the extent that we are required to pay portions of the acquisition price in foreign currencies, Agilent has entered into foreign exchange contracts to reduce the risk that currency movements will impact the U.S. dollar cost of the transaction. The net notional currency amounts and forward rates of these contracts are: Danish krona (\$1.4 billion, 5.822dkk/\$) and Euro (\$0.3 billion, 1.276\$/ ). These foreign exchange contracts do not qualify for hedge accounting treatment and are not designated as hedging instruments. Accordingly, any gains or losses resulting from movements in the underlying exchange rates will be recognized in other income (expense) in the condensed consolidated statement of operations.

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 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, cyclicity 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, uncertainties relating to Food and Drug Administration (FDA) and other regulatory approvals, the anticipated closing of our acquisition of Dako A/S, the integration of our acquisitions, our transition to lower-cost regions, and the existence of economic instability, 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 and six months ended April 30, 2012 increased 8 percent and 4 percent, respectively, compared to last year. For the three months ended April 30, 2012, life sciences orders decreased 1 percent, chemical analysis orders increased 7 percent and electronic measurement orders increased 13 percent when compared to the same period last year. For the six months ended April 30, 2012, life sciences orders increased 2 percent, chemical analysis orders increased 6 percent and electronic measurement orders increased 4 percent when compared to the same period last year.

Net revenue of \$1,733 million and \$3,368 million for the three and six months ended April 30, 2012, respectively, increased 3 percent and 5 percent, respectively, from the same periods last year. Revenue growth in the life sciences business, for the three and six months ended April 30, 2012, was led by demand for products in pharmaceutical and biotechnology markets when compared to the same periods last year. Revenue grew overall and in all of the key end-markets within the chemical analysis business for the three and six months ended April 30, 2012 when compared to the same periods last year. Within electronic measurement, revenue from general purpose improved overall in the three and



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six months ended April 30, 2012 when compared to the same periods last year. Also within electronic measurement, communications test business revenues increased and were flat in the three and six months ended April 30, 2012, respectively. Within the communications test business there was strong growth in wireless manufacturing test in the three and six months ended April 30, 2012 when compared to the same periods last year.

Net income for the three and six months ended April 30, 2012 was \$255 million and \$485 million respectively, compared to \$200 million and \$393 million, respectively, for the corresponding periods last year. In the six months ended April 30, 2012, we generated \$503 million of cash from operations compared with \$498 million generated in the same period last year.

On April 25, 2012 we paid \$35 million of dividends previously declared on January 17, 2012. On May 16, 2012, we declared a quarterly dividend of \$0.10 per share of common stock, or approximately \$35 million which will be paid on July 25, 2012 to shareholders of record as of close of business on July 3, 2012. The timing and amounts of any future dividends are subject to determination and approval by our board of directors.

Table of Contents

On May 16, 2012, Agilent, Agilent Technologies Europe B.V., a limited liability company incorporated under the laws of the Netherlands and a wholly-owned subsidiary of Agilent ( Agilent Europe ), and Delphi S.a.r.l., a Luxembourg private limited liability company that is ultimately controlled by EQT V Limited, entered into a share purchase agreement which provides for the acquisition by Agilent Europe of 100% of the issued and outstanding share capital of Dako A/S ( Dako ), a limited liability company incorporated under the laws of Denmark, for a cash enterprise value of approximately \$2.2 billion, subject to a post-closing working capital and net debt adjustment. Dako provides antibodies, reagents, scientific instruments and software primarily to customers in pathology laboratories to raise the standards for fast and accurate diagnostic answers for cancer patients. The acquisition is subject to customary closing conditions and is scheduled to close upon receipt of approvals related to antitrust and competition laws, which is expected to occur within 60 days of signing. On May 30, 2012, the U.S. Federal Trade Commission granted early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, applicable to the proposed acquisition. Satisfaction of additional closing conditions remain pending. Agilent will utilize existing cash on hand to pay for the acquisition. To the extent that we are required to pay portions of the acquisition price in foreign currencies, Agilent has entered into foreign exchange contracts to reduce the risk that currency movements will impact the U.S. dollar cost of the transaction. The net notional currency amounts and forward rates of these contracts are: Danish krona (\$1.4 billion, 5.822dkk/\$) and Euro (\$0.3 billion, 1.276\$/ ). These foreign exchange contracts do not qualify for hedge accounting treatment and are not designated as hedging instruments. Accordingly, any gains or losses resulting from movements in the underlying exchange rates will be recognized in other income (expense) in the condensed consolidated statement of operations.

Looking forward, we believe we are well positioned to navigate continued economic uncertainty. There are marketing opportunities in emerging markets and improvements to be achieved in operating performance by leveraging our design, supply chain and manufacturing capabilities. We will continue to deliver market-leading products, while we make progress in optimizing our order fulfillment operations.

**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.

*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 38 percent to 48 percent for our most recent employee stock option grant 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 impairment testing purposes: life sciences, chemical analysis and electronic measurement. At the time of an acquisition, we assign goodwill to the reporting unit that is expected to benefit from the synergies of the combination.

In September 2011, the FASB approved changes to the goodwill impairment guidance which are intended to reduce the cost and complexity of the annual impairment test. The changes provide entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The revised standard gives an entity the option to first assess qualitative factors to determine whether performing the current two-step test is necessary. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not (i.e. greater than 50% chance) that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test will be required. Otherwise, no further testing will be required.

Table of Contents

The revised guidance includes examples of events and circumstances that might indicate that a reporting unit's fair value is less than its carrying amount. These include macro-economic conditions such as deterioration in the entity's operating environment or industry or market considerations; entity-specific events such as increasing costs, declining financial performance, or loss of key personnel; or other events such as an expectation that a reporting unit will be sold or a sustained decrease in the stock price on either an absolute basis or relative to peers.

The new qualitative indicators replace those currently used to determine whether an interim goodwill impairment test is required. The changes will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. However, earlier adoption is permitted. Agilent has opted to early adopt this guidance for the year ended October 31, 2011.

If it is determined, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, 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.

Based on our results of our qualitative test for goodwill impairment, as of September 30, 2011, we believe that it is more-likely-than-not that the fair value of each of our three reporting units, life sciences, chemical analysis and electronic measurement, was greater than their respective carrying values. There was no impairment of goodwill during the three and six months ended April 30, 2012 and 2011. Each quarter we review the events and circumstances to determine if goodwill impairment is indicated.

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 and six months ended April 30, 2012 and \$8 million of impairments of long-lived assets, including purchased intangible assets, for the three and six months ended April 30, 2011.

*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.

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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 April 30, 2012, we provided a valuation allowance for our net U.S. deferred tax assets and on certain foreign deferred tax assets. We intend to maintain a valuation allowance in these jurisdictions until sufficient positive evidence exists to support reversal.

Due to improvements in the U.S. operating results over the past three years, management believes a reasonable possibility exists that, within the year, sufficient positive evidence may become available to reach a conclusion that the U.S. valuation allowance will no longer be needed.

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 will 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. In accordance with the guidance on the accounting for uncertainty in income taxes, for all U.S. and other tax jurisdictions, we recognize potential liabilities for anticipated tax audit issues based on our estimate of whether, and the extent to which, additional taxes and interest will be due. The ultimate resolution of tax uncertainties may differ from what is currently estimated, which could result in a material impact on income tax expense. If our estimate of income tax liabilities proves to be less than the ultimate assessment, a further charge to expense would be required. If events occur and the payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. We include interest and penalties related to unrecognized tax benefits within the provision for income taxes on the consolidated statements of operations.

**Adoption of New Pronouncements**

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

**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. To the extent that we are required to pay for all, or portions, of an acquisition price in foreign currencies, Agilent may enter into foreign exchange contracts to reduce the risk that currency movements will impact the U.S. dollar cost of the transaction.

**Results from Operations**

**Orders and Net Revenue**

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|                    | Three Months Ended<br>April 30, |          | Six Months Ended<br>April 30, |          | Year over Year Change |               |
|--------------------|---------------------------------|----------|-------------------------------|----------|-----------------------|---------------|
|                    | 2012                            | 2011     | 2012                          | 2011     | Three<br>Months       | Six<br>Months |
|                    | (in millions)                   |          |                               |          |                       |               |
| Orders             | \$ 1,841                        | \$ 1,703 | \$ 3,464                      | \$ 3,330 | 8%                    | 4%            |
| Net revenue:       |                                 |          |                               |          |                       |               |
| Products           | \$ 1,435                        | \$ 1,389 | \$ 2,777                      | \$ 2,647 | 3%                    | 5%            |
| Services and other | 298                             | 288      | 591                           | 549      | 3%                    | 8%            |
| Total net revenue  | \$ 1,733                        | \$ 1,677 | \$ 3,368                      | \$ 3,196 | 3%                    | 5%            |

Net revenue of \$1,733 million and \$3,368 million for the three and six months ended April 30, 2012, respectively, increased 3 percent and 5 percent, respectively, from the same periods last year. Revenue growth in the life sciences business, for the three and six months ended April 30, 2012, was led by demand for products in pharmaceutical and biotechnology markets when compared to the same periods last year. Revenue grew overall and in all of the key end-markets within the chemical analysis business for the three and six months ended April 30, 2012 when compared to the same periods last year. Within electronic measurement, revenue from general purpose improved overall in the three and six months ended April 30, 2012 when compared to the same periods last year. Also within electronic measurement, communications test business revenues increased and were flat in the three and six months ended April 30, 2012, respectively. Within the communications test business there was strong growth in wireless manufacturing test in the three and six months ended April 30, 2012 when compared to the same periods last year.

## 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 3 percent and 8 percent in the three and six months ended April 30, 2012, respectively, as compared to the same periods in 2011. The service and other revenue growth is impacted by a portion of the revenue being driven by the current and previously installed product base.

## Operating Results

|                                     | Three Months Ended<br>April 30, |        | Six Months Ended<br>April 30, |        | Year over Year Change |               |
|-------------------------------------|---------------------------------|--------|-------------------------------|--------|-----------------------|---------------|
|                                     | 2012                            | 2011   | 2012                          | 2011   | Three<br>Months       | Six<br>Months |
| Total gross margin                  | 53.0%                           | 53.7%  | 53.2%                         | 53.7%  | (1)ppt                | (1)ppt        |
| Operating margin                    | 17.3%                           | 15.9%  | 17.0%                         | 14.9%  | 1ppt                  | 2ppts         |
| (in millions)                       |                                 |        |                               |        |                       |               |
| Research and development            | \$ 166                          | \$ 165 | \$ 328                        | \$ 324 | 1%                    | 1%            |
| Selling, general and administrative | \$ 452                          | \$ 469 | \$ 893                        | \$ 915 | (4)%                  | (2)%          |

Total gross margins for both the three and six months ended April 30, 2012 decreased 1 percentage point compared to the same periods last year. Operating margins have increased 1 percentage point and 2 percentage points for the three and six months ended April 30, 2012, respectively, compared to the same periods last year. The increase in operating margin is due to higher revenue and a reduction in operating expenses.

Research and development expenses increased 1 percent for both the three and six months ended April 30, 2012 compared to the same periods last year. Increased expenditures, compared to the same periods last year, were mostly due to higher wages offset by a decrease in variable and incentive pay. We remain committed to invest between 9 and 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 decreased 4 percent and 2 percent for the three and six months ended April 30, 2012, respectively, compared to the same periods last year. Decreased expenditures were due to lower variable and incentive pay including commissions offset by higher wages.

At April 30, 2012, our headcount was approximately 18,800 as compared to approximately 18,500 at April 30, 2011.

## Provision for Income Taxes

For the three and six months ended April 30, 2012, we recorded an income tax provision of \$38 million and \$64 million compared to an income tax provision of \$60 million and \$65 million, respectively, for the same periods last year. The income tax provision for the three and six months



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ended April 30, 2012 includes net discrete tax expense of \$10 million and \$14 million, respectively. The net discrete tax charges for the three months ended April 30, 2012 primarily relate to U.S. penalties and withholding taxes. The income tax provision for the three and six months ended April 30, 2011 includes net discrete tax expense of \$31 million and \$16 million, respectively. The net discrete tax expense for the three months ended April 30, 2011 includes a \$29 million out of period adjustment to reduce the carrying value of certain U.K. deferred tax assets. The net discrete tax expense for the six months ended April 30, 2011 includes a \$16 million discrete benefit relating to a tax settlement with a foreign tax authority.

Without considering interest and penalties, the effective tax 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. As of April 30, 2012, we intend to maintain valuation allowances in these jurisdictions until sufficient positive evidence exists to support reversal. We currently have a valuation allowance of \$338 million of which \$276 million relates to U.S. jurisdictions. Due to improvements in the U.S. operating results over the past three years, management believes a reasonable possibility exists that, within the year, sufficient positive evidence may become available to reach a conclusion that the U.S. valuation allowance will no longer be needed.

At April 30, 2012, our estimate of the annual effective tax rate including discrete items was 10.5 percent. The effective income tax rate including discrete items, for the three and six months ended April 30, 2012 was 13.0 percent and 11.7 percent, respectively. We determine our interim tax provision using an estimated annual effective tax rate methodology except in jurisdictions where we anticipate or have 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 foreign 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 significant states. In 2011, Agilent and the Internal Revenue Service ( IRS ) reached an agreement on transfer pricing issues covering years 2003 – 2007. Tax adjustments resulting from these agreements will be offset with net operating losses and tax credit carryforwards. Agilent's U.S. federal income tax returns for 2006 through 2007 are currently under audit by the IRS. In other major jurisdictions where we conduct business, the tax years generally remain open back to the year 2003. With these jurisdictions and the U.S., 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.

**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; capillary electrophoresis systems; liquid chromatography ( LC ) systems, columns and components; liquid chromatography mass spectrometry ( LCMS ) 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<br>April 30, |        | Six Months Ended<br>April 30, |        | Year over Year Change |               |
|-------------|---------------------------------|--------|-------------------------------|--------|-----------------------|---------------|
|             | 2012                            | 2011   | 2012                          | 2011   | Three<br>Months       | Six<br>Months |
|             | (in millions)                   |        |                               |        |                       |               |
| Orders      | \$ 476                          | \$ 479 | \$ 939                        | \$ 921 | (1)%                  | 2%            |
| Net revenue | \$ 469                          | \$ 464 | \$ 930                        | \$ 868 | 1%                    | 7%            |

Life sciences orders for the three and six months ended April 30, 2012 declined 1 percent and increased 2 percent, respectively, when compared to the same periods last year. Foreign currency movements for the three months ended April 30, 2012 had an unfavorable currency impact of 1 percentage point on orders when compared to the same period last year, and were immaterial for the six month period ending April 30, 2012. Order results were led by strength in the LCMS, informatics, and services portfolios. We saw solid performance in key products, such as our OpenLAB software suite, and LCMS offerings including Triple Quadrupole (QQQ), Single Quadrupole (Quad), and Time-of-Flight (TOF) systems. Weakness in the academic and government markets slowed our genomics business this quarter. Geographically, orders declined 1 percent in the Americas, declined 7 percent in Europe, grew 17 percent in Japan, and grew 3 percent in other Asia Pacific for the three months

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ended April 30, 2012 when compared to the same period last year. Budget freezes and cautious spending drove the results in Europe. Orders grew 1 percent in the Americas, declined 2 percent in Europe, grew 27 percent in Japan, and grew 1 percent in other Asia Pacific for the six months ended April 30, 2012 when compared to the same period last year. Japan continues to be strong as recovery in the region progresses, while the rest of Asia grew moderately.

Life sciences revenues for the three and six months ended April 30, 2012 increased 1 percent and 7 percent, respectively, when compared to the same periods last year. During the three months ended April 30, 2011, revenue was positively impacted by first quarter delays in invoicing and shipment due to the integration of the former Varian businesses to Agilent's quote to cash systems and processes. As a result, the revenue growth rate for the three months ended April 30, 2012 was negatively affected by approximately 2 percentage points. Foreign currency movements for the three months ended April 30, 2012 had an unfavorable currency impact of 1 percentage point on the growth in revenues when compared to the same period last year, and were immaterial for the six month period ending April 30, 2012. Revenue growth in the three months ended April 30, 2012 was led by the informatics, automation, and services portfolios, along with research products including NMR and MRI. Growth in automation revenue was driven by strong shipments of automated workstations for next generation sequencing sample preparation. Customer demand for services remained steady despite the soft macroeconomic environment. Geographically, revenues declined 3 percent in the Americas, grew 1 percent in Europe, grew 10 percent in Japan, and grew 4 percent in other Asia Pacific for the three months ended April 30, 2012 when compared to the same period last year. Revenues grew 6 percent in the Americas, 5 percent in Europe, 14 percent in Japan, and 9 percent in other Asia Pacific for the six months ended April 30, 2012 when compared to the same period last year.

## Table of Contents

For the three months ended April 30, 2012, we saw growth in the pharmaceutical and biotech end markets, as well as food testing, as we continue to see good market penetration and acceptance. In the food market, globalization of the food supply and related food safety regulations has driven instrument demand worldwide. Although applied markets were relatively flat from last year, industrial segment demand grew sequentially, largely in petrochemical applications. The academia and government market contracted during this quarter and was soft across nearly all regions with investment focused particularly on transitional research. For the six months ended April 30, 2012, we saw solid growth across all end-markets with the exception of academia and government, which was down slightly compared to the same period last year.

Looking forward, we expect reasonable momentum in our markets to drive further demand in our instruments and application solutions. The life sciences business also remains focused on expanding our portfolio. This quarter, we announced a number of extensions to the 1200 Infinity LC product line, including the 1200 Infinity high dynamic range diode array detector (HDR-DAD) System, the 1290 Infinity Quaternary LC System, the 1290 Infinity two dimensional LC (2D-LC) system, and the 1220 Infinity LC System with integrated diode array detector. With these new systems, we look to expand our technology leadership in the LC market by setting new benchmarks in performance, versatility and cost-of-ownership. The genomics business SureFISH product was also launched this quarter, including over 400 DNA fluorescence in situ hybridization (FISH) probes for cancer and constitutional applications. Aside from these new products, we will also focus on investments related to emerging countries and markets.

We continue to focus on completing the integration of the Varian expanded life sciences product portfolio, particularly the Research Products business. The integration to date has enabled better coordination and production planning across multiple factories. Increased sales growth, profitability improvement, and manufacturing supply chain consolidation remain key strategic and operational objectives.

## Operating Results

|                                     | Three Months Ended<br>April 30, |        | Six Months Ended<br>April 30, |        | Year over Year Change |               |
|-------------------------------------|---------------------------------|--------|-------------------------------|--------|-----------------------|---------------|
|                                     | 2012                            | 2011   | 2012                          | 2011   | Three<br>Months       | Six<br>Months |
| Gross margin                        | 51.5%                           | 52.2%  | 52.0%                         | 52.7%  | (1)ppt                | (1)ppt        |
| Operating margin                    | 12.6%                           | 13.2%  | 13.4%                         | 12.6%  | (1)ppt                | 1ppt          |
| <b>(in millions)</b>                |                                 |        |                               |        |                       |               |
| Research and development            | \$ 46                           | \$ 45  | \$ 90                         | \$ 87  | 2%                    | 4%            |
| Selling, general and administrative | \$ 137                          | \$ 136 | \$ 269                        | \$ 261 | %                     | 3%            |

Gross margins for products and services for the three and six months ended April 30, 2012 declined 1 percentage point in both periods compared to the same periods last year. Decreases during these periods were mainly due to unfavorable product mix, which was partially offset by favorable revenue volume and lower material costs.

Research and development expenses for the three and six months ended April 30, 2012, increased 2 percent and 4 percent, respectively, compared to the same periods last year. Increases during these periods were due to R&D investments related to future products and technologies.

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Selling, general and administrative expenses for the three months ended April 30, 2012 remained flat compared to the same period last year. Wage increases and investments in sales channel coverage were offset by lower commissions and discretionary spending. Selling, general and administrative expenses for the six months ended April 30, 2012 increased 3 percent compared to the same period last year. The increase was primarily due to higher wages and investments in sales channel coverage with a focus on emerging markets.

Operating margins for products and services for the three months ended April 30, 2012 decreased 1 percentage point compared to the same period last year, due to slightly higher expenses and lower gross margin performance. Operating margins for products and services for the six months ended April 30, 2012 increased 1 percentage point compared to the same period last year. The increase was mainly due to favorable gross profit from higher revenue outpacing operating expense growth.

### *Income from Operations*

Income from operations for the three and six months ended April 30, 2012 declined \$2 million and increased \$16 million, respectively, on a corresponding revenue increase of \$5 million and \$62 million. The resultant year-over-year operating margin incremental was 25 percent for the six months ended April 30, 2012. Operating margin incremental is measured by the increase in income from operations compared to the prior period divided by the increase in revenue compared to the prior period.

Table of Contents**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 ) instruments; atomic absorption ( AA ) instruments; inductively coupled plasma optical emission spectrometry ( ICP-OES ) instruments; microwave plasma-atomic emission spectroscopy ( MPAES ); Fourier transform infrared ( FTIR ) instruments; software and data systems; vacuum pumps and measurement technologies; services and support for our products.

**Orders and Net Revenue**

|             | Three Months Ended<br>April 30, |        | Six Months Ended<br>April 30, |        | Year over Year Change |               |
|-------------|---------------------------------|--------|-------------------------------|--------|-----------------------|---------------|
|             | 2012                            | 2011   | 2012                          | 2011   | Three<br>Months       | Six<br>Months |
|             | (in millions)                   |        |                               |        |                       |               |
| Orders      | \$ 408                          | \$ 380 | \$ 811                        | \$ 768 | 7%                    | 6%            |
| Net revenue | \$ 388                          | \$ 381 | \$ 784                        | \$ 730 | 2%                    | 7%            |

Chemical analysis orders for the three and six months ended April 30, 2012 increased 7 percent and 6 percent, respectively, when compared to the same periods last year. Foreign currency movements for the three months ended April 30, 2012 had an unfavorable currency impact of 1 percentage point on the growth in orders when compared to the same period last year, and were immaterial for the six month period ending April 30, 2012. Order results were led by strength in GC, GC-MS, MPAES, AA, ICP-OES, and molecular spectroscopy instruments, along with services and consumables. Analyzers continue to be an area of strength for GCs, built on our 7890 GC. The recently introduced GC-MS Quadrupole Time-of-Flight (Q-TOF), targeted to address high-end application requirements, is showing strong initial market acceptance. Geographically, orders grew 10 percent in the Americas, grew 2 percent in Europe, declined 2 percent in Japan, and grew 13 percent in other Asia Pacific for the three months ended April 30, 2012 when compared to the same period last year. Growth in the Americas was boosted by excellent Brazil results. Growth in the United States was stronger than expected, as slowdown in government spending was offset by strong demand from the private sector. Orders grew 10 percent in the Americas, were relatively flat in Europe, grew 1 percent in Japan, and grew 8 percent in other Asia Pacific for the six months ended April 30, 2012 when compared to the same period last year. Asia business remains solid, as we continued to see strength in our China activities despite macroeconomic concerns.

Chemical analysis revenues for the three and six months ended April 30, 2012 increased 2 percent and 7 percent, respectively, when compared to the same periods last year. During the three months ended April 30, 2011, revenue was positively impacted by first quarter delays in invoicing and shipment due to the integration of the former Varian businesses to Agilent's quote to cash systems and processes. As a result, the revenue growth rate for the three months ended April 30, 2012 was negatively affected by approximately 5 percentage points. Foreign currency movements for the three months ended April 30, 2012 had an unfavorable currency impact of 1 percentage point on the growth in revenues when compared to the same period last year, and were immaterial for the six month period ending April 30, 2012. Revenue growth in the three months ended April 30, 2012 was led by the spectroscopy, consumables, and services portfolios. We saw strong revenue growth in our spectroscopy offerings, especially our ICP-MS, MPAES, and Cary 630 FTIR instruments. The Vacuum Pump business was negatively impacted in part by end-market weakness in semiconductor and research. Geographically, revenues grew 1 percent in the Americas, grew 1 percent in Europe, were relatively flat in Japan, and grew 4 percent in other Asia Pacific for the three months ended April 30, 2012 when compared to the same period last year. Revenues grew 8 percent in the Americas, 2 percent in Europe, 10 percent in Japan, and 12 percent in other Asia Pacific for the six months ended April 30, 2012 when compared to the same period last year.

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Growth in most core end markets continued for the three month period ending April 30, 2012. Petrochemical market results showed year-on-year growth despite comparison against last year's strong results; with growth moderating from previous quarters. The food market continues to be robust as demand is driven by globalization of food supply. Forensics market results were boosted by large deals during the quarter while environmental was down on soft government spending, particularly in the United States and Europe. Other applied markets showed net growth as growth in the pharmaceutical and biotech markets were partially offset by decline in the academic and government markets. For the six month period ending April 30, 2012, growth was balanced across the Chemical Analysis end markets.

Looking forward, we plan on continuing to expand our core products and applications. Our newly introduced instruments, such as the new GC-MS Q-TOF, have gained traction in the market. We have also started to take customer orders for our new ICP-MS QQQ. We will continue to invest in research and development and seek to expand our position in developing countries and emerging markets. In addition, we look to complete the successful integration of Varian. We are focusing on improvements in profitability of the Varian portfolio by refreshing products and consolidating supply chain activities.

## Table of Contents

### Operating Results

|                                     | Three Months Ended<br>April 30, |       | Six Months Ended<br>April 30, |        | Year over Year Change |               |
|-------------------------------------|---------------------------------|-------|-------------------------------|--------|-----------------------|---------------|
|                                     | 2012                            | 2011  | 2012                          | 2011   | Three<br>Months       | Six<br>Months |
| Gross margin                        | 50.8%                           | 50.3% | 51.3%                         | 50.7%  | 1ppt                  | 1ppt          |
| Operating margin                    | 18.9%                           | 18.9% | 20.6%                         | 18.8%  | ppt                   | 2ppts         |
| (in millions)                       |                                 |       |                               |        |                       |               |
| Research and development            | \$ 24                           | \$ 23 | \$ 47                         | \$ 46  | 2%                    | 2%            |
| Selling, general and administrative | \$ 100                          | \$ 96 | \$ 194                        | \$ 186 | 4%                    | 4%            |

Gross margins for products and services for the three and six months ended April 30, 2012 increased 1 percentage point for both periods compared to the same periods last year. Increases in these periods were mainly due to favorable revenue volume and lower material costs, partially offset by wage increases.

Research and development expenses for the three and six months ended April 30, 2012 increased 2 percent for both periods compared to the same periods last year, due to continued investments in product R&D.

Selling, general and administrative expenses for the three and six months ended April 30, 2012 increased 4 percent for both periods compared to the same periods last year. The increases were primarily due to investments in sales channel coverage, higher sales channel costs, and wage increases.

Operating margins for products and services for the three months ended April 30, 2012 were relatively flat compared to the same period last year. Favorable gross profit was offset by incremental operating expenses. Operating margins for products and services for the six months ended April 30, 2012 increased by 2 percentage points compared to the same period last year. The increase was mainly due to favorable gross profit from higher revenue outpacing operating expense growth.

### Income from Operations

Income from operations for the three and six months ended April 30, 2012, increased \$1 million and \$24 million, respectively, on a corresponding revenue increase of \$7 million and \$54 million. The resultant year-over-year operating margin incremental was 20 percent and 45 percent for these periods, respectively.

### Electronic Measurement



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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.

### *Orders and Net Revenue*

|             | Three Months Ended<br>April 30, |      | Six Months Ended<br>April 30, |      | Year over Year Change |               |    |       |     |    |
|-------------|---------------------------------|------|-------------------------------|------|-----------------------|---------------|----|-------|-----|----|
|             | 2012                            | 2011 | 2012                          | 2011 | Three<br>Months       | Six<br>Months |    |       |     |    |
|             | (in millions)                   |      |                               |      |                       |               |    |       |     |    |
| Orders      | \$                              | 957  | \$                            | 844  | \$                    | 1,714         | \$ | 1,641 | 13% | 4% |
| Net revenue | \$                              | 876  | \$                            | 834  | \$                    | 1,654         | \$ | 1,605 | 5%  | 3% |

Electronic measurement orders for the three and six months ended April 30, 2012, increased 13 percent and 4 percent, respectively, when compared to the same periods last year. Foreign currency movements had minimal impact on the year-over-year growth rates for both periods. For the three-month period ended April 30, 2012, strong growth in wireless manufacturing and solid demand in the industrial, computer, and semiconductor market were partially offset by softer aerospace and defense business. On a geographical basis, order growth was primarily driven by the Americas, which increased 39 percent year-over-year reflecting strong

## Table of Contents

communications test demand. Orders increased 8 percent in Japan, were flat in Asia Pacific excluding Japan, and declined 8 percent in Europe compared to the same period last year. For the six months ended April 30, 2012, orders were 24 percent higher in the Americas primarily due to stronger communications test business, 5 percent higher in Japan, 7 percent lower in Europe, and 8 percent lower in Asia Pacific excluding Japan.

Electronic measurement revenues for the three and six months ended April 30, 2012, increased 5 percent and 3 percent, respectively, when compared to the same periods last year. Foreign currency movements minimally impacted year-over-year growth rates for both periods. For the three-month period ended April 30, 2012, revenues declined year-over-year in all regions except the Americas, which grew 35 percent year-over-year due to strong communications test and solid computers and semiconductor related demand. Revenues declined 2 percent in Japan, 5 percent in Asia Pacific excluding Japan, and 19 percent in Europe compared to the same period last year. The decline in Europe reflected weak communications and semiconductor test business. For the six months ended April 30, 2012, revenues in the Americas increased 12 percent, Japan increased 4 percent, Asia Pacific excluding Japan rose 1 percent, but Europe declined 10 percent compared to the same period last year. Revenue growth in the Americas for the six-month period reflected strong communications test, improved computer and semiconductor, and solid aerospace and defense related demand.

General purpose test, representing approximately 64 percent of electronic measurement revenues, reflected solid growth in industrial, computers, and semiconductor test and slight improvement in aerospace and defense business. Trends in the general purpose market were similar in the three and six months ended April 30, 2012. Growth for industrial and other general purpose test applications continued, reflecting economic improvement in key regions. The computers and semiconductor test business was driven by stronger demand in R&D offset by weakness in semiconductor manufacturing. Our digital test business continued to grow from demand related to high speed data transmission applications. Aerospace and defense reflected improving United States government business partially offset by softer defense contractor demand.

Communications test, representing approximately 36 percent of electronic measurement revenues, reflected stronger wireless manufacturing partially offset by softer wireless R&D and broadband communications. Communications test market trends were similar in both the three and six-month periods ended April 30, 2012. Wireless manufacturing growth was driven by the expansion of production capacity for smartphones and associated component suppliers. A more cautious spending environment drove slightly lower wireless R&D demand though industry fundamentals remain intact. High data rate applications such as long-term evolution will continue to drive R&D investment across the value chain, including chipsets, modules, devices, and infrastructure. Broadband communications declined following a strong investment cycle last year.

Looking forward, we expect solid growth pending continued demand in key markets, including communications test. Growth in smartphones and wireless devices is expected to drive investment in production capacity while R&D related investment should remain stable. Computers and semiconductor related demand is expected to improve, driven by technology related investment and a modest improvement in manufacturing. The outlook for the aerospace and defense business remains mixed, as direct spending by the United States government is expected to be offset by softer defense contractor demand.

## Operating Results

|              | Three Months Ended<br>April 30, |       | Six Months Ended<br>April 30, |       | Year over Year Change |               |
|--------------|---------------------------------|-------|-------------------------------|-------|-----------------------|---------------|
|              | 2012                            | 2011  | 2012                          | 2011  | Three<br>Months       | Six<br>Months |
| Gross margin | 57.0%                           | 59.5% | 57.4%                         | 58.9% | (3)ppts               | (1)ppts       |

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|                  |       |       |       |       |      |     |
|------------------|-------|-------|-------|-------|------|-----|
| Operating margin | 23.4% | 22.9% | 22.1% | 21.7% | 1ppt | ppt |
|------------------|-------|-------|-------|-------|------|-----|

(in millions)

|                                     |    |     |    |     |    |     |    |     |      |      |
|-------------------------------------|----|-----|----|-----|----|-----|----|-----|------|------|
| Research and development            | \$ | 96  | \$ | 95  | \$ | 190 | \$ | 189 | %    | %    |
| Selling, general and administrative | \$ | 198 | \$ | 210 | \$ | 394 | \$ | 408 | (5)% | (4)% |

Gross margins for products and services for the three and six months ended April 30, 2012, declined 3 percentage points and 1 percentage point, respectively, compared to the same periods last year. Reduced variable and incentive pay was more than offset by lower margin wireless business and unfavorable product mix.

Research and development expenses for the three and six months ended April 30, 2012, remained flat for both periods, compared to the same periods last year. Lower variable and incentive pay was offset by wage increases and slightly higher discretionary spending.

Selling, general and administrative expenses for the three and six months ended April 30, 2012, decreased 5 percent and 4 percent, respectively, compared to the same periods last year. Lower variable and incentive pay including commissions, reduced discretionary spending, and lower infrastructure costs were partially offset by wage increases.

Table of Contents

Operating margins for products and services for the three and six months ended April 30, 2012, increased 1 percentage point and remained flat, respectively, compared to the same periods last year. The favorable impact of higher shipment volume and lower operating expenses were offset by the unfavorable impact of lower margin wireless business.

***Income from Operations***

Income from operations for the three and six months ended April 30, 2012, increased \$14 million and \$18 million, respectively, on a corresponding revenue increase of \$43 million and \$49 million. The resultant year-over-year operating margin incremental was 34 percent and 37 percent for these periods, respectively.

**FINANCIAL CONDITION**

***Liquidity and Capital Resources***

Our financial position as of April 30, 2012 consisted of cash and cash equivalents of \$3,896 million as compared to \$3,527 million as of October 31, 2011.

As of April 30, 2012, approximately \$3.7 billion of our cash and cash equivalents is held outside of the U.S. in our foreign subsidiaries. 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 accrues 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 material U.S. federal and state income tax payments in future years. We utilize a variety of funding strategies in an effort to ensure that our worldwide cash is available in the locations in which it is needed.

On May 16, 2012, Agilent, Agilent Technologies Europe B.V., a limited liability company incorporated under the laws of the Netherlands and a wholly-owned subsidiary of Agilent ( Agilent Europe ), and Delphi S.a.r.l., a Luxembourg private limited liability company that is ultimately controlled by EQT V Limited, entered into a share purchase agreement which provides for the acquisition by Agilent Europe of 100% of the issued and outstanding share capital of Dako A/S ( Dako ), a limited liability company incorporated under the laws of Denmark, for a cash enterprise value of approximately \$2.2 billion, subject to a post-closing working capital and net debt adjustment. Dako provides antibodies, reagents, scientific instruments and software primarily to customers in pathology laboratories to raise the standards for fast and accurate diagnostic answers for cancer patients. The acquisition is subject to customary closing conditions and is scheduled to close upon receipt of approvals related to antitrust and competition laws, which is expected to occur within 60 days of signing. On May 30, 2012, the U.S. Federal Trade Commission granted early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, applicable to the proposed acquisition. Satisfaction of additional closing conditions remain pending. Agilent will utilize existing cash on hand to pay for the acquisition. To the extent that we are required to pay portions of the acquisition price in foreign currencies, Agilent has entered into foreign exchange contracts to reduce the risk that currency movements will impact the U.S. dollar cost of the transaction. The net notional currency amounts and forward rates of these contracts are: Danish krona (\$1.4 billion, 5.822dkk/\$) and Euro (\$0.3 billion, 1.276\$/ ). These foreign exchange contracts do not qualify for hedge accounting treatment and are not designated as hedging instruments. Accordingly, any gains or losses resulting from movements in the underlying exchange rates will be recognized in other income (expense) in the condensed consolidated

statement of operations.

We believe our cash and cash equivalents, cash generated from operations, and ability to access capital markets and credit lines will satisfy, for the foreseeable future, our liquidity requirements, both globally and domestically, including the following: working capital needs, capital expenditures, business acquisitions, stock repurchases, cash dividends, contractual obligations, commitments, principal and interest payments on debt, and other liquidity requirements associated with our operations.

*Net Cash Provided by Operating Activities*

Net cash provided by operating activities was \$503 million for the six months ended April 30, 2012 compared to cash provided of \$498 million for the same period in 2011. In the six months ended April 2012, we paid approximately \$111 million under our variable and incentive pay programs, as compared to \$95 million paid out during the same period of 2011. We paid approximately \$64 million and \$38 million in taxes in the six months ended April 30, 2012 and 2011, respectively.

In the six months ended April 30, 2012, accounts receivable used cash of \$63 million compared to cash used of \$26 million for the same period in 2011. Revenue increased by approximately 5 percent in the six months ended April 30, 2012 as compared to the same period in 2011. Days sales outstanding decreased to 47 days as of April 30, 2012 from 49 days a year ago. Accounts payable used cash of \$6 million for the six months ended April 30, 2012 compared to cash used of \$19 million in the same period in 2011. Cash used for inventory was \$64 million for the six months ended April 30, 2012 compared to cash used of \$139 million for the same period in 2011. Inventory days on-hand increased to 105 days as of April 30, 2012 compared to 99 days as of the end of the same period last year.

Table of Contents

We contributed approximately \$53 million to our defined benefit plans in the first six months of 2012 compared to \$67 million in the same period of 2011. 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 \$29 million to our defined benefit plans during the remainder of 2012.

*Net Cash Provided by/Used in Investing Activities*

Net cash used in investing activities was \$80 million for the six months ended April 30, 2012 as compared to net cash provided by investing activities of \$1,374 million for the same period of 2011 which was due to the change in restricted cash and cash equivalents of \$1,545 million. Investments in property, plant and equipment were \$83 million for the six months ended April 30, 2012 compared to \$89 million in the same period of 2011. We expect that total capital expenditures for the current year will be approximately the same as last years' expenditures which were \$188 million for 2011. We terminated a lease agreement and received \$80 million from a lease receivable in the six months ended April 30, 2012. In the six months ended April 30, 2012 and 2011, there were \$76 million and \$96 million of business acquisitions and intangible assets, net of cash acquired, respectively.

*Net Cash Used in Financing Activities*

Net cash used in financing activities for the six months ended April 30, 2012 was \$52 million compared to cash used of \$1,566 million for the same period of 2011 which includes cash used of \$1,500 million for the settlement of the World Trade obligation.

*Treasury stock repurchases and Dividends*

For the six months ended April 30, 2012 and 2011, we repurchased 2 million shares for \$78 million and 6 million shares for \$270 million, respectively.

On April 25, 2012 we paid \$35 million of dividends previously declared on January 17, 2012. On May 16, 2012, we declared a quarterly dividend of \$0.10 per share of common stock, or approximately \$35 million which will be paid on July 25, 2012 to shareholders of record as of close of business on July 3, 2012. The timing and amounts of any future dividends are subject to determination and approval by our board of directors.

*Credit Facility*

On October 20, 2011, we entered into a five-year credit agreement, which provides for a \$400 million unsecured credit facility that will expire on October 20, 2016. The company may use amounts borrowed under the facility for general corporate purposes. As of April 30, 2012 the company has no borrowings outstanding under the facility. We were in compliance with the covenants for the credit facilities during the six

months ended April 30, 2012.

*Short-term debt and Long-term debt*

There have been no changes to the principal, maturity, interest rates and interest payment terms of the senior notes in the six months ended April 30, 2012 as compared to the senior notes described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2011.

*Other*

There were no substantial changes from our 2011 Annual Report on Form 10-K to our contractual commitments in the first six months of 2012. We have contractual commitments for non-cancelable operating leases. We have no other material non-cancelable guarantees or commitments.

Other long-term liabilities include \$364 million and \$356 million of taxes payable as of April 30, 2012 and October 31, 2011, respectively. We are unable to accurately predict when these amounts will be realized or released.

**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

Table of Contents

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. To the extent that we are required to pay for all, or portions, of an acquisition price in foreign currencies, we may enter into foreign exchange contracts to reduce the risk that currency movements will impact the cost of the transaction.

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 64 percent and 63 percent of our revenues were generated in U.S. dollars during the three months ended April 30, 2012 and 2011, respectively.

We performed a sensitivity analysis assuming a hypothetical 10 percent adverse movement in foreign exchange rates to the hedging contracts and the underlying exposures described above. As of April 30, 2012, 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. As of April 30, 2012 we held interest rate swaps with an aggregate notional amount of \$250 million associated with our 2012 senior notes.

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 April 30, 2012, 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 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 April 30, 2012 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**

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; 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 and may be cancelled by our customers. In addition, our revenues and earnings forecasts for future fiscal quarters are often based on the expected seasonality or cyclicalities of our markets. However, the markets we serve do not always experience the seasonality or cyclicalities 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. 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 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 operating 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 and on time;
- differentiate our offerings from our competitors' offerings;
- price our products competitively;
- anticipate our competitors' development of new products, services or technological innovations; and
- control product quality in our manufacturing process.

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

Table of Contents

As part of our efforts to streamline operations and to cut costs, we outsource aspects of our manufacturing processes and other functions and continue to evaluate additional outsourcing opportunities. 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. Additionally, changing or replacing our contract manufacturers or other outsourcers could cause disruptions or delays. In addition, we outsource significant portions of our information technology ( IT ) and other administrative functions. Since IT is critical to our operations, any failure to perform on the part of our 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.

***If we are unable to successfully manage the consolidation and streamlining of our manufacturing operations, we may not achieve desired efficiencies and our ability to deliver products to our customers could be disrupted.***

Although we utilize manufacturing facilities throughout the world, we have been consolidating, and may continue to consolidate, our manufacturing operations to certain of our plants to achieve efficiencies and gross margin improvements. Additionally, we typically consolidate the production of products from our acquisitions, including the Varian acquisition, into our supply chain and manufacturing processes, which are technically complex and require expertise to operate. If we are unable to establish processes to efficiently and effectively produce high quality products in the consolidated locations, we may not achieve the anticipated synergies and production may be disrupted, which could adversely affect our business and operating results.

***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. In the past we have seen 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 could 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 operating results 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

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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 and could lead to order cancellations. 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, margins, and operating results.

*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 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;

Table of Contents

- changes in a specific country's or region's political, economic or other conditions;
- trade protection measures and import or export licensing requirements;
- negative consequences from changes in tax laws;
- difficulty in staffing and managing widespread operations;
- differing labor regulations;
- differing protection of intellectual property;
- unexpected changes in regulatory requirements; and
- geopolitical turmoil, including terrorism and war.

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

Additionally, we must comply with complex foreign and U.S. laws and regulations, such as the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and other local laws prohibiting corrupt payments to governmental officials, and anti-competition regulations. Violations of these laws and regulations could result in fines and penalties, criminal sanctions, restrictions on our business conduct and on our ability to offer our products in one or more countries, and could also materially affect our brand, our ability to attract and retain employees, our international operations, our business and our operating results. Although we have implemented policies and procedures designed to ensure compliance with these laws and regulations, there can be no assurance that our employees, contractors, or agents will not violate our policies.

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,

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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, in some geographic areas in which we recruit, intense competition for certain highly technical specialties exist, and it may become more difficult to retain our key employees.

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

We may not achieve the expected benefits or synergies from our acquisition of Varian. The integration of two businesses that have previously operated separately is a costly and time-consuming process that involves a number of risks. The use of cash resources and increased capital expenditures on integration and implementation activities could exceed our current expectations, which would offset any anticipated savings and other synergies resulting from the Varian acquisition. Additionally, we anticipate consolidating and integrating the production of Varian products into our supply chain; if we are unable to accomplish manufacturing synergies, our operating margins could suffer. Also, if we are unable to update the Varian products or introduce new products, services and

Table of Contents

enhancements, we may not realize our return on invested capital targets when expected, or at all. As a result of these risks, the Varian acquisition may not contribute to our earnings as expected, we may not achieve expected cost synergies, 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, during fiscal 2010, we closed our acquisition of Varian, Inc. and the sale of our Network Solutions Division. During fiscal 2011, we closed the acquisitions of A2 Technologies, Lab901 and Biocius Life Sciences Inc. During fiscal 2012, we announced the proposed acquisition of Dako A/S as well as completed various acquisitions, including BioSystem Development LLC, Halo Genomics AB, and the test and measurement business of Centellax, Inc. 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 and strategic alliances may require us to integrate a different company culture, management team and business infrastructure. We may have difficulty developing, manufacturing and marketing the products of a newly acquired company in a way that enhances the performance of our combined businesses or product lines to realize the value from expected synergies. Depending on the size and complexity of an acquisition, our successful integration of the entity depends on a variety of factors, including:

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

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



trading price of our stock and our access to capital.

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

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

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

*If we do not achieve the contemplated benefits of our pending acquisition of Dako A/S, our business and financial condition may be materially impaired.*

Table of Contents

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

The operation of Dako within Agilent could be a costly and time-consuming process that will involve a number of risks, including, but not limited to:

- 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 remain with Dako;
- the potential loss of key customers or suppliers who choose not to do business with the combined business; and
- the use of cash resources and increased capital expenditures on additional investment or research and development activities in excess of our current expectations, which could offset any synergies resulting from the Dako acquisition and limit other potential uses of our cash, including stock repurchases and retirement of outstanding debt.

Even if we are able to successfully operate Dako within Agilent, we may not be able to realize the revenue and other 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 possibility that we may not be able to expand the reach and customer base for Dako products as expected;
- the possibility that we may not be able to expand the reach and customer base for Agilent products as expected; and
- the fact that the acquisition will substantially expand our diagnostics business, and we may not experience anticipated growth in that market.

As a result of these risks, the Dako acquisition may not contribute to our earnings as expected, we may not achieve expected revenue 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.

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

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The electronic measurement and life sciences industries are intensely competitive and have been subject to increasing consolidation. For instance, in June 2011, Danaher Corporation completed its acquisition of Beckman Coulter, Inc.; and Thermo Fisher Scientific completed its acquisitions of Phadia in August 2011 and Doe & Ingalls in May 2012. 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.***

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.

Table of Contents

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 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 unlikely 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 manufacturing, 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.

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, including the Dako products if we close the proposed acquisition, 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

***Our business may suffer if we fail to comply with government contracting laws and regulations.***

We derive a portion of our revenues from direct and indirect sales to U.S., state, local, and foreign governments and their respective agencies. Such contracts are subject to various procurement laws and regulations, and contract provisions relating to their formation, administration and performance. Failure to comply with these laws, regulations or provisions in our government contracts could result in the imposition of various civil and criminal penalties, termination of contracts, forfeiture of profits, suspension of payments, or suspension from future government contracting. If our government contracts are terminated, if we are suspended from government work, or if our ability to compete for new contracts is adversely affected, our business could suffer.

***Our retirement and post retirement pension plans are subject to financial market risks that could adversely affect our future results of operations and cash flows.***

We have significant retirement and post retirement pension plans assets and obligations. The performance of the financial markets and interest rates impact our plan expenses and funding obligations. Significant decreases in market interest rates, decreases in the fair value of plan assets and investment losses on plan assets will increase our funding obligations, and adversely impact our results of operations and cash flows.

***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, including technology we obtained through acquisitions. 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.

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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.*

Table of Contents

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 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.

***We have substantial cash requirements in the United States while most 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 the cash generated in the United States from our operations covers our 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, our declared dividends 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 which expires in October, 2016 and under which we may borrow up to \$400 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.*

Table of Contents

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.

*If we experience a significant disruption in, or breach in security of, our information technology systems, or if we fail to implement new systems and software successfully, our business could be adversely affected.*

We rely on several centralized information technology systems throughout our company to provide products and services, keep financial records, process orders, manage inventory, process shipments to customers and operate other critical functions. Our information technology systems may be susceptible to damage, disruptions or shutdowns due to power outages, hardware failures, computer viruses, attacks by computer hackers, telecommunication failures, user errors, catastrophes or other unforeseen events. If we were to experience a prolonged system disruption in the information technology systems that involve our interactions with customers or suppliers, it could result in the loss of sales and customers and significant incremental costs, which could adversely affect our business. In addition, security breaches of our information technology systems could result in the misappropriation or unauthorized disclosure of confidential information belonging to us or to our employees, partners, customers or suppliers, which could result in our suffering significant financial or reputational damage.

*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 April 30, 2012, we had cash and cash equivalents of approximately \$3.90 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 April 30, 2012.

| <b>Period</b>                      | <b>Total Number of<br/>Shares of Common<br/>Stock Purchased (1)(2)<br/>(a)</b> | <b>Weighted Average<br/>Price Paid per Share<br/>of<br/>Common Stock (2)<br/>(b)</b> | <b>Total<br/>Number of<br/>Shares of Common<br/>Stock Purchased as<br/>Part of Publicly<br/>Announced Plans or<br/>Programs (1)<br/>(c)</b> | <b>Maximum<br/>Approximate Dollar<br/>Value of Shares of<br/>Common Stock that<br/>May Yet Be<br/>Purchased Under the<br/>Plans or Programs<br/>(in millions)<br/>(d)</b> |
|------------------------------------|--------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Feb. 1, 2012 through Feb. 29, 2012 | 239,300                                                                        | \$ 43.48                                                                             | 239,300                                                                                                                                     | NA                                                                                                                                                                        |
| Mar. 1, 2012 through Mar. 31, 2012 | 760,700                                                                        | \$ 44.07                                                                             | 760,700                                                                                                                                     | NA                                                                                                                                                                        |
| Apr. 1, 2012 through Apr. 30, 2012 |                                                                                |                                                                                      |                                                                                                                                             | NA                                                                                                                                                                        |
| <b>Total</b>                       | <b>1,000,000</b>                                                               | <b>\$ 43.93</b>                                                                      | <b>1,000,000</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.

**ITEM 6. EXHIBITS**

(a) Exhibits:

A list of exhibits is set forth in the Exhibit Index found on page 45 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: June 4, 2012

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

Dated: June 4, 2012

By: /s/ Solange Glaize  
Solange Glaize  
Vice President, Corporate Controllershship  
(Principal Accounting Officer)

Table of Contents

**AGILENT TECHNOLOGIES, INC.**

**EXHIBIT INDEX**

| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                  |
|---------------------------|-----------------------------------------------------------------------------------------------------|
| 11.1                      | See Note 5, Net Income Per Share , to our Condensed Consolidated Financial Statements on page 9.    |
| 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                                                                        |