SHOPNET COM INC
Form 10QSB
May 20, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB
(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2002,

OR

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

For the transition period from __________ to __________

Commission File Number
0-28690 SHOPNET.COM, INC.
(Exact Name of Small Business Issuer as Specified in its Charter)

Delaware	13-3871821
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

112 West 34th Street, Suite 902, New York, New York 10120
(Address of Principal Executive Offices)

(212) 967-8303
(Issuer's Telephone Number, Including Area Code)

14 East 60th Street, Suite 402, New York, NY 10022
(Former Name, Former Address, and Former Fiscal Year, if Changed Since Last Report)

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares of each of the issuer's classes of common equity outstanding as of the latest practicable date: Common Stock, par value $.001 par value: 7,472,224 shares outstanding as of May 20, 2002.

SHOPNET.COM, INC. AND SUBSIDIARIES

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SHOPNET.COM, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
As of March 31, 2002 and June 30, 2001

ASSETS

	(U
Current assets:	
Cash	
Cash-restricted	
Accounts receivable, net	
Other receivables	
Inventory	
Prepaid expenses	
Advances to officer	
Total current assets	
Property and equipment, net	
Film production and distribution costs, net	
Costs in excess of net assets of business acquired	
Investments in movie ventures	
Deferred tax asset-non-current	
Other assets	
Marketable securities-affiliate	
Total assets	

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:
- Due to factor
- Accounts payable
- Accrued expenses
- Current portion of lease
- Other taxes payable
- Deferred tax liability

Total current liabilities

Capital lease obligations, net of current portion

Total liabilities

Commitments and contingencies

Stockholders' equity
- Common stock- $.001 par value, 20,000,000 shares authorized, 7,472,244 shares issued and outstanding
- Additional paid in capital
- Accumulated deficit
- Accumulated other comprehensive income

Total stockholders' equity

Total liabilities and stockholders' equity

The accompanying notes should be read in conjunction with the consolidated financial statements

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SHOPNET.COM, INC. AND SUBSIDIARIES
Consolidated Statement of Operations and Comprehensive Income (Loss)
(Unaudited)

	Nine Months Ended		Three M
	March 31, 2002	March 31, 2001	March 31, 2002
Net sales	$ 6,313,067	$ 5,692,623	$ 4,612,362
Cost of sales	3,927,537	3,709,898	2,828,915
Gross profit	2,385,530	1,982,725	1,783,447
Expenses:			
Selling, general, and administrative	2,007,246	1,967,230	1,028,099

Amortization of costs in excess of net assets of business acquired	53,214	53,214	17,738
Total expenses	2,060,460	2,020,444	1,045,837
Income (loss) before other income (expenses) and provision for income taxes	325,070	(37,719)	737,610
Other income (expenses):			
Equity in earnings (loss) of affiliate	(595)	(4,837)	(532)
Write down of film costs	--	(208,564)	--
Rental income	9,050	18,106	--
Interest and financial expense	(357,941)	(339,171)	(202,022)
Interest income	11,008	59,478	75
Total other income (expense)	(338,478)	(474,988)	(202,479)
Income (loss) before provision for income taxes	(13,408)	(512,707)	535,131
Provision (benefit) for income taxes	--	(16,974)	--
Net income (loss)	(13,408)	(495,733)	535,131
Other items of comprehensive income (loss)	(6,350)	(254,000)	--
Comprehensive (loss)	$ (19,758)	$ (749,733)	$ 535,131
Basic:			
Net income loss per share	$ (Nil)	$ (.07)	$ .07
Weighted average number of common shares outstanding	7,472,244	7,472,244	7,472,244

The accompanying notes should be read in conjunction with the consolidated financial statements

SHOPNET.COM, INC. AND SUBSIDIARIES
Consolidated Statement of Stockholders' Equity
For The Nine Months Ended March 31, 2002
(Unaudited)

	Common Stock		Additional Paid-in	Accumulated
	Shares	Amount	Capital	Deficit

Balances at June 30, 2001 (Audited)	7,472,244	$ 7,472	$ 6,638,852	$(4,017,179)
Net loss (Unaudited)				(13,408)
Comprehensive loss	--	--	--	--
Balances at March 31, 2002, ...	$ 7,472,244	$ 7,472	$ 6,638,852	$(4,030,587)

The accompanying notes should be read in conjunction with the consolidated financial statements

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SHOPNET.COM, INC. AND SUBSIDIARIES
Consolidated Statement of Cash Flows
For The Nine Months Ended March 31, 2002 And 2001
(Unaudited)

	March 31 2002
Cash flows from operating activities:	
Net loss	$ (13,408
Adjustments to reconcile net income to net cash used in operating activities:	
Equity in loss of affiliate	595
Amortization and depreciation	73,857
Decrease (increase) in:	
Accounts receivable	(19,884
Other receivables	62,734
Inventory	(577,528
Prepaid expenses	(187,906
Advances to officer	(1,971
Other assets	(4,700
Investment in securities available for sale	--
Marketable securities affiliate	6,350
Increase (decrease) in:	
Due to factor	(835,407
Accounts payable	547,905
Accrued expenses	(834
Other taxes payable	104
Net cash used in operating activities	(950,093
Cash flows from investing activities:	
Acquisition of property and equipment	(28,636
Net cash used in investing activities	(28,636
Cash flows from financing activities:	
Principal payments on capital leases	(14,098
Reduction in line of credit	--

Net cash used in financing activities	(14,098
Net decrease in cash and restricted cash	(992,827
Cash and restricted cash, beginning of period	994,285
Cash and restricted cash, end of period	$ 1,458
Supplemental disclosure of cash flow information: cash paid during the period for :	
Interest	$ 282,737
Income taxes	$ --

The accompanying notes should be read in conjunction with the consolidated financial statements

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SHOPNET.COM, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

NOTE 1- ORGANIZATION

Shopnet.com, Inc. ("Shopnet" or the "Company") was incorporated in the State of Delaware on December 1, 1995 under the name of Hollywood Productions, Inc. It was formed for the purpose of acquiring screenplays and producing motion pictures. On May 10, 1999, the Company filed an amendment to its Articles of Incorporation to change its name to Shopnet.com. Inc. On May 12, 1999, Shopnet incorporated a new wholly owned subsidiary, Hollywood Productions, Inc. ("Hollywood"), to which the Company assigned all of its film rights. Accordingly, Shopnet is considered a holding company. During September 1996, simultaneously with the completion of its Initial Public Offering ("IPO"), Shopnet acquired all of the capital stock of Breaking Waves, Inc. ("Breaking Waves"). Breaking Waves designs, manufactures, and distributes private and brand name labels of children's swimwear nationally. As of June 30, 2001, Shopnet and all of its subsidiaries changed their financial year end from December 31 to June 30.

NOTE 2- INTERIM RESULTS AND BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements as of March 31, 2002 and for the nine month periods ended March 31, 2002 and March 31, 2001 and for the three month periods ended March 31, 2002 and March 31, 2001 have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Items 303 and 310 of Regulation S-B. In the opinion of management, the unaudited financial statements have been prepared on the same basis as the annual financial statements and reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the financial position as of March 31, 2002 and the results of operations and cash flows for the nine month periods ended March 31, 2002 and March 31, 2001 are not necessarily indicative of the results to be expected for any subsequent quarter or the entire fiscal year. The balance sheet at June 30, 2001 has been derived from the audited financial statements at that date.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the Securities and Exchange Commission's rules and regulations. The Company believes, however, that the disclosures in this report are adequate to make the information presented not misleading in any material respect. The accompanying consolidated financial statements should be read in conjunction with the audited financial statements of Shopnet.com, Inc. and Subsidiaries as of June 30, 2001 and for the six month period then ended and notes thereto included in the Company's report on Form 10-KSB filed on October 15, 2001.

The Company in the quarter ended March 31, 2002 has implemented a number of initiatives which it believes will reduce its costs of operations and alleviate in the following three months its working capital deficiency. In particular, the Company believes that the repayment of its indebtedness to Century (See Note 7 (b)) and the recent reductions in interest rates will reduce interest expense.

NOTE 2- INTERIM RESULTS AND BASIS OF PRESENTATION (continued)

In December 2001, the Company consolidated all of its operation's in the New York metropolitan region into one new facility (See Note 9(a)), creating a savings through synergies in office expense and decrease in rent and salaries. The Company has, also, recently refocused its sales efforts, to the extent possible, to eliminate unprofitable or low margin sales and has had improved sales and orders for the current fiscal year.

NOTE 3- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Recently adopted accounting principles - Film accounting

Pursuant to SFAS no. 139, the Company adopted Statement of Position ("SOP") 00-2, "Accounting by Producers or Distributors of Films" during the nine months ended March 31, 2002. SOP 00-2 established new film accounting standards, including changes in revenue recognition and accounting for advertising, development and overhead costs. Specifically, SOP 00-2 requires advertising costs for theatrical and television products to be expensed as incurred. This compares to the

Company's previous policy of first capitalizing these costs and then expensing them over the related revenue streams. In addition, SOP 00-2 requires development costs for abandoned projects and certain indirect overhead costs to be charged to film costs, which was required under the previous accounting rules, SOP 00-2 also in other areas, such as revenue recognition, generally are consistent with the Company's existing accounting policies. SOP-002 was adopted as of July 1, 2001, and had no effect on the Company's consolidated results of operations, financial position or cash flows.

b) Recently issued accounting pronouncements

The Company does not believe that any recently issued but not yet effective accounting standards, have a material effect on the Company's consolidated financial position, results of operations or cash flows except for the effect of adoptions of SFAS No. 142, " Goodwill and Other Intangible assets". It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. SFAS 142 also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements.

During June 2001, SFAS No. 141, "Business Combinations" ("SFAS No. 141") was released. This standard addresses financial accounting and reporting for business combinations. All business combinations within the scope of SFAS 141 are to be accounted for using one method-the purchase method. The provisions of SFAS 141 apply to all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method for those business combinations is prohibited. It also applies to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001 or later.

NOTE 4- ACQUISITION OF BREAKING WAVES, INC.

Pursuant to a stock purchase agreement dated May 31, 1996 (the "Agreement"), on September 24, 1996, the Company issued 110,000 shares of common stock in exchange for all of the issued and outstanding capital stock of Breaking Waves. The transaction was accounted for using the purchase method of accounting. As a result of this transaction, excess of cost over net assets acquired totaling $1,064,283 was recorded and is being amortized over the useful lives of the related assets which is fifteen years. Amortization expense totaled $53,214 for each of the nine months ended March 31, 2002 and 2001.

NOTE 5- INVESTMENTS IN MOVIE VENTURES

a) Battle Studies

Pursuant to a co-production agreement dated April 17, 1998 with North Folk Films, Inc., the Company invested through March 31, 2002, $218,165 for a 50% interest in a new entity, Battle Studies Productions, LLC ("Battle Studies") a limited liability company. Battle Studies will be treated as a joint venture in order to co-produce motion pictures and to finance the costs of production and distribution of such motion pictures. The joint venture retains all rights to the motion pictures, the screenplays, and all ancillary rights attached thereto.

b) The Girl

Pursuant to an agreement dated July 1, 1999 with Artistic License Films Inc., Hollywood invested through March 31, 2002 $35,000 for a 22.533% interest in a new entity, The Girl, LLC ("The Girl") a limited liability company. In return for its participation in The Girl, Hollywood is entitled to receive a non-contested, non-dilutable 22.533% ownership interest in The Girl, a recoupment of its investment on no less favorable terms than any other investor and 22.533% of 100% of any contingent compensation which shall be actually received by The Girl. The Girl retains all rights to the motion pictures, the screenplays, and all ancillary rights attached thereto.

The Company accounts for the investments in Battle Studies and The Girl under the equity method. For the nine months ended March 31, 2002 and 2001, the Company recorded $595 and $0, respectively, in net equity losses.

NOTE 6- MARKETABLE SECURITIES- AFFILIATE

Breaking Waves owns 1,270,000 unregistered common shares of Play Co. Toys & Entertainment Corp. ("Play Co."), a toy retailer and a publicly traded company whose Chairman of the Board is also the President of Shopnet and Breaking Waves.

Breaking Waves' ownership percentage is approximately 1.5% of Play Co. The investment in Play Co. is accounted for under the requirements of SFAS No. 115, "Accounting for Certain investments in Debt and Equity Securities." Under SFAS No. 115, the securities are considered available for sale and therefore the carrying value is based on the fair market value of the securities at March 31, 2002 and 2001 which amounted to $0 and $337,000, respectively.

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SHOPNET.COM, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

NOTE 6- MARKETABLE SECURITIES- AFFILIATE (continued)

The change in the fair market value of the securities during the periods are recorded as an unrealized gain or loss as a component of comprehensive income. The Company pledged such shares as collateral for a standby letter of credit in connection with Breaking Waves entering into a new factoring agreement with Century Business Credit Corporation ("Century") and are therefore considered non-current (See Note 6 (b)).

On March 28, 2001 Play Co. filed for protection under Chapter Eleven of the United States Code with the United States Bankruptcy Court for the Southern District of New York. The filing was converted into a Chapter Seven filing on August 28, 2001.

NOTE 7- DUE TO FACTOR

a) CIT Group

On August 20, 1997, Breaking Waves entered into a factoring and revolving Inventory loan and security agreement (as amended December 9,1998) with CIT Group (formerly, Heller Financial, Inc. "CIT") to sell their interest in all present and future receivables without recourse. Breaking Waves paid CIT a factoring commission of .85% of the first $5,000,000 of receivables sold and .65% of receivables sold in excess of $5,000,000 for each year.

Breaking Waves took advances of up to 85% of the receivables, with interest at the rate of 1 3/4% over prime. In connection with the factoring agreement, the Company agreed to maintain $1,150,000 of cash in a segregated account in order to collateralize standby letters of credit. In addition, during 1999, Breaking Waves was required to transfer an additional $200,000 of cash as collateral for the standby letter of credit.

On or about September 12, 2000 the agreement with CIT was cancelled and a new factoring agreement was entered into as discussed below.

b) Century Business Credit Corporation

On or about September 12, 2000, Breaking Waves entered into a factoring and revolving inventory loan and security agreement ("factoring agreement") with Century Business Credit Corporation ("Century") to sell its interest in all present and future receivables without recourse. Breaking Waves submits all sales offers to Century for credit approval prior to shipment, and pays a factoring commission of .75% of receivables sold. Century retains from the amount payable to Breaking Waves a reserve for possible obligations such as customer disputes and possible credit losses on unapproved receivables. Breaking Waves may take advances of up to 85% of eligible receivables and up to 50% of the value of finished goods in inventory, with interest payable monthly at the rate of 1 3/4% over prime.

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SHOPNET.COM, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

NOTE 7- DUE TO FACTOR

b) Century Business Credit Corporation (continued)

Pursuant to the terms of a Reimbursement and Compensation Agreement, a trust ("Trust"), the beneficiary of which is a relative of the Company's President and Chief Executive Officer ("CEO") and a relative of a principal stockholder, pledged assets as collateral for securing a $250,000 letter of credit to replace a portion of a letter of credit previously pledged by the Company. Accordingly, on December 20, 2000 the original agreement with the factor was amended to allow such replacement of collateral. Breaking Waves' Loan and Security Agreement with Century dated December 20, 2000 requires the provision of one or more letters of credit in the aggregate amount of $1,150,000 to partially secure the line of credit. On September 15, 2001, Century required the Company to increase the amount of collateralized standby letters of credit by $300,000 raising such amount to $1,450,000.

On May 3, 2001, the Agreement with the Trust was amended so that the letter of credit secured by the Trust was increased to $400,000. As a condition of the amendment, the Company entered into a guarantee agreement with Gal Capital Corp., whose President is a relative of the Company's President and CEO and a principal stockholder of the Company to act as guarantor of the obligation to the Trust up to $400,000 in exchange for a fee of $42,500 which the Company paid on May 3, 2001. The amended letter of credit expired on September 1, 2001 and was subsequently amended on September 15, 2001.

On September 15, 2001, the Amended and Restated Reimbursement and Compensation Agreement was entered into and further amended the agreement with the Trust, so that the letter of credit secured by the Trust was increased to $750,000. The amended letter of credit expires on September 1, 2002 but can be extended year to year at the Company's option for a period of ten years. Breaking Waves agreed to reimburse the Trust for any and all losses, fees, charges and expenses to the Trust in the event the letter of credit is called by Century and / or the issuing bank demands reimbursement from the Trust. Breaking Waves' obligations are guaranteed by the Company in addition to being secured by a first security interest in all of the assets of the Company and a subordinate security interest in all of the assets of Breaking Waves.

On September 15, 2001, the Company entered into a Reimbursement Agreement with relatives of a principal stockholder who is related to the President and CEO of the Company ("RAYA") who pledged assets as collateral for securing a $300,000 letter of credit as additional collateral to secure Breaking Waves' Loan and Security Agreement with Century. Absent any default, the letter of credit will remain in effect for ten years. The Agreement is guaranteed by Shopnet under a separate Security Agreement dated September 15, 2001.

NOTES TO FINANCIAL STATEMENTS

NOTE 7- DUE TO FACTOR

b) Century Business Credit Corporation (continued)

In exchange for the letters of credit, the Trust and RAYA will proportionately, based on the total outstanding letters of credit, receive a fee of one and one quarter percent (1-1/4%) of net sales of Breaking Waves through June 30, 2002 and thereafter one and three quarters percent (1-3/4%) of net sales through September 30, 2011. In October 2001, the Trust and RAYA received advance payments to be applied towards future fees of $24,500 and $12,250, respectively. All future payments are payable forty five days after the close of each fiscal quarter. The fees are effective October 1, 2001.

In September 2001, the Company and Breaking Waves retained Arc Financial Corp. ("ARC"), a British Virgin Island company, for a ten year term to provide financial consulting services. Pursuant to the terms of a consulting services. Pursuant to the terms of a consulting agreement ("ARC Consulting Agreement"), ARC was retained to assist the Company in the acquisition of financing to acquire inventory and for other corporate purposes ("Financing"), as well as consult with the Company with regard to its ongoing operations, promote sales of Breaking Waves' products and improving production. Pursuant to the terms of the ARC Consulting Agreement, the Company and Breaking Waves agreed to compensate ARC (i) an annual fee of $20,000 ("Base Fee") and (ii) a percentage of annual net sales in the amount of 1-1/4% through June 30, 2002 and 1-3/4% of net sales for each year of the term thereafter through September 30, 2011 ("ARC Percentage Fee"), payable 45 days after the closing of each fiscal quarter. In October 2001, ARC received (i) a lump sum payment of $209,000 reflecting full advance payment of the Base Fee and (ii) $36,750 reflecting advance payment of the Arc Percentage Fee. The agreement with Arc expires September 30, 2011. The Company and Breaking Waves are entitled to terminate the ARC Consulting Agreement any time after September 30, 2006, in which event all prepaid fees are forfeited.

Interest expense related to the factor agreement totaled $190,908 and $256,510 for the nine months ended March 31, 2002 and 2001, respectively. Century has a secured interest in Breaking Waves' inventory as collateral for the advances. As of March 31, 2002, the net advances to Breaking Waves from Century amounted to $864,930.

During October 2001, Century released the Company from its requirement of maintaining a minimum cash balance as a result of the events discussed in Note 7 (b). Upon Century removing the restriction, the Company paid and reduced the amount due to Century in October and November 2001 by an aggregate of $620,000.

SHOPNET.COM, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

NOTE 8- OTHER EVENTS

On January 23, 2002, the Company notified the Nasdaq Stock Market, Inc. ("Nasdaq") of the withdrawal of its listing from the SmallCap Market, effective with that date.

The Company previously received notification from Nasdaq in late November 2001, advising that it did not satisfy the minimum net tangible assets or equity standards for continued listing on the Nasdaq SmallCap Market.

The Company explored its options in this regard, and determined that its resources would best be allocated in areas that could improve its results of operations. The Company's common stock and warrants had traded on the Nasdaq SmallCap Market since September 1996.

Following the delisting from Nasdaq, the Company's securities began trading on the OTC Bulletin Board.

NOTE 9- COMMITMENTS AND CONTINGENCIES

a) Lease commitments

Shopnet and Breaking Waves have entered into lease agreements for their administrative offices. Shopnet leased its administrative office pursuant to a 5-year lease that expired on November 30, 2001 at annual rent amounting to approximately $70,000, before annual escalations. Breaking Waves terminated its lease effective November 30, 2001. A new 6 year lease expiring September 30, 2007 was signed in July 2001, becoming effective beginning December 1, 2001.Annual rent under the new lease is $84,915 through December 31, 2004 and $95,760 for the remainder of the lease. Lastly, Breaking Waves leases an offsite office for one of its designers on a month to month basis with annual payments approximating $11,000. The Company and Breaking Waves' approximate future minimum rentals under non-cancelable operating leases in effect on March 31, 2002 are as follows:

2002	$ 85,480
2003	84,915
2004	84,915
2005	90,338
2006	95,760
Thereafter	119,700
	$561,108

Rent expense for the nine months ended March 31, 2002 and 2001 amounted to $94,508 and $128,130, respectively.

SHOPNET.COM, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

NOTE 9- COMMITMENTS AND CONTINGENCIES (continued)

b) Significant vendors and customers

Breaking Waves purchases 100% of its inventory from two vendors, one in Indonesia and the other in South Korea. Breaking Waves believes other sources and vendors are available and that it is not dependent exclusively on these vendors.

c) Seasonality

Breaking Waves' business is considered seasonal with a large portion of its revenues and profits being derived between November and March. Each year from April through October, Breaking Waves engages in the process of designing and manufacturing the following season's swimwear lines, during which time it incurs the majority of its production costs with limited revenues and also engages in the sale of product at negative gross margins to remove slow moving items and decrease its carrying cost.

d) License agreements

i) On October 16, 1995, Breaking Waves entered into a license agreement with Beach Patrol, Inc. ("Beach") for the exclusive use of certain trademarks in the United States. The agreement covered a term from January 1, 1996 to June 30, 1998 and contained a provision for an additional three-year extension, at the option of Breaking Waves, through and until June 30, 2001. Breaking Waves had exercised this option, thereby so extending the agreement. The agreement called for minimum annual royalties of $75,000 to $200,000 over the life of the agreement with options based on sales levels from $1,000,000 for the first year to $4,000,000 in the sixth year. Breaking Waves has negotiated an additional two-year extension thereby extending the agreement through and until June 30, 2003, and it contains a provision for an additional two-year extension, at the option of Breaking Waves, through and until June 30, 2005. The new agreement signed February 28, 2001 and effectively July 1, 2001 calls for minimum annual royalties of $50,000 to $87,500 over the life of the extension with option based on sales levels from $1,000,000 for the seventh year to $1,750,000 in the tenth year. Breaking Waves recorded royalties under this agreement totaling $30,000 and $138,897 during the nine months ended March 31, 2002 and 2001 respectively.

ii) During June 2000, Breaking Waves entered into a license agreement with an effective date of November 1, 2000 with Gottex Models Ltd., as Israeli corporation and Gottex Models

(USA) Corp., a New York corporation for the use of the trademark "Gottex" in the United States of America for children's swimwear. The agreement calls for a royalty fee of 7% of net sales with guaranteed minimum annual royalties of $70,000 to $140,000 over the life of the agreement. Breaking Waves recorded royalties under the agreement totaling $68,430 and $23,746 for the nine months ended March 31, 2002 and 2001, respectively.

SHOPNET.COM, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

NOTE 9- COMMITMENTS AND CONTINGENCIES (continued)

e) Co-production and property purchase agreements

Pursuant to co-production and property purchase agreements dated March 15, 1996, as amended, the Company acquired the rights to co-produce a motion picture and to finance the costs of production and distribution of such motion picture with the co-production. The Company retains all rights to the motion picture with the co-producer agreeing to finance $100,000 of the cost of production. The Company retains all rights to the motion picture, the screenplay, and all ancillary rights attached thereto. The motion picture was completed during the latter part of 1996 and, accordingly, the Company commenced the marketing and distribution process.

As of March 31, 2002, the Company invested $1,971,956 for the co-production and distribution of such motion pictures whereas the co-producers have invested $100,000. For the nine months ended March 31, 2002 and 2001, the Company derived no revenue from the motion picture and amortized no film costs.

For the nine months ended March 31, 2002 and 2001 the Company has written down its film production and distribution costs by $0 and $50,000, respectively, in order to reduce the asset to its estimated net realizable value.

f) Litigation-

On or about June of 2000, an action was brought in the Queens County Supreme Court against the Company and several others claiming, among other things, that the Company allegedly breached a contract and engaged in fraudulent statements (including supposedly promising the plaintiff options and then not allowing the plaintiff to exercise these options). The plaintiff seeks, among other things, compensatory damages in the amount of $497,500, punitive damages in the amount of $995,000, together with costs and attorney's fees. The complaint was recently amended. The defendants including the Company have made a motion to dismiss the complaint. There can be no assurance that this motion will be granted. The Company intends to contest the action vigorously and believes that such claims against it are baseless and without merit.

In or about December 2001, a group of over 275 foreign plaintiffs commenced an action entitled Abeln v. Arbel, et. al in the United States District Court for the Southern District of New York naming the Company, along with over 30 other entities and individuals as defendants. The Company has not yet been served with the summons and complaint, and cannot discern if such service will be effectuated. Thus, the Company is not yet a party to the suit.

The Complaint purports to state claims, among others, for securities fraud, RICO, breach of contract, common law fraud and breach of fiduciary duty allegedly arising out of the defendants' supposed involvement with the preferred stock of Europe American Capital Corporation ("EACC"). The complaint is unclear but it appears that only the RICO and common law fraud claim are alleged as against the Company.

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SHOPNET.COM, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

NOTE 9- COMMITMENTS AND CONTINGENCIES (continued)

f) Litigation (continued)

Among other things, the plaintiffs claim that a large amount of EACC's funds have been invested in the Company. The plaintiffs allege that they incurred losses and damages in excess of $25,000,000. The action seeks an unstated amount of monetary damages together with punitive damages.

This matter has been delayed by the court because of an apparent dispute regarding who will represent the plaintiffs.

Should the Company be served, it anticipates seeking Court approval to make a motion to dismiss the complaint for among other reasons, failure to state a claim.

In light of the early stage of this action, the Company's counsel is unable to form an opinion as to the likelihood of an unfavorable outcome.

NOTE 10- STOCKHOLDERS' EQUITY

a) Earnings per share

Earnings per common share is computed pursuant to Statement of Financial Accounting Standards (SFAS) No. 128 "Earnings Per Share" ("EPS"). Basic earnings per share is computed as net income (loss) available to common shareholders divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock options, warrants and other convertible securities. Diluted EPS is not presented since the effect would be anti-dilutive.

b) Warrants

i) Initially, each Warrant issued in the initial public offering of September 24, 1996 entitled the holders thereof to purchase one share of the Company's common stock at an exercise price of $6.50 per share, until September 9, 2001. On August 31, 2001, the Company extended the term of its warrants by 18 months, the Warrants will now expire on March 10, 2003. On June 23, 1997, the Board of Directors approved a reduction in the exercise price of the Warrants from $6.50 to $3.00. On February 5, 1998, the Company affected a one for three reverse split of the Company's common stock. Accordingly, the Company adjusted the terms of the Warrants to reflect the reverse split such that exercise of three Warrants would entitle the holder to purchase one share of common stock at an exercise price of $9.00. Giving effect to the January 1999 100% common stock dividend, the January 2000 10% common stock dividend and the May 2000 20% common stock dividend, the warrants have been cumulatively adjusted such that the exercise of each warrant at an exercise price of $3.41 purchases .88 of a share of common stock.

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SHOPNET.COM, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

NOTE 10- STOCKHOLDERS' EQUITY (continued)

b) Warrants (continued)

ii) On April 15, 1998, the Company's Board of Directors authorized the distribution of warrants to all shareholders of the Company's common stock as of May 8, 1998. Pursuant to the distribution, each shareholder of record will receive one warrant to purchase one share of common stock at an exercise price of $4.00 per share. The warrants, which are exercisable for a period of three years, commencing one year after issuance and receipt by shareholder, shall be issued and distributed once the Company has file a registration statement for same and same has been declared effective by the Securities and Exchange Commission. The Company to date has not filed the registration statement.

NOTE - 11 RELATED PARTIES TRANSACTIONS

a) For the nine months ended March 31, 2002 and 2001 financial consulting fees were paid to a corporation and an individual who are related to the Company's President and CEO amounting to $36,320 and $34,000, respectively.

b) During October 1996, pursuant to two promissory notes, the Company loaned two of its officers a total of $87,000 bearing interest at six and one-half percent (6 1/2) payable over three years. As of March 31, 2002, the unpaid portion amounted to $37,000, which has been classified as current. As of March 31, 2002, the Company's President was also advanced additional funds totaling $3,000 which are non-interest bearing and due on demand and are classified as current.

SHOPNET.COM, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

NOTE - 12 SEGMENT INFORMATION

The Company's operations have been classified into two segments: swimwear sales and film productions. These operating segments were based on the nature of the projects and services offered. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. The Company's CEO has been identified as the chief decision maker. The Company's chief operating decision maker directs the allocation of resources to operating segments based on the profitability and cash flow of the respective segments. Information about the two segments is as follows:

	Nine Months	
	2002	
	Segment	Consolidated
Sales:		
Swimwear sales	$ 6,313,067	
Film production	-	
Total sales		$ 6,313,067
Operating income (loss):		
Swimwear sales		$ 649,892
Film production		(600)
Total operating income (loss)		$ 649,292
Corporate:		
General and administrative expense		$ (271,008)
(Loss) equity in earnings of affiliate		(595)
Amortization expense		(53,214)
Interest income		11,008

Interest and finance expense	(357,941)
Other	9,050
Loss from operating before (benefit)	(13,408)
Provision for income tax	-
Net (loss) income	$ (13,408)
Identifiable assets:	
Swimwear sales	$ 1,604,943
Film productions	1,451,104
Corporate	1,143,940
Total assets	$ 4,199,987

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SHOPNET.COM, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

NOTE - 12 SEGMENT INFORMATION (continued)

Operating profit is total revenue less cost of sales and operating expenses and excludes general corporate expenses, interest expenses and income taxes. Identifiable assets are those used by each segment of the Company's operations. Corporate assets are primarily cash and investments.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

CAUTIONARY STATEMENTS ON FORWARD-LOOKING STATEMENTS

Statements contained in this report which are not historical facts and may be considered forward looking information with respect to plans, projections, or future performance of the Company as defined under the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from those projected. The words "anticipate ", "believe", "estimate", "expect", "objective", and "think" or similar expressions used herein are intended to identify forward-looking statements. The forward-looking statements are based on the Company's current views and assumptions and involve risks and uncertainties that include, among other things, the effects of the Company's business, actions of competitors, changes in laws and regulations, including accounting standards, employee relations, customer demand, prices of purchased raw material and parts, domestic economic conditions, including housing starts and changes in consumer disposable income, and foreign economic conditions, including currency rate fluctuations. Some or all of the facts are beyond the Company's control.

General

Shopnet.com, Inc. ("Shopnet" or the "Company") was incorporated in the State of Delaware on December 1, 1995 as Hollywood Productions, Inc. On May 10, 1999, Shopnet filed an amendment to its Articles of Incorporation effecting a change in its name to its current one. On May 12, 1999, it incorporated a new wholly-owned subsidiary, Hollywood, to which it assigned its motion picture business thereby rendering Shopnet a holding company for Hollywood and another wholly-owned subsidiary, Breaking Waves. Shopnet was formed initially for the purpose of acquiring screenplays and producing motion pictures. In September 1996, in connection with the completion of its IPO, it acquired all of the capital stock of Breaking Waves which designs, manufactures, and distributes private and brand name label children's swimwear. As of June 30, 2001, the company changed its year end from December 31 to June 30.

The consolidated financial statements at March 31, 2002 and 2001 included the accounts of Shopnet and its wholly owned subsidiaries, Breaking Waves and Hollywood (collectively referred to as the "Company") except where otherwise indicated after elimination of all significant intercompany transactions and accounts.

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related footnotes which provide additional information concerning the Company's financial activities and condition. Since Shopnet and its subsidiaries operate in different industries, the discussion and analysis is presented by entity in order to be more meaningful.

Critical Accounting Policies

a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of Shopnet and its wholly owned subsidiaries, Breaking Waves and Hollywood (the "Company"), after elimination of all significant intercompany transactions and accounts. Affiliated companies which are 20 to 50 percent owned are accounted for under the equity method.

b) Inventory

Inventory consists of finished goods and is valued at the lower of cost (using the first-in, first-out method) or market. All inventory is pledged as collateral for factored receivables pursuant to a factoring agreement with a financial institution

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Critical Accounting Policies (continued)

c) Film production and distribution costs

The Company follows industry standards in capitalizing film production and distribution costs. Film production and distribution costs include all costs associated with the writing, producing, and distribution of the film. Film costs include the costs of production, prints, pre-release, and other advertising expected to benefit future periods. These costs, as well as participation and talent residuals, are charged against earnings on an individual film basis in the ratio that the current year's gross film revenues bear to management's estimate of total remaining ultimate gross film revenues from all sources.

Film costs are stated at the lower of cost or estimated net realizable value on an individual film basis. Revenue and cost forecasts are continually reviewed by management and revised when warranted by changing conditions. Estimates of total gross revenue can change significantly due to the level of amortization, as adjusted. Such adjustments could have a material effect on the results of operations in future periods. When estimates of total revenue and costs indicate that a feature film will result in an ultimate loss, additional amortization is recognized to the extent required to produce a zero gross margin over the remaining life of the film.

d) Equity Method of Accounting

Investments in significantly (20 to 50 percent) owned affiliates are accounted for by the equity method of accounting, whereby the investment is carried at cost of acquisition, plus the Company's equity percentage in undistributed earnings or losses since acquisition. Reserves are provided where management determines that the investment or equity in earnings is not realizable.

e) Income taxes

The Company accounts for income taxes in accordance with the "liability method" of accounting for income taxes. Accordingly, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Current income taxes are based on the respective periods' taxable income for federal, state and city income tax reporting purposes.

f) Revenue and cost recognition

The terms of Breaking Waves' sales are FOB shipping point thereby revenue is recognized upon shipment from the warehouse. Sales returns are recorded upon acceptance of the goods by the warehouse. Duty costs, which are a component of cost of sales, are recorded upon the clearance of such goods through customs.

Revenues from the theatrical distribution of motion pictures are recognized when motion pictures are exhibited. Revenues from video sales are recognized, together with related costs, on the date that video units are made widely available for sale by retailers. Revenues from the licensing of feature films, together with related costs, are recorded when the material is available for telecasting by the licensee and when certain other conditions are met. Film production and distribution costs are stated at the lower of unamortized cost or estimated net realizable value. In accordance with Financial Accounting Standards Board's Statement of Financial Accounting Standards ("SFAS") No. 53, "Financial Reporting by Producers and Distributors of Motion Pictures Films," the individual film forecast method is used to amortize film costs.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Critical Accounting Policies (continued)

g) Earnings per share

Earnings per common share is computed pursuant to SFAS No. 128 "Earnings Per Share." Basic earnings per share is computed as net income (loss) available to common share holders divided by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur from common shares issuable through stock options, warrants and convertible preferred stock.

h) Use of estimates

In preparing financial statements in conformity with generally accepted accounting principles generally accepted in the United States of America, management is required to make estimates and assumption which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. The most significant estimate with regard to these financial statements is the estimate of projected income of motion pictures which is the basis used in amortizing film production and distribution costs. Actual results could differ from those estimates.

i) Fair value disclosure at March 31, 2002 and June 30, 2001:

The carrying value of cash, accounts receivable, inventory, accounts payable, accrued expenses, and capital lease obligations are a reasonable estimate of their fair value.

Three months ended March 31, 2002 as compared to the three months ended

March 31, 2001

For the three months ended March 31, 2002, the Company reported a consolidated net income of $535,131 as compared to a consolidated net income of $207,797 for the three months ended March 31, 2001. Comprehensive income for the three months ended March 31, 2002 was $535,131 as compared to comprehensive income of $112,547 for the three months ended March 31, 2001.

Breaking Waves

For the three months ended March 31, 2002 and 2001, Breaking Waves generated net sales of $4,612,362 and $3,653,260, respectively, with related cost of sales amounting to $2,828,915 and $2,437,428 respectively. The increase in sales amounting to $959,102, or approximately 26%, from 2002 to 2001 was primarily attributable to the greater acceptance of the Company's product line and increased marketing efforts.

The gross profit for the three months ended March 31, 2002 amounted to $1,783,447, or 39% of sales as compared to the three months ended March 31, 2001 during which it amounted to $1,215,832 or 33% of sales.

Selling, general, and administrative expenses during the three months ended March 31, 2002 and 2001 amounted to $ 946,295 and $ 711,879, respectively. The increase amounting to $234,416 or approximately 33%, is primarily attributable to an increase in selling and warehousing expenses which reflect the increase in sales volume.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Breaking Waves (continued)

The major components of the Breaking Waves selling, general, and administrative expenses are as follows for the three months ended March 31:

	2002	2001
Officers, office staff, designer and sales , salaries and related benefits	$157,810	$134,459
Commission expense	195,912	128,325
Warehousing costs	270,087	190,462
Royalty fees	45,819	89,887
Rent expense	26,381	24,522
Factor commissions	49,222	36,276
Miscellaneous general corporate overhead expenses	201,064	107,948

Interest expense in connection with its factoring agreement amounted to $88,075 and $156,022 for the three months ended March 31, 2002 and 2001, respectively. The decrease is due to a reduction in the stated prime interest rate.

Breaking Waves generated net income of $635,014 and $351,767 for the three months ended March 31, 2002 and 2001 respectively.

Hollywood

On May 12, 1999, Shopnet incorporated a wholly-owned subsidiary, Hollywood, to which it assigned its film production business. All film related operations prior to May 12, 1999 were conducted by Shopnet under its former name.

For the three months ended March 31, 2002 and 2001, Hollywood generated no sales from its motion picture "Dirty Laundry". Although sales prior to and including the nine months ended June 30, 2001 were minimal, the Company is expending efforts to effect increased sales during the fiscal year ending June 30, 2002 and thereafter as a result of the implementation of a new marketing strategy which among other things, emphasizes the development of new marketing and distribution arrangements for "Dirty Laundry". Hollywood generated a loss of $600 and $947 for the three months ended March 31, 2002 and 2001, respectively.

Subsequent to "Dirty Laundry", Hollywood also has invested in other movie ventures, some of which have generated revenue to date. See "Investment in Joint Ventures."

Shopnet.com

For the three months ended March 31, 2002, Shopnet generated no income. For the corresponding three months ended March 31, 2001, Shopnet generated income amounting to $21,615 comprised of interest from its money market and sublet income from its corporate office.

Shopnet's selling, general, and administrative expense amounted to $99,283 and $143,023 for the three months ended March 31, 2002 and 2001. This represents a decrease of $43,740, or approximately 31%.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Shopnet.com (continued)

The major components of the Company's expenses are as follows for the three months ended December 31:

	2002	2001
Salaries (officer and office staff) and stock compensation and related benefits	$ 28,741	$44,684
Rent	0	19,156
Legal and professional fees	17,234	18,650
Consulting fees	10,400	6,000
Other general corporate and administrative expense	42,908	54,533

Shopnet generated a net loss of $99,283 and $143,023 for the three months ended March 31, 2002 and 2001, respectively. These net losses include, on a consolidated basis, amortization of goodwill of $17,738 in each period.

Nine months ended March 31, 2002 as compared to the nine months ended March 31, 2001

For the nine months ended March 31, 2002 and 2001, the Company reported a consolidated net loss of $13,408 and $495,733. Comprehensive loss for the nine months ended March 31, 2002 was $19,758 as compared to a comprehensive loss of $749,733 for the nine months ended March 31, 2001.

Breaking Waves

For the nine months ended March 31, 2002 and 2001, Breaking Waves generated net sales of $6,313,067 and $5,692,623, respectively, with related cost of sales amounting to $3,927,537 and $3,709,898, respectively. The increase in sales amounting to $620,444, or approximately 11%, from 2002 to 2001 was primarily attributable to the greater acceptance of the Company's product line and increased marketing efforts.

The gross profit for the nine months ended March 31, 2002 amounted to $2,385,530, or 38% of sales as compared to the nine months ended March 31, 2001 during which it amounted to $1,982,725 or 35% of sales.

Selling, general, and administrative expenses during the nine months ended March 31, 2002 and 2001 amounted to $1,735,638 and $1,537,272, respectively. The increase amounting to $198,366 or approximately 13%, is primarily attributable to an increase in selling and warehousing expenses which reflect the increase in sales volume.

The major components of the Breaking Waves selling, general, and administrative expenses are as follows for the nine months ended March 31:

	2002	2001
Officers, office staff, designer and sales , salaries and related benefits	$433,239	$416,535
Commission expense	189,093	168,607
Warehousing costs	355,751	268,175
Royalty fees	98,430	162,643
Rent expense	74,998	71,303
Factor commissions	62,687	52,965
Miscellaneous general corporate overhead expenses	521,440	397,044

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Breaking Waves (continued)

Interest expense in connection with its factoring agreement amounted to $190,908 and $293,216 for the nine months ended March 31, 2002 and 2001, respectively. The decrease is due to a reduction in the stated prime interest rate.

Breaking Waves owns 1,270,000 unregistered common shares ("Play Co. Shares") of Play Co. Toys & Entertainment Corp. ("Play Co, " a toy retailer and a publicly traded company whose Chairman of the Board is also the President of Shopnet and Breaking Waves).

Breaking Waves' ownership percentage is approximately 1.5% of Play Co.'s outstanding Common Stock. The investment in Play Co. is accounted for under the requirements of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities. " Under SFAS 115, the securities are considered available for sale and therefore the carrying value is based on the fair market value of the securities at March 31, 2002 and 2001 which amounted to $0 and $12,700, respectively. The change in the fair market value of the securities during the periods is recorded as an unrealized gain or loss as a component of comprehensive income. The company has pledged such shares as collateral for a standby letter of credit in connection with Breaking Waves' factoring agreement with Century Business Credit Corporation ("Century") and the are therefore considered non-current.

On March 28, 2001, Play Co. filed for protection under Chapter Eleven of the United States Code with the United States Bankruptcy Court for the Southern District of New York. The filing was converted into a Chapter Seven filing on August 28, 2001.

Breaking Waves recorded an unrealized (loss) gain of $(6,350) and $(254,000) for the nine months ended March 31, 2002, and 2001 respectively, which has been recorded as a component of comprehensive income (loss) in the statement of operations.

Breaking Waves generated net income of $296,607 for the nine months ended March 31, 2002 and net income of $172,184 for the nine months ended March 31, 2001.

Hollywood

For the nine months ended March 31, 2002 and 2001, Hollywood generated no sales form its motion picture "Dirty Laundry". Although sales prior to and including the nine months ended June 30, 2001 were minimal, the Company is expending efforts to effect increased sales during the fiscal year ending June 30, 2002 and thereafter as a result of the implementation of a new marketing strategy which among other things, emphasizes the development of new marketing and distribution arrangements for "Dirty Laundry". Upon a review of the net realizable value of the movie cost, management has determined that a $0 and $208,564 write down was necessary as of March 31, 2002 and 2001, respectively, Accordingly, Hollywood generated a loss of $663 and $214,064 for the nine months ended March 31, 2002 and 2001, respectively.

Subsequent to "Dirty Laundry", Hollywood also has invested in other movie ventures, some of which have generated revenue to date. See "Investment in Joint Ventures."

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Shopnet.com

For the nine months ended March 31, 2002 and 2001, Shopnet generated minimal income comprised of interest from its money market and sublet income from its corporate office.

Shopnet's selling, general, and administrative expense amounted to $309,352 and $453,853 for the nine months ended March 31, 2002 and 2001. This represents a decrease of $144,501 or approximately 32%.

The major components of the Company's expenses are as follows for the nine months ended December 31:

2002

Salaries (officer and office staff) and stock compensation and related benefits	$99,3
Rent	19,5
Legal and professional fees	72,3
Consulting fees	22,3
Other general corporate and administrative expense	95,7

Shopnet generated a net loss of $309,352 and $453,853 for the nine months ended March 31, 2002 and 2001, respectively. These net losses include, on a consolidated basis, amortization of goodwill of $17,738 in each period.

Liquidity and Capital Resources

At March 31, 2002, the Company's consolidated working capital amounted to $189,503.

At March 31, 2002, current assets consisted primarily of inventory of $1,374,066.

In September 2000, Breaking Waves entered into a factoring and revolving inventory loan and security agreement with Century to sell its interest in all present and future receivables without recourse. Breaking Waves submits all sales offers to Century for credit approval prior to shipment, and pays a factoring commission of .75% of receivables sold. Century retains from the amount payable to Breaking Waves a reserve for possible obligations such as customer disputes and possible credit losses on unapproved receivables. Breaking Waves may take advances of up to 85% of the receivables, with interest at the rate of 1 3/4% over prime. In connection with the factoring agreement, the Company agreed to maintain $1,150,000 of cash in segregated account in order to collateralize standby letters of credit for Breaking Waves. Additionally, Breaking Waves was required to pledge as additional collateral, $200,000 of its own cash and the Play Co. shares. Additional collateral of $400,000 came from a third party which is a trust ("Trust"), the beneficiary of which is the granddaughter of the Company's President and Chief Executive Officer and the daughter of a principal stockholder of the Company.

In September 2001, Century increased the required collateral in the amount of $300,000, from $1,150,000. Subsequent to March 31, 2002, the Company effected financing arrangements with two parties (one of which is the Trust, the other relatives of as principal stockholder of the Company) providing for assets in the aggregate amount of $1,050,000 ("Financing"), representing a portion of the $1,450,000 required collateral. The provision of the assets in connection with the financing arrangements provided for the $300,000 increase in required collateral and replacement of the Company's certificates of deposit in the amount of $350,000.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Liquidity and Capital Resources (continued)

The assets provided by such parties are available to Breaking Waves for a ten year term, subject to earlier termination in the event of default. Breaking Waves is obligated to make an annual payment to each of the two entities which provided such assets, equal to an aggregate of 1-1/4% of net sales of Breaking Waves through June 30, 2002, and an aggregate of 1-3/4% of net sales of Breaking Waves for each year the letter of credit is available thereafter, payable 45 days after the end of each fiscal quarter. In October 2001, such entities received funds in the aggregate amount of $36,750 reflecting advance payment of such amounts.

At March 31, 2002, the Company was indebted to Century in the aggregate amount of approximately $865,000.

Interest expense related to the Century factoring agreement totaled $190,908 and $256,510 for the nine months ended March 31, 2002 and 2001, respectively. Century has a continuing interest in Breaking Waves' inventory as collateral for the advances.

In September 2001, the Company and Breaking Waves retained Arc Financial Corp. ("ARC"), a British Virgin Island company, for a ten year term to provide financial consulting services. Pursuant to the terms of a consulting agreement ("ARC Consulting Agreement"), ARC was retained to assist the Company in the acquisition of financing to acquire inventory and for other corporate purposes, as well as consult with the Company with regard to its ongoing operations, including systems to control expenses, method to enhance and promote sales of Breaking Waves' products and improving production. ARC assisted the Company in the Financing. Pursuant to the terms of the ARC Consulting Agreement, the Company and Breaking Waves agreed to compensate ARC (i) an annual fee of $20,000 (`Base Fee") and (ii) a percentage of annual net sales in the amount of 1-1/4% through June 30, 2002 and 1-3/4% of net sales for each year of the term thereafter ("ARC Percentage Fee"), payable 45 days after the closing of each fiscal quarter. In October 2001, ARC received (i) a lump sum payment of $209,000 reflecting full advance payment of the Base Fee and (ii) $36,750 reflecting advance payment of the ARC Percentage Fee. The Company and Breaking Waves are entitled to terminate the ARC Consulting Agreement any time after September 30, 2006, in which event all prepaid fees are forfeited.

The Company anticipates that its current available cash will be sufficient for the next twelve months and does not anticipate any cash shortfalls. In the March 31, 2002 quarter, the Company implemented a number of initiatives which it believes will reduce its cost of operations and overhead. In particular, the Company believes that the repayment of its indebtedness to Century in the amount of approximately $1,982,879 will translate into decreased interest expense projected to be approximately $50,000 for the next fiscal quarter.

In December 2001, the Company consolidated all of its operations in the New York metropolitan region into new facilities where Breaking Waves currently operates, resulting in annualized rental savings estimated at approximately $60,000 over the next 12 months, plus additional savings in utilities and other office and personnel expenses resulting from the economies generated by the consolidated operations. The Company expects that these savings as well as salary reductions that the Company implemented during the March 31, 2002 quarter, will amount to approximately $130,000 during the current fiscal year ending June 30, 2002.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Liquidity and Capital Resources (continued)

The Company has recently refocused its sales efforts, to the extent possible, to eliminate unprofitable or low margin sales. This is compounded with improved sales and orders during the quarter ended March 31, 2002. Breaking Waves did ship sales orders during the month of April 2002 of approximately $1,100,000. There can be no assurance that such figures will be indicative of future results, that the Company will be successful in collecting all receivables, or that any orders booked as of April 2002 will not ultimately be cancelled.

Investments in Joint Ventures

Battle Studies Productions, LLC

In April 1998, the Company entered into a co-production agreement with North Fork Bank for "Machiavelli Rises." The Company and North Fork formed Battle Studies to finance, produce and distribute the film. Battle Studies will be treated as a joint venture in order to co-produce motion pictures and to finance the cost of production and distribution of such motion pictures. The joint venture retains all rights to the motion pictures, the screenplays, and all ancillary rights attached thereto. Total production costs to date have aggregated approximately $425,000 of which the Company has funded approximately $218,500. In accordance with the terms of the co-production agreement, the proceeds of the film will be distributed as follows: first, both parties shall be entitled to recoup their initial investment in the film, at 135% thereof; then, after repayment to the respective parties of additional cost incurred by same, any remaining proceeds shall be distributed 50% to North Fork and 50% to the Company. The film was shown in January 1999 in both New York and the Brussels Film Festival.

The Company accounts for the investment in Battle Studies on the equity method. For the nine months ended March 31, 2002 and 2001, the Company, recorded $595and $0, respectively, of equity losses for its proportionate share of Battle Studies. No revenues have been derived from this film as of March 31, 2002.

On October 12, 2000, Battle Studies entered into a distribution agreement with Raven Pictures International ("Raven Pictures") to distribute Battle Studies' motion picture ("Macheavelli Rises") to foreign countries. Battle Studies has granted rights under the agreement for the theatrical, video, non-theatrical and television markets. The term of the agreement is for twenty-four months for all portions of territory outside of the United States and English speaking Canada. Battle Studies expects to realize 75% (which is net of a 25% fee to Raven Pictures) of the expected estimated gross revenues derived from foreign countries less $20,000 for marketing and advertising expense.

On January 17, 2001, Battle Studies entered into a distribution agreement with KOAN to distribute and promote Battle Studies' motion picture ("Machiavelli Rises") in the United States and Canada. Battle Studies has granted rights under the agreement for free TV, pay TV, cable, satellite, video and DVD markets. The terms of the agreement is for twenty-four months and it will be automatically renewed unless KOAN receives a letter of cancellation at least thirty days prior to the date of termination or if sales have not exceeded $250,000 over the twenty-four month period. Battle studies expects to realize 70% (which is net of a 30% fee to KOAN) of the expected estimated gross revenues derived from the United States and Canada less $5,000 per year for promotional costs.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Investments in Joint Ventures (continued)

The Girl, LLC

Pursuant to an agreement dated July 1, 1999 with ALF for the production of a film entitled "The Girl", Hollywood invested through March 31, 2002, $35,000 for a 22.533% interest in a new entity, The Girl, LLC a limited liability company ("Girl LLC"). In return for its participation in Girl LLC, Hollywood shall be entitled to receive a non-contested, non-dilutable 22.533% ownership interest in Girl LLC, a recoupment of its investment on no less favorable terms than any other investor and 22.533% of 100% of any contingent compensation which shall be actually received by Girl LLC. Girl LLC retains all rights to the motion pictures, the screenplays, and all ancillary rights attached thereto. "The Girl" is completed and has been exhibited at several film festivals. Girl LLC is in the process of attempting to secure video and foreign distribution arrangements for the film.

Hollywood accounts for the investment in Girl LLC under the equity method. Accordingly, as of March 31, 2002, the Company has recorded its investment at $33,702. This represents its initial investment of $35,000 less $1,298 of equity loss for its proportionate share of Girl LLC.

Factoring Arrangements

CIT Group

On August 20, 1997, Breaking Waves entered into a factoring and revolving inventory loan and security agreement (as amended December 9, 1998) with CIT Group (formerly, Heller Financial, Inc. "CIT") to sell their interest in all present and future receivables without recourse. Breaking Waves paid CIT a factoring commission of .85% of the receivable, with interest at the rate of 1 3/4% over prime. In connection with the factoring agreement, the Company agreed to maintain $1,150,000 of cash in a segregated account in order to collateralize standby letters of credit. In addition, during 1999, the Company was required to transfer an additional $200,000 of cash as collateral for the standby letter of credit. On or about September 12, 2000 the agreement with CIT was cancelled and a new factoring agreement was entered into with Century. Interest expense related to this agreement totaled $0 and $36,706 for the nine months ended March 31, 2002 and 2001, respectively.

Lease Commitments

Shopnet leased its administrative office pursuant to a 5-year lease that expired on November 30, 2001 at annual rent amounting to approximately $70,000, before annual escalations. Upon the lease expiration, Shopnet relocated to Breaking Waves's facilities. Breaking Waves terminated its lease effective November 30, 2001. A new 6-year lease expiring September 30, 2007 was signed by Breaking Waves in July 2001 and is effective beginning December 1, 2001. Annual rent under the new lease is $84,915 through December 31, 2004 and $95,760 for the remainder of the lease. Breaking Waves also maintains a Florida office, comprising approximately 780 square feet, with annual payments of approximately $11,000.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

License Agreements

On October 16, 1995, Breaking Waves entered into a license agreement with Beach Patrol, Inc. Pursuant to the licensing agreement, Breaking Waves was given the right to use certain designs for its children's line under the "Daffy Waterwear" label from January 1, 1996 to June 30, 1998. Thereafter, the agreement provided for a three year extension, at the option of Breaking Waves, through and until June 30, 2001. Breaking Waves has exercised this option, thereby extending the agreement. The agreement calls for minimum annual royalties of $75,000 to $200,000 over the life of the agreement with options based on sales levels from $1,000,000 for the first year to $4,000,000 in the sixth year. Breaking Waves has negotiated an additional two year extension thereby extending the agreement through June 30, 2003, and it contains a provision for an additional two year extension, at the option of Breaking Waves, through and until June 30, 2005. The new agreement signed February 28, 2001 and effective July 1, 2001 calls for minimum annual royalties of $50,000 to $87,500 over the life of the extension with option based on sales levels from $1,000,000 for the seventh year to $1,750,000 in the tenth year. Breaking Waves recorded royalties and advertising under this agreement totaling $30,000 and $138,897 during the nine months ended March 31, 2002, and 2001, respectively.

During June 2000, Breaking Waves entered into a license agreement with an effective date of November 1, 2000 with Gottex Models Ltd., and Israeli Corporation and Gottex Models (USA) Corp., a New York corporation for the use of the trademark "Gottex" in the United States of America for children's swimwear. The agreement calls for a royalty fee of 7% of net sales with guaranteed minimum annual royalties of $70,000 to $140,000 over the life of the agreement, subject to certain exceptions. The license agreement also requires the Company to expend certain minimum amounts on advertising each year. The license agreement is for a term of three years, subject to earlier termination in accordance with its terms. In the nine months ending March 31, 2002, Breaking Waves recorded $68,430 in royalty expenses related to the minimum guaranteed royalties contained in its agreement with Gottex. In the corresponding nine months ended March 31, 2001, Breaking Waves recorded royalties of $23,746.

PART II

Item 1. Legal Proceedings

On or about June of 2000, an action was brought in the Queens County Supreme Court against the Company and several others claiming, among other things, that the Company allegedly breached a contract and engaged in fraudulent statements (including supposedly promising the plaintiff options and then not allowing the plaintiff to exercise these options). The plaintiff seeks, among other things, compensatory damages in the amount of $497,500, punitive damages in the amount of $995,000, together with costs and attorney's fees. The complaint was recently amended. The defendants including the Company have made a motion to dismiss the complaint. There can be no assurance that this motion will be granted. The Company intends to contest the action vigorously and believes that such claims against it are baseless and without merit.

In or about December 2001, a group of over 275 foreign plaintiffs commenced an action entitled Abeln v. Arbel, et. al in the United States District Court for the Southern District of New York naming the Company, along with over 30 other entities and individuals as defendants. The Company has not yet been served with the summons and complaint, and cannot discern if such service will be effectuated. Thus, the Company is not yet a party to the suit.

Among other things, the plaintiffs claim that a large amount of EACC's funds have been invested in the Company. The plaintiffs allege that they incurred losses and damages in excess of $25,000,000. The action seeks an unstated amount of monetary damages together with punitive damages.

This matter has been delayed by the court because of an apparent dispute regarding who will represent the plaintiffs.

Should the Company be served, it anticipates seeking Court approval to make a motion to dismiss the complaint for among other reasons, failure to state a claim.

In light of the early stage of this action, the Company's counsel is unable to form an opinion as to the likelihood of an unfavorable outcome.

The Complaint purports to state claims, among others, for securities fraud, RICO, breach of contract, common law fraud and breach of fiduciary duty allegedly arising out of the defendants' supposed involvement with the preferred stock of Europe American Capital Corporation ("EACC"). The complaint is unclear but it appears that only the RICO and common law fraud claim are alleged as against the Company.

The Company is not a party to any other material litigation and is not aware of any threatened litigation that would have a material adverse effect on its business. Neither the Company's officers, directors, affiliates, nor owners of record or beneficially of more than five percent of any class of the Company's Common Stock is a party to any material proceeding adverse to the Company or has a material interest in any such proceeding adverse to the Company.

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PART II

Item 2. Changes in Securities and Use of Proceeds: None

Item 3. Defaults Upon Senior Securities: None

Item 4. Submission of Matters to a Vote of Security Holders: None

Item 5. Other Information: None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits: None

(b) Reports on Form 8-K: None

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SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 20th day of May 2002.

SHOPNET.COM, INC.

By: /s/ Harold Rashbaum
Harold Rashbaum
President and Chief Executive Officer

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CE="Times New Roman" SIZE="2" COLOR="#000000">	$250,000
Additional Retainer for Committee Chairs	
$5,000	

(1) All directors served the entire 2003 fiscal year, except for Mr. Koh and Mr. Joss, who joined the Board on May 21, 2003 and July 16, 2003, respectively, and Mr. Grinstein who retired on March 4, 2003. Mr. Koh s and Mr. Joss annual retainers were prorated based on the respective effective dates of their joining the Board. Mr. Grinstein did not receive an annual retainer for the 2003 fiscal year.

(2) Stock options were valued using the Present Value of Expected Gain (PVEG) methodology. Annual retainer grants are granted on the later of March 1 or the first business day following Agilent s annual stockholders meeting.

(3) Mr. Koh and Mr. Joss received this one-time grant in fiscal year 2003. Stock options were valued using the PVEG methodology.

Mr. Barnholt served as Chairman of the Board since November 21, 2002. As an Agilent employee, he receives no additional compensation for his Board membership.

Stock Ownership Guidelines

Agilent s stock ownership guidelines require each director to own a minimum of 2,000 shares of Agilent stock.

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PROPOSALS TO BE VOTED ON

PROPOSAL NO. 1

ELECTION OF DIRECTORS

Agilent s Board is divided into three classes serving staggered three-year terms. Directors for each class are elected at the annual meeting of stockholders held in the year in which the term for their class expires.

The terms for three directors will expire at this 2004 annual meeting. Votes cannot be cast and proxies cannot be voted other than for the three nominees named below. Directors elected at the 2004 annual meeting will hold office for a three-year term expiring at the annual meeting in 2007 (or until their respective successors are elected and qualified, or until their earlier death, resignation or removal). All of the nominees are currently directors of Agilent. There are no family relationships among Agilent s executive officers and directors.

Nominees for Three-Year Terms That Will Expire in 2007

James G. Cullen Age 61	Mr. Cullen has served as a director since April 2000. Mr. Cullen was President and Chief Operating Officer of Bell Atlantic from 1997 to June 2000 and a member of the office of chairman from 1993 to June 2001. Prior to this appointment, Mr. Cullen was a President and Chief Executive Officer of the Telecom Group of Bell Atlantic from 1995 to 1997. Prior to the creation of Bell Atlantic on January 1, 1984, Mr. Cullen held management positions with New Jersey Bell from 1966 to 1981 and AT&T from 1981 to 1983. Mr. Cullen is a member of the board of directors of Johnson & Johnson, Prudential Insurance Company and Quantum Bridge Communications.
Robert L. Joss Age 62	Mr. Joss has served as a director of Agilent since July 2003. Mr. Joss has served as the Dean of the Graduate School of Business of Stanford University since 1999. Prior to assuming this position, Mr. Joss was the Chief Executive Officer and Managing Director of Westpac Banking Corporation, Australia s second largest bank, from 1993 to 1999. Before this position, from 1971 to 1993, Mr. Joss held a succession of positions as Senior Vice President, Executive Vice President and Vice Chairman of Wells Fargo Bank. He is a director of E.piphany, Inc., BEA Systems, Inc., Shanghai Commercial Bank, Ltd. and Wells Fargo & Co.
Walter B. Hewlett Age 59	Mr. Hewlett has served as a director since July 1999. Mr. Hewlett is an independent software developer involved with computer applications in the humanities. He participated in the formation of Vermont Telephone Company of Springfield, Vermont in 1994 and currently serves as its Chairman. Mr. Hewlett founded the Center for Computer Assisted Research in the Humanities in 1984, for which he serves as a director. He has been a trustee of The William and Flora Hewlett Foundation since its founding in 1966 and currently serves as its Chairman. In 2003, Mr. Hewlett was elected to the Board of Trustees of Stanford University. Mr. Hewlett has served as a director of the Public Policy Institute of California since 1998.

Agilent s Board recommends a vote FOR the election to the Board

of each of the foregoing nominees.

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Agilent s directors listed below whose terms are not expiring this year will continue in office for the remainder of their terms or earlier in accordance with Agilent s Bylaws. Information regarding the business experience of each of such directors is provided below.

Directors Whose Terms Will Expire in 2005

Heidi Kunz Age 49	Ms. Kunz has been a director of Agilent since February 2000. Ms. Kunz has served as Executive Vice President and Chief Financial Officer of Blue Shield of California since September 2003. Ms. Kunz served as an Executive Vice President and the Chief Financial Officer of Gap, Inc. from 1999 to January 2003. Prior to assuming that position, Ms. Kunz served as the Chief Financial Officer of ITT Industries, Inc. from 1995 to 1999. From 1979 to 1995, Ms. Kunz held senior financial management positions at General Motors Corporation, including Vice President and Treasurer.
David M. Lawrence, M.D. Age 63	Dr. Lawrence has been a director of Agilent since July 1999. Dr. Lawrence has been Chairman Emeritus of Kaiser Foundation Health Plan, Inc. and Kaiser Foundation Hospitals since May 2002. He served as Chairman of the Board from 1992 to May 2002 and Chief Executive Officer from 1991 to May 2002 of Kaiser Foundation Health Plan, Inc. and Kaiser Foundation Hospitals. He held a number of management positions with these organizations prior to assuming these positions, including Vice Chairman of the Board and Chief Operating Officer. Dr. Lawrence is a director of Pacific Gas and Electric Company and Raffles Medical Group, Inc.
A. Barry Rand Age 59	Mr. Rand has been a director of Agilent since November 2000. Mr. Rand has served as Chairman and Chief Executive Officer of Equitant since February 2003. Mr. Rand was the Chairman and Chief Executive Officer of Avis Group Holdings, Inc. from November 1999 to March 2001, and continues to hold the title of Chairman Emeritus. Prior to joining Avis Group, Mr. Rand was Executive Vice President, Worldwide Operations, for Xerox Corporation from 1992 to 1999. Mr Rand is a member of the board of directors of Abbott Laboratories, AT&T Wireless and Aspect Communications, where he serves as non-executive Chairman. Mr. Rand holds a MBA from Stanford University where he also was a Stanford Sloan Executive fellow.

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Directors Whose Terms Will Expire in 2006

Edward W. Barnholt Age 60	Mr. Barnholt has served as Agilent s President and Chief Executive Officer and as a director since May 1999 and also as Chairman of the Board since November 2002. Before being named Agilent s Chief Executive Officer, Mr. Barnholt served as Executive Vice President and General Manager of Hewlett-Packard Company s Measurement Organization from 1998 to 1999, which included the business organizations that have become Agilent. From 1990 to 1998, he served as General Manager of Hewlett-Packard Company s Test and Measurement Organization. He was elected a Senior Vice President of Hewlett-Packard Company in 1993 and an Executive Vice President in 1996. He is a director of KLA-Tencor Corporation.
Robert J. Herbold Age 61	Mr. Herbold has been a director of Agilent since June 2000. He was an Executive Vice President and Chief Operating Officer of Microsoft Corporation from 1994 to April 2001 and served as an Executive Vice President (part-time) of Microsoft Corporation until June 2003. Prior to joining Microsoft, Mr. Herbold was employed by The Procter & Gamble Company for twenty-six years, and served as a Senior Vice President at The Procter & Gamble Company from 1990 to 1994. Mr. Herbold is a director of Weyerhaeuser Corp., First Mutual Bank, and Cintas Corp. He is the Managing Director of the consulting firm The Herbold Group, LLC.
Koh Boon Hwee Age 53	Mr. Koh has served as a director of Agilent since May 2003. Mr. Koh has been an Executive Director of MediaRing Ltd. since April 1998 and Tech Group Asia Ltd. since April 2003. Prior to his current positions, Mr. Koh was the Chairman of Singapore Telecom from April 1992 to August 2001. Mr. Koh spent fourteen years with Hewlett-Packard Company in its Asia Pacific region. He has been the Chairman of Singapore Airlines since July 2001 and serves on the boards of BroadVision, Inc., SIA Engineering Co. Ltd. and Intelsat, Ltd.

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PROPOSAL NO. 2

RATIFICATION OF INDEPENDENT AUDITORS

The Audit and Finance Committee of the Board has appointed PricewaterhouseCoopers LLP as Agilent s independent auditors to audit its consolidated financial statements for the 2004 fiscal year. During the 2003 fiscal year, PricewaterhouseCoopers LLP served as Agilent s independent auditors and also provided certain tax and other non-audit services. Although Agilent is not required to seek stockholder approval of this appointment, the Board believes it to be sound corporate governance to do so. If the appointment is not ratified, the Audit and Finance Committee will investigate the reasons for stockholder rejection and will reconsider the appointment.

Representatives of PricewaterhouseCoopers LLP are expected to attend the annual meeting where they will be available to respond to questions and, if they desire, to make a statement.

Agilent s Board recommends a vote FOR the ratification of the

Audit and Finance Committee s appointment of

PricewaterhouseCoopers LLP as Agilent s independent auditors.

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COMMON STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information, as of December 16, 2003, concerning:

beneficial ownership of Agilent s common stock by the Capital Group International, Inc., The David and Lucile Packard Foundation, FMR Corp., Edward C. Johnson 3d, Abigail P. Johnson, as a group, the only beneficial owners known to Agilent to hold more than 5% of Agilent s common stock;

beneficial ownership of Agilent s common stock by each director and each of the executive officers named in the Summary Compensation Table herein; and

beneficial ownership of Agilent s common stock by all directors and executive officers as a group.

The number of shares beneficially owned by each entity, person, director or executive officer is determined under the rules of the SEC and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the individual has the sole or shared voting power or investment power and also any shares which the individual has the right to acquire as of February 14, 2004, 60 days after December 16, 2003, through the exercise of any stock option or other right. Unless otherwise indicated, each person has sole investment and voting power, or shares such powers with his or her spouse, with respect to the shares set forth in the following table.

BENEFICIAL OWNERSHIP TABLE

	Shares of Agilent Beneficially Owned		
Name of Beneficial Owner	**Number**	**Nature**	**Percentage (1)**
Byron J. Anderson	14,196	Direct	
	379,510	Vested Options (2)	
	236	Indirect (3)	
	393,942		*
Edward W. Barnholt	54,114	Direct	
	2,209,072	Vested Options	
	432	Indirect (4)	
	2,263,618		*
Capital Group International, Inc. (5)	30,405,250		6.3%
11100 Santa Monica Blvd, 15th Floor			
Los Angeles, CA 90025-3384			
James G. Cullen	2,000	Direct	

	18,507	Vested Options	
	3,000	Indirect (6)	
	23,507		*
Adrian T. Dillon	80,623	Direct (7)	
	162,500	Vested Options	
	243,123		*
The David and Lucile Packard Foundation (8) 300 Second Street, Suite 200 Los Altos, CA 94022	38,727,525		8.1%

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	Shares of Agilent Beneficially Owned		
Name of Beneficial Owner	Number	Nature	Percentage (1)
FMR Corp., Edward C. Johnson 3d, Abigail P. Johnson, as a group (9) 82 Devonshire Street Boston, MA 02109	35,756,918		7.4%
Robert J. Herbold	5,000	Direct	
	18,503	Vested Options	
	23,503		*
Hewlett Family Accounts (10)			
Walter B. Hewlett	1,027,239	Direct	
	39,198	Vested Options	
	57,121	Indirect (11)	
	1,123,558		*
William R. Hewlett Revocable Trust	5,000,000		1.0%
The William and Flora Hewlett Foundation	5,159,498		1.1%
Packard Humanities Institute	4,910,828		1.0%
Flora Family Foundation	491,128		*
Public Policy Institute of California	194,613		*
Robert L. Joss (12)	2,190	Direct	
	0	Vested Options	
	2,190		*
Koh Boon Hwee (13)	0	Direct	
	0	Vested Options	
	0		*
Heidi Kunz	2,000	Direct	
	19,081	Vested Options	
	21,081		*
David M. Lawrence, M.D.	1,546	Direct	
	53,993	Vested Options	
	3,966	Indirect (14)	
	59,505		*
D. Craig Nordlund	31,280	Direct	
	302,715	Vested Options	
	114	Indirect (15)	
	334,109		*
A. Barry Rand	3,000	Direct	
	23,123	Vested Options	

	26,123		*
William P. Sullivan	4,705	Direct	
	579,656	Vested Options	
	584,361		*
Chris van Ingen	4,783	Direct	
	210,341	Vested Options	
	215,124		*

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Name of Beneficial Owner	Shares of Agilent Beneficially Owned Number	Nature	Percentage (1)
All current directors and executive officers as a group (18 persons) (16)	5,840,758		1.2%

* Represents holdings of less than one percent.

(1) Percentage ownership is calculated based upon 480,041,028 shares of Agilent common stock outstanding on December 16, 2003.

(2) Vested Options are options that may be exercised as of February 14, 2004.

(3) Consists of shares held by Mr. Anderson s son for which Mr. Anderson has no pecuniary interest and disclaims beneficial ownership. Mr. Anderson resigned from his executive officer position with Agilent on February 1, 2003.

(4) Consists of shares held by Mr. Barnholt s son, for which Mr. Barnholt has no pecuniary interest and disclaims beneficial ownership.

(5) The address and number of shares of Agilent common stock beneficially owned by the Capital Group International, Inc. is based on the Schedule 13G filed by the Capital Group International, Inc. with the U.S. Securities and Exchange Commission on February 11, 2003.

(6) Consists of shares held by Mr. Cullen s Family Limited Partnership.

(7) Includes 16,667 shares of restricted stock that are subject to forfeiture upon termination of Mr. Dillon s employment for any reason other than retirement due to age, permanent and total disability or as part of a voluntary separation agreement. The 16,667 shares will be fully vested on December 3, 2004 so long as Mr. Dillon remains continuously employed as Executive Vice President and Chief Financial Officer through December 3, 2004.

(8) The address and number of shares of Agilent common stock beneficially owned by The David and Lucile Packard Foundation is based on the Schedule 13G/A filed by the foundation with the U.S. Securities and Exchange Commission on January 18, 2002.

(9) The address and number of shares of Agilent common stock beneficially owned by FMR Corp., Edward C. Johnson 3d, and Abigail P. Johnson is based on the Schedule 13G/A filed by this group with the U.S. Securities and Exchange Commission on February 13, 2003.

(10) Mr. Hewlett shares voting and investment power over the shares held by the William R. Hewlett Revocable Trust, the Packard Humanities Institute and the Public Policy Institute of California (the PPIC). Mr. Hewlett is a board member of the PPIC. However, Mr. Hewlett has excused himself from any PPIC decisions dealing with Agilent stock. Mr. Hewlett does not have voting or investment power over the shares held by the William and Flora Hewlett Foundation, as voting and investment power is exercised by an independent stock committee. Mr. Hewlett is not a member of the independent stock committee. Mr. Hewlett is the Chair of the Investment Committee of the Flora Family Foundation, but he has excused himself from any Flora Family Foundation decisions dealing with Agilent stock. Mr. Hewlett disclaims any beneficial interest in the foregoing shares, because he has no pecuniary interest in the shares.

(11) Consists of 17,433 shares held by Mr. Hewlett as custodian for his daughter, 19,688 shares held by Mr. Hewlett s spouse, and 20,000 shares held in the James S. Hewlett Trust for which Mr. Hewlett is a trustee.

(12) Mr. Joss joined Agilent s board effective July 16, 2003.

(13) Mr. Koh joined Agilent s board effective May 21, 2003.

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(14) Consists of shares held for the benefit of Dr. Lawrence s children in the Lawrence 2000 Irrevocable Trust of which Dr. Lawrence and his spouse are the trustees.

(15) Consists of 114 shares of Agilent common stock held by Mr. Nordlund as custodian for his three children.

(16) Does not include shares owned by directors and executive officers who served as directors and executive officers during all or part of the 2003 fiscal year but were not serving in that capacity as of December 16, 2003.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), requires Agilent s directors, executive officers and holders of more than 10% of Agilent common stock to file reports with the SEC regarding their ownership and changes in ownership of Agilent stock. Agilent believes that during the 2003 fiscal year, its officers, directors and 10% stockholders complied with all Section 16(a) filing requirements. In making these statements, Agilent has relied upon examination of the copies of Forms 3, 4 and 5 provided to Agilent and the written representations of its directors and officers.

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EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth certain compensation information for (i) the chief executive officer, (ii) the four other executive officers of Agilent who, based on their salary and bonus compensation, were the most highly compensated for the fiscal year ended October 31, 2003 and (iii) one individual who was an executive officer during the fiscal year ended October 31, 2003 and would have been one of the most highly compensated executive officers for the fiscal year ended October 31, 2003 but for the fact that he was not an executive officer as of October 31, 2003 (the Named Executive Officers). All information set forth in this table reflects compensation earned by these individuals for services with Agilent for the fiscal year ended October 31, 2003, as well as their compensation for each of the fiscal years ending October 31, 2002 and October 31, 2001.

		Annual Compensation			Long-Term Compensation		
Name and Principal Position	Year	Salary ($)(1)	Bonus ($)(2)	Other Annual Compensation ($)	Restricted Stock Award(s) ($)(4)	Securities Underlying Options (#)	All Other Compensation ($)(5)
Edward W. Barnholt	2003	$ 1,000,000	$ 333,450	$ 0	$ 0	600,000	$ 8,000
Chairman of the Board, President and Chief Executive Officer	2002	925,000	0	0	0	750,000	8,000
	2001	941,666	0	0	0	500,000	6,800
Adrian T. Dillon	2003	650,000	116,706	639,069(3)	0	250,000	8,000
Executive Vice President,	2002	552,493	650,000	265,713	1,365,000	200,000	5,075
Chief Financial Officer	2001	N/A	N/A	N/A	N/A	N/A	N/A
William P. Sullivan	2003	600,000	107,730	0	0	250,000	8,000
Executive Vice President,	2002	532,500	0	0	0	300,000	3,553
Chief Operating Officer	2001	473,125	0	0	0	200,000	6,800
Chris van Ingen	2003	374,792	121,468	0	0	125,000	8,000
Senior Vice President,	2002	323,750	42,876	0	0	125,000	8,000
Life Science and Chemical Analysis	2001	329,580	0	0	0	125,000	6,800
D. Craig Nordlund	2003	425,004	54,507	0	0	100,000	8,000
Senior Vice President,	2002	393,129	0	0	0	100,000	8,000
General Counsel and Secretary	2001	391,971	0	0	0	150,000	6,800
Byron J. Anderson (6)	2003	525,000	16,160	0	0	125,000	8,000

Senior Vice President,	2002	485,625	0	0	0	175,000	8,000
Electronic Products and Solutions	2001	488,125	0	0	0	75,000	6,800

(1) The salaries for the 2001 fiscal year and the 2002 fiscal year reflect a temporary 10% reduction from April 1, 2001 to July 31, 2002.

(2) For fiscal year 2003, this column reflects the payments under the Agilent Performance-Based Compensation Plan described under Report of the Compensation Committee of the Board on Executive Compensation . For fiscal year 2002, this column reflects a one-time signing bonus of $650,000 paid to Mr. Dillon.

(3) This amount reflects $500,000 of forgiven loan amount, $36,569 of relocation and other expenses, and $102,500 of interest, calculated at the applicable market rate of 5.125% per annum that would have been payable on a $2,000,000 loan from Agilent to Mr. Dillon had the loan not been interest free. See Certain Relationships and Related Transactions .

(4) For fiscal year 2002, the amount disclosed in this column reflects the dollar value of 50,000 shares of restricted stock granted to Mr. Dillon on December 3, 2001. This restricted stock grant was subject to a three year vesting schedule. Thirty-three and one third percent (33 $^{1}/3$%) of 50,000 shares vested as of December 3, 2002 and Mr. Dillon held 33,333 shares of restricted stock with a dollar value of $827,658 as of October 31, 2003. Mr. Dillon will have the right to receive any cash dividends paid to or made with respect to Agilent s common stock.

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(5) Amounts disclosed in this column include payment of Agilent s contributions under the Agilent Technologies, Inc. 401(k) Plan. In fiscal year 2003, Agilent made a 401(k) matching contribution of $8,000 on behalf of each of Messrs. Barnholt, Dillon, Sullivan, Nordlund, van Ingen, and Anderson.

(6) Mr. Anderson resigned from his executive officer position on February 1, 2003.

Option Grants in Last Fiscal Year

The following table shows all grants of options to acquire shares of Agilent common stock granted to the Named Executive Officers listed in the Summary Compensation Table for the fiscal year ended October 31, 2003.

Name	Number of Securities Underlying Options Granted (#)(1)	% of Total Options Granted to Agilent Employees in Fiscal Year	Exercise or Base Price ($/Share)(2)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term ($) 5%(3)	10%(3)
Edward W. Barnholt	600,000	4.76%	$15.89	Nov. 2012	$ 5,995,881	$ 15,194,741
Adrian T. Dillon	250,000	1.98%	$15.89	Nov. 2012	2,498,284	6,331,142
William P. Sullivan	250,000	1.98%	$15.89	Nov. 2012	2,498,284	6,331,142
Chris van Ingen	125,000	0.99%	$15.89	Nov. 2012	1,249,142	3,165,571
D. Craig Nordlund	100,000	0.79%	$15.89	Nov. 2012	999,314	2,532,457
Byron J. Anderson	125,000	0.99%	$15.89	Nov. 2012	1,249,142	3,165,571

(1) The options granted are exercisable 25% after the first year, 50% after the second year, 75% after the third year, and 100% after the fourth year.

(2) The options were granted at an exercise price equal to the fair market value of Agilent common stock on the grant date, calculated as the average of the high and low market price on that date.

(3) Potential realizable value assumes that the common stock appreciates at the rate shown (compounded annually) from the grant date until the option expiration date. It is calculated based on the SEC requirements and does not represent the estimated growth of the future stock price by Agilent nor the present value of the stock options.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table shows aggregate exercises of options to purchase Agilent s common stock in the fiscal year ended October 31, 2003 by the Named Executive Officers.

Name	Year	Shares Acquired	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal	Value of Unexercised In-The-Money Options at Fiscal Year-End ($)(1)

		on Exercise (#)	($)	Year-End (#)			
				Exercisable	Unexercisable	Exercisable	Unexercisable
Edward W. Barnholt (2)	2003	86,755	$ 588,199	1,559,072	1,600,000	$ 892,709	$ 5,364,000
Adrian T. Dillon	2003	0	0	50,000	400,000	0	2,235,000
William P. Sullivan	2003	0	0	354,656	612,500	0	2,235,000
Chris van Ingen	2003	0	0	125,341	263,750	18,703	1,117,500
D. Craig Nordlund	2003	0	0	197,715	273,750	0	894,000
Byron J. Anderson	2003	0	0	260,760	318,750	0	1,117,500

(1) The value of unexercised Agilent options is based on the difference between the exercise price and the average of the high and low market prices of Agilent common stock on October 31, 2003 of $24.83.

(2) The option that Mr. Barnholt exercised was due to expire on November 17, 2003.

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Pension Plans

The following table shows the estimated annual benefits payable on retirement to Agilent s eligible employees in the United States under the Agilent Technologies, Inc. Deferred Profit Sharing Plan (the Deferred Profit Sharing Plan), Agilent s Retirement Plan (the Retirement Plan) and Agilent s Excess Benefit Retirement Plan (the Excess Benefit Plan). To calculate the number of years of an eligible employee s service, the pension plans will bridge each eligible employee s service with Hewlett-Packard Company to that eligible employee s service with Agilent.

ESTIMATED ANNUAL RETIREMENT BENEFITS

Highest Five-Year Average Compensation	15 Years of Service	20 Years of Service	25 Years of Service	30 Years of Service
$ 400,000	$ 86,054	$ 114,738	$ 143,423	$ 172,107
500,000	108,554	144,738	180,923	217,107
600,000	131,054	174,738	218,423	262,107
700,000	153,554	204,738	255,923	307,107
800,000	176,054	234,738	293,423	352,107
900,000	198,554	264,738	330,923	397,107
1,000,000	221,054	294,738	368,423	442,107
1,100,000	243,554	324,738	405,923	487,107
1,200,000	266,054	354,738	443,423	532,107

For fiscal year 2003, benefits exceeding $160,000 will be paid pursuant to the Excess Benefit Plan. No more than $200,000 (as adjusted from time to time by the U.S. Internal Revenue Service (IRS)) of eligible compensation may be taken into account in calculating benefits payable under the Retirement Plan or the Deferred Plan. Benefits attributable to annual earnings over $200,000 are payable under the Excess Benefit Plan. Benefits payable under the Excess Benefit Plan are available in a lump sum or up to 15 annual installments.

The compensation used to determine the benefits summarized in the table above equals base pay, without deducting for the 10% temporary salary reduction from April 2001 to July 2002. The covered compensation for each of the Named Executive Officers is the highest five-year average of such base pay for such Named Executive Officer.

Named Executive Officers have been credited with the following years of service as of October 31, 2003: Mr. Barnholt, 30 years; Mr. Sullivan, 27 years; Mr. van Ingen, 26 years; Mr. Nordlund, 27 years; Mr. Anderson, 30 years; and Mr. Dillon, 2 years. Retirement benefits shown are expressed as a single life annuity at age 65 and reflect the maximum offset currently in effect under Section 401(l) of the Internal Revenue Code of 1986, as amended (the Code), to compute the offset for such benefits under the pension plan. For purposes of calculating the benefit, an employee cannot be credited with more than 30 years of service. Benefits under the Retirement Plan are payable in the form of a single life annuity, a qualified joint and survivor annuity or a lump sum.

Certain Relationships and Related Transactions

On February 5, 2002, Agilent made a relocation loan to Mr. Adrian T. Dillon, Executive Vice President and Chief Financial Officer, as part of the employment package required to induce Mr. Dillon to join Agilent and move from Cleveland, Ohio to the San Francisco Bay Area. In place of a standard relocation bonus, Agilent provided a loan of $2.5 million to be used for the purchase of a home. Provided that Mr. Dillon remains at Agilent, the loan will be forgiven over a five-year period at 20% per year. The loan is secured by a deed of trust on the house. The unforgiven portion of the note plus 10% per annum interest will be due in full (i) upon insolvency of Mr. Dillon, (ii) upon any

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transfer of the property without the prior written consent of Agilent, (iii) within three months of termination of employment for any reason and (iv) within one year following the death of Mr. Dillon. If the amount due is not paid within five (5) days of the due date, at the option of Agilent, the unforgiven portion shall begin to accrue interest equal to 15% per annum. In accordance with the Sarbanes-Oxley Act, Agilent will not materially modify or renew this loan and, in the future, will not provide any new loans to its executive officers as required under the Sarbanes-Oxley Act.

During the 2003 fiscal year, Agilent had a contract with Fidelity Employer Services Company LLC (FESCO) pursuant to which FESCO provided payroll and benefits administration services to Agilent. In fiscal year 2003, Agilent paid FESCO $8.7 million for services rendered under the contract. FESCO is an indirect subsidiary of FMR Corp. and, as of December 16, 2003, FMR Corp. beneficially owned more than five percent of Agilent s common stock.

Change of Control Arrangements

Each of Messrs. Barnholt, Dillon, Sullivan, Anderson, Nordlund and van Ingen, as well as four other executive officers who are not Named Executive Officers, has signed a Change of Control Severance Agreement. Under these agreements, in the event that within 24 months of a change of control of Agilent, Agilent or its successor terminates the employment of such an executive without cause or an event constituting good reason occurs and the executive resigns within 3 months of such an event, the executive will be entitled to: (i) two times, and with respect to Mr. Barnholt, three times the sum of such executive s base salary and target bonus, (ii) payment of COBRA continuation premiums for up to 12 months, (iii) full vesting of all outstanding options and restricted stock awards and (iv) a prorated portion of any bonus for the performance period in which the termination occurs. To the extent that the payment of these benefits trigger the excise tax under Section 4999 of the Code or any comparable federal, state, local or foreign excise tax, Agilent will pay Mr. Barnholt an additional amount to cover all additional tax liability arising from the application of such excise tax.

In exchange for such consideration, each executive has agreed (i) to execute a release of all of the executive s rights and claims relating to his employment, (ii) not to solicit any of Agilent s or its successor s employees for 2 years and (iii) not to compete for 1 year with up to 15 competitors of Agilent or its successor, as determined by Agilent or its successor.

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REPORT OF THE COMPENSATION COMMITTEE

OF THE BOARD ON EXECUTIVE COMPENSATION

Agilent s executive compensation program is administered by the Compensation Committee of the Board (the Compensation Committee). The Compensation Committee, which is composed of non-employee directors, is responsible for approving and reporting to the Board on all elements of compensation for the elected corporate officers. The Compensation Committee has furnished the following report on executive compensation for fiscal year 2003.

Compensation Philosophy

The goal of the executive compensation program is to provide a total compensation package composed of pay, stock and benefits. The total package reflects Agilent s performance and is designed to inspire and reward superior performance by executives, business organizations and Agilent.

Executive Compensation Practices

Each year the Compensation Committee surveys the executive compensation practices of selected S&P 500 High Technology companies. The Compensation Committee s practice is to target direct compensation levels for Agilent s executives at the 50th percentile of total direct compensation of surveyed companies. Total direct compensation includes base pay, short-term bonus at target and long-term incentives. Overall, individual performance is measured against the following factors; these factors may vary as required by business conditions:

- long-term strategic goals;
- short-term business goals;
- revenue and profit goals;
- customer satisfaction;
- new business creation;
- total stockholder return;
- the development of employees; and

- the fostering of teamwork and other Agilent values.

In setting the goals and measuring an executive s performance against those goals, Agilent considers the performance of its competitors and general economic and market conditions. None of the factors included in Agilent s strategic and business goals are assigned a specific weight. Instead, the Compensation Committee recognizes that the relative importance of these factors may change in order to adapt Agilent s operations to specific business challenges and to reflect changing economic and marketplace conditions.

Components of Executive Compensation

The compensation program for executive officers consists of the following four components:

- base pay;
- short-term bonus;
- long-term incentives; and
- benefits.

Base Pay

Base pay is baseline cash compensation and is determined by the competitive market and individual performance. Base pay for each executive officer is established each year based on a salary range that corresponds to the executive officer s job responsibilities and the executive officer s overall individual job performance.

Short-Term Bonus

The Agilent Technologies, Inc. Performance-Based Compensation Plan for Covered Employees (Performance-Based Compensation Plan) provides for cash compensation to be paid semi-annually when performance targets are achieved. During fiscal year 2003, the executive officers participated in the Performance-Based Compensation Plan. Actual bonuses paid to executive officers are based on achievement of profit, revenue, and return on invested capital goals established for each performance period.

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Long-Term Incentives

The long-term incentive program is designed to encourage creation of long-term value for our stockholders and equity ownership by our executives. During fiscal year 2003, Agilent made stock option grants to Agilent s executive officers under the Stock Plan. Each grant allows the officer to acquire shares of Agilent s common stock, subject to the completion of a four-year vesting period, and continued employment with Agilent. These shares may be acquired at a fixed price per share (the market price on the grant date) over a ten-year period. An executive s grant amount, if any, is based on competitive market conditions, the position of the executive and individual and business unit performance.

Benefits

The global benefits philosophy provides employees protection from catastrophic events and offers health and welfare benefits typical in the given country in which Agilent operates. Where applicable, employees are responsible for managing benefit choices, balancing their own level of risk and return. During fiscal year 2003, Agilent offered medical and other benefits to its executives that are generally available to other Agilent employees.

Policy Regarding Compensation in Excess of $1 Million a Year

Section 162(m) of the Code generally disallows a tax deduction for compensation in excess of $1 million paid to Agilent s Named Executive Officers. Certain compensation is specifically exempt from the deduction limit to the extent that it does not exceed $1 million during any fiscal year or is performance based as defined in Section 162(m) of the Code. The Compensation Committee considers the net cost to Agilent. Accordingly, the Stock Plan and the Performance-Based Compensation Plan (the annual variable pay plan) have been designed to qualify under Section 162(m) of the Code.

Stock Ownership Guidelines

Agilent s stock ownership guidelines are designed to increase an executive s equity stake in Agilent and more closely align his or her interests with those of our other stockholders. The guidelines provide that the President and Chief Executive Officer should attain an investment level in Agilent s stock equal to five times his annual salary, including direct ownership of at least 20,000 shares of Agilent stock. All other executive officers should attain an investment level equal to three times their annual salary, including direct ownership of at least 15,000 shares for the Chief Financial Officer and Chief Operating Officer and at least 10,000 shares for all other executive officers. In each case, such investment levels must be attained within five years of the election to their executive officer positions or the end of fiscal year 2007, if later.

Compensation for the Chief Executive Officer

Edward W. Barnholt has served as President and Chief Executive Officer since May 4, 1999, and as Chairman of the Board since November 21, 2002. The Compensation Committee used the executive compensation practices described above to determine Mr. Barnholt s fiscal year 2003 compensation. In setting both the cash-based and equity-based elements of Mr. Barnholt s compensation, the Compensation Committee made an overall assessment of Mr. Barnholt s leadership in establishing Agilent s long-term and short-term strategic, operational and business goals. Mr. Barnholt s total compensation reflects a consideration of both competitive forces and Agilent s performance.

The Compensation Committee surveyed the total direct compensation for chief executive officers of selected high technology companies. Based on this information, the Compensation Committee determined a median around which the Compensation Committee built a competitive range for cash-based and equity-based elements of the compensation package. As a result of this review, the Compensation Committee determined a mix of base salary and bonus opportunity, along with an equity position to align Mr. Barnholt s compensation with the performance of Agilent. The resulting total compensation package was competitive for CEOs running companies comparable in size and complexity to Agilent.

Additionally, as part of the review process, the Compensation Committee assessed Agilent s

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financial and business results compared to other companies within the high-technology industry; Agilent s financial performance relative to its financial performance in prior periods; Agilent s market competitiveness as measured by customer feedback, new business creation and product generation; and the health of the Agilent organization as measured by employee surveys and the ability to attract and retain key talent.

For fiscal year 2003, the specific recommendation for Mr. Barnholt positioned his target total cash compensation at $2,300,000: base salary remained at $1,000,000, with a $1,300,000 bonus opportunity under the Performance-Based Compensation Plan. The bonus opportunity could have increased to $2,600,000 if maximum performance objectives were achieved. Consistent with the Performance-Based Compensation Plan, the performance objectives were based on Agilent s profit, revenue and return on invested capital goals.

In determining the stock option grant for Mr. Barnholt, the Compensation Committee evaluated his total direct compensation compared to CEO s of comparable companies and determined that an award of a non-qualified stock option to purchase 600,000 shares of Agilent common stock was appropriate.

Submitted by:

Compensation Committee

James G. Cullen, Chairperson

Koh Boon Hwee

David M. Lawrence, M.D.

A. Barry Rand

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The members of the Compensation Committee are set forth in the preceding section. There are no members of the Compensation Committee who were officers or employees of Agilent or any of its subsidiaries during the fiscal year, formerly officers of Agilent, or had any relationship otherwise requiring disclosure hereunder.

AUDIT AND FINANCE COMMITTEE REPORT

During fiscal year 2003, the Audit and Finance Committee of the Board reviewed the quality and integrity of Agilent s financial statements, its compliance with legal and regulatory requirements, the qualifications and independence of its independent auditors, the performance of its internal audit function and independent auditors and other significant financial matters. Each of the Audit and Finance Committee members satisfies the definition of independent director as established in the NYSE corporate governance listing standards. During the year, in accordance with section 407 of the Sarbanes-Oxley Act of 2002, Agilent identified Heidi Kunz as the Audit and Finance Committee s Financial Expert . Agilent operates with a November 1 to October 31 fiscal year. The Audit and Finance Committee met ten times, including telephone meetings, during the 2003 fiscal year.

The Board adopted a written charter for the Audit and Finance Committee on May 17, 2000, which was subsequently amended on November 20, 2002. The Committee operated under that charter during the 2003 fiscal year. The Audit and Finance Committee has reviewed the relevant requirements of the Sarbanes-Oxley Act, the revised rules of the SEC and the new corporate governance listing standards of the NYSE regarding audit committee policies. The Board adopted an amendment to the Committee s charter on November 18, 2003 to implement these new rules and standards. A copy of this amended charter is attached to this proxy statement.

The Audit and Finance Committee intends to further amend its charter, if necessary, as the rules and standards evolve to reflect any addi-

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tional requirements or changes. You can access the latest charter in the Corporate Governance Policies section which is near the bottom of the webpage at www.investor.agilent.com or by writing to us at Agilent Technologies, Inc., 395 Page Mill Road, Palo Alto, California 94306, Attention: Investor Relations.

The Audit and Finance Committee has reviewed Agilent s audited consolidated financial statements and discussed such statements with management. The Audit and Finance Committee has discussed with PricewaterhouseCoopers LLP, Agilent s independent auditors during the 2003 fiscal year, the matters required to be discussed by Statement of Auditing Standards No. 61 (Communication with Audit Committees), as amended.

The Audit and Finance Committee has received and reviewed the written disclosures and the letter from PricewaterhouseCoopers LLP required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and has discussed with PricewaterhouseCoopers LLP its independence from Agilent. Based on the review and discussions noted above, the Audit and Finance Committee recommended to the Board that Agilent s audited consolidated financial statements be included in Agilent s Annual Report on Form 10-K for the fiscal year ended October 31, 2003, and be filed with the SEC.

Submitted by:

Audit and Finance Committee

Heidi Kunz, Chairperson

Robert J. Herbold

Walter B. Hewlett

Robert L. Joss

Fees Paid to PricewaterhouseCoopers LLP

The following table sets forth the aggregate fees billed by PricewaterhouseCoopers LLP for audit services rendered in connection with the consolidated financial statements and reports for fiscal year 2003 and for other services rendered during fiscal year 2003 on behalf of Agilent and its subsidiaries, as well as all out-of-pocket costs incurred in connection with these services, which have been billed to Agilent:

Fee Category:	**Fiscal 2003**	**% of Total**	**Fiscal 2002**	**% of Total**
Audit Fees	$ 4,072,000	69.4	$ 4,384,000	36.1
Audit-Related Fees	390,000	6.6	318,000	2.6

Tax Fees:				
Tax compliance/preparation	1,305,000	22.2	7,291,000	60.0
Other tax services	100,000	1.7	149,000	1.2
Total Tax Fees	1,405,000	23.9	7,440,000	61.2
All Other Fees	4,000	0.1	12,000	0.1
Total Fees	$ 5,871,000	100.0	$ 12,154,000	100.0

Audit Fees: Consists of fees billed for professional services rendered for the audit of Agilent s consolidated financial statements and review of the interim condensed consolidated financial statements included in quarterly reports and services that are normally provided by PricewaterhouseCoopers LLP in connection with statutory and regulatory filings or engagements, and attest services, except those not required by statute or regulation.

Audit-Related Fees: Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of Agilent s consolidated financial statements and are not reported under Audit Fees . These services include employee benefit plan audits, accounting consultations in connection with acquisitions and divestitures, attest services that are not required by statute or regulation, and consultations concerning financial accounting and reporting standards.

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Tax Fees: Consists of tax compliance/preparation and other tax services. Tax compliance/preparation consists of fees billed for professional services related to federal, state and international tax compliance, assistance with tax audits and appeals, assistance with customs and duties audits, expatriate tax services, and assistance related to the impact of mergers, acquisitions and divestitures on tax return preparation. Other tax services consist of fees billed for other miscellaneous tax consulting and planning and for individual income tax preparation.

All Other Fees: Consists of fees for all other services other than those reported above. These services include benchmarking surveys and specialized consulting. Agilent s intent is to minimize services in this category.

In making its recommendation to ratify the appointment of PricewaterhouseCoopers LLP as Agilent s independent auditors for the fiscal year ending October 31, 2004, the Audit and Finance Committee has considered whether services other than audit and audit-related provided by PricewaterhouseCoopers LLP are compatible with maintaining the independence of PricewaterhouseCoopers LLP.

Audit and Finance Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The Audit and Finance Committee pre-approves all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. The Audit and Finance Committee has adopted a policy for the pre-approval of services provided by the independent auditors. Under the policy, pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is subject to a specific budget. In addition, the Audit and Finance Committee may also pre-approve particular services on a case-by-case basis. For each proposed service, the independent auditor is required to provide detailed back-up documentation at the time of approval. The Audit and Finance Committee may delegate pre-approval authority to one or more of its members. Such a member must report any decisions to the Audit and Finance Committee at the next scheduled meeting.

Incorporation by Reference

The Report of the Compensation Committee of the Board on Executive Compensation and the Audit and Finance Committee Report (including reference to the independence of the Audit and Finance Committee members) above and the Stock Price Performance Graph on the following page, are not deemed filed with the SEC and shall not be deemed incorporated by reference into any prior or future filings made by Agilent under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that Agilent specifically incorporates such information by reference.

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STOCK PRICE PERFORMANCE GRAPH

The graph below shows the four-year cumulative total stockholder return assuming the investment of $100 (and the reinvestment of any dividends thereafter) on November 18, 1999, the first trading day of Agilent s common stock, in each of Agilent s common stock, the S&P 500 Index, and a peer group, based on the S&P Information Technology Index.[1] Agilent s stock price performance shown in the following graph is not indicative of future stock price performance.

Comparison of 4 Years (11/18/99 to 10/31/03) Cumulative Total Return Among

Agilent Technologies, The S&P 500 Index, and

The S&P Information Technology Peer Group Composite

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(1) The current peer group is composed of companies that are members of the S&P Information Technology Index and are in sectors related to Agilent s businesses. The sectors are: Electronic Equipment Manufacturers (excluding Agilent), Semiconductor Equipment, Semiconductors, and Communications Equipment. These sectors are selected by Agilent with the underlying companies chosen and maintained by S&P. S&P combined the Networking Equipment and Telecommunications Equipment sectors shown in last year s proxy into the Communications Equipment sector shown below. S&P also divided the Electronic Equipment and Instruments sector shown in last year s proxy into the Electronic Equipment Manufacturers sector shown below and the Electronic Manufacturing Services sector which we did not retain, because it represents a line of business Agilent does not participate in.

Electronic Equipment Manufacturers	Semiconductor Equipment	Semiconductors	Communications Equipment
PerkinElmer Inc.	Applied Materials, Inc.	Advanced Micro Devices Inc.	ADC Telecommunications Inc.
Symbol Technologies	KLA-Tencor Corp.	Altera Corp.	Andrew Corp.
Tektronix Inc.	Novellus Systems Inc.	Analog Devices	Avaya Inc.
Thermo Electron Corp.	Teradyne Inc.	Applied Micro Circuits Corp.	Ciena Corp.
Waters Corp.		Broadcom Corp.	Cisco Systems Inc.
		Intel Corp.	Comverse Technology Inc.
		Linear Technology Corp.	Corning Inc.
		LSI Logic Corp	JDS Uniphase Corp.
		Maxim Integrated Products	Lucent Technologies Inc.
		Micron Technology Inc.	Motorola Inc.

National Semiconductor Corp.	Qlogic Corp.
Nvidia Corp.	Qualcomm Inc.
PMC-Sierra Inc.	Scientific-Atlanta Inc.
Texas Instruments Inc.	Tellabs Inc.
Xilinx Inc.	

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ADDITIONAL QUESTIONS AND INFORMATION REGARDING

THE ANNUAL MEETING AND STOCKHOLDER PROPOSALS

Q: What happens if additional proposals are presented at the annual meeting?

A: Other than the two proposals described in this proxy statement, Agilent does not expect any matters to be presented for a vote at the annual meeting. If you grant a proxy, the persons named as proxy holders, Edward W. Barnholt, Agilent s Chairman of the Board, President and Chief Executive Officer, and D. Craig Nordlund, Agilent s Senior Vice President, General Counsel and Secretary, will have the discretion to vote your shares on any additional matters properly presented for a vote at the annual meeting. If for any unforeseen reason any of Agilent s nominees is not available as a candidate for director, the persons named as proxy holders will vote your proxy for such other candidate or candidates as may be nominated by the Board.

Q: What class of shares is entitled to be voted?

A: Each share of Agilent s common stock outstanding as of the close of business on January 5, 2004, the Record Date, is entitled to one vote at the annual meeting. On the Record Date, Agilent had approximately 480,149,944 shares of common stock issued and outstanding.

Q: What is the quorum requirement for the annual meeting?

A: The quorum requirement for holding the annual meeting and transacting business is a majority of the outstanding shares entitled to be voted. The shares may be present in person or represented by proxy at the annual meeting. Both abstentions and broker non-votes are counted as present for the purpose of determining the presence of a quorum. Broker non-votes, however, are not counted as shares present and entitled to be voted with respect to the matter on which the broker has expressly not voted. Thus, broker non-votes will not affect the outcome of any of the matters being voted on at the annual meeting. Generally, broker non-votes occur when shares held by a broker for a beneficial owner are not voted with respect to a particular proposal because (1) the broker has not received voting instructions from the beneficial owner and (2) the broker lacks discretionary voting power to vote such shares.

Q: Who will count the vote?

A: A representative of Computershare Investor Services will tabulate the votes and act as the inspector of election.

Q: Is my vote confidential?

A: Proxy instructions, ballots and voting tabulations that identify individual stockholders are handled in a manner that protects your voting privacy**.** Your vote will not be disclosed either within Agilent or to third parties except (1) as necessary to meet ***applicable*** legal requirements, (2) to allow for the tabulation of votes and certification of the vote, or (3) to facilitate a successful proxy solicitation by the Board. Occasionally, stockholders provide written comments on their proxy card, which are then forwarded to Agilent s management.

Q: Who will bear the cost of soliciting votes for the annual meeting?

A: Agilent will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials. In addition to the mailing of these proxy materials, the solicitation of proxies or votes may be made in person, by telephone or by electronic communication by

Agilent s directors, officers, and employees, who will not receive any additional compensation for such solicitation activities. Agilent has retained the services of Georgeson Shareholder Communications, Inc. (Georgeson) to aid in the solicitation of proxies. Agilent estimates that it will pay Georgeson a fee of $ 11,000 for its services

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plus per call fees for any individual solicitations and reasonable out-of-pocket expenses. In addition, Agilent may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation material to such beneficial owners.

Q: May I propose actions for consideration at next year s annual meeting of stockholders or nominate individuals to serve as directors?

A: You may submit proposals for consideration at future annual stockholder meetings, including director nominations.

Stockholder Proposals: In order for a stockholder proposal to be considered for inclusion in Agilent s proxy statement for next year s annual meeting, the written proposal must be received by Agilent no later than September 16, 2004 and should contain such information as is required under Agilent s Bylaws. Such proposals will need to comply with the SEC s regulations regarding the inclusion of stockholder proposals in Agilent-sponsored proxy materials. In order for a stockholder proposal to be raised from the floor during next year s annual meeting, written notice must be received by Agilent no later than September 16, 2004 and should contain such information as required under Agilent s Bylaws. If we do not receive notice of your proposal within this time frame, our management will use its discretionary authority to vote the shares it represents as the Board may recommend.

Nomination of Director Candidates: Agilent s Bylaws permit stockholders to nominate directors at a stockholder meeting. In order to make a director nomination at an annual stockholder meeting, it is necessary that you notify Agilent not fewer than 120 days before the first anniversary of the date that the proxy statement for the preceding year s annual meeting was first sent to stockholders. Agilent s 2004 Proxy Statement was first sent to stockholders on January 14, 2004. Thus, in order for any such nomination notice to be timely for next year s annual meeting, it must be received by Agilent not later than September 16, 2004. In addition, the notice must meet all other requirements contained in Agilent s Bylaws and include any other information required pursuant to Regulation 14A under the Exchange Act.

Copy of Bylaw Provisions: You may contact the Agilent Corporate Secretary at Agilent s corporate headquarters for a copy of the relevant Bylaw provisions regarding the requirements for making stockholder proposals and nominating director candidates.

Q: How do I obtain a separate set of voting materials if I share an address with other stockholders?

A: To reduce expenses, in some cases, we are delivering one set of voting materials to certain stockholders who share an address, unless otherwise requested by one or more of the stockholders. A separate proxy card is included in the voting materials for each of these stockholders. If you have only received one set, you may request separate copies of the voting materials at no additional cost to you by calling us at (650) 752-5522 or by writing to us at Agilent Technologies, Inc., 395 Page Mill Road, Palo Alto, California 94306, Attn: Shareholder Records. You may also contact us by calling or writing if you would like to receive separate voting materials for future annual meetings.

Q: If I share an address with other stockholders of Agilent, how can we get only one set of voting materials for future meetings?

A: You may request that we send you and the other stockholders who share an address with you only one set of voting materials by calling us at (650) 752-5522 or by writing to us at: Agilent Technologies, Inc., 395 Page Mill Road, Palo Alto, California 94306, Attn: Shareholder Records.

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YOU MAY RECEIVE A COPY OF AGILENT S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED OCTOBER 31, 2003 WITHOUT CHARGE BY SENDING A WRITTEN REQUEST TO AGILENT TECHNOLOGIES, INC., 395 PAGE MILL ROAD, PALO ALTO, CALIFORNIA 94306, ATTN: INVESTOR RELATIONS.

By Order of the Board

D. CRAIG NORDLUND

Senior Vice President, General Counsel

and Secretary

Dated: January 7, 2004

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APPENDIX A

AUDIT AND FINANCE COMMITTEE CHARTER

I. MEMBERSHIP

A. The Audit and Finance Committee (the Committee) of the Board of Directors (the Board) shall consist of at least three directors whose qualifications include financial literacy and independence as determined under the Sarbanes-Oxley Act (the Act) and applicable rules of the New York Stock Exchange (NYSE) and the Securities and Exchange Commission (SEC). At least one member of the Committee must be an audit committee financial expert and have accounting or related financial management expertise under the requirements of the Act and the applicable rules of the NYSE and SEC. No member of the Committee may serve on the audit committee of more than three public companies, including the Company, unless the Board of Directors determines that such simultaneous service will not impair the ability of such member to effectively serve on the committee.

B. No member of the Committee shall receive compensation other than director s fees for service as a director of the Company, including reasonable compensation for serving on the Committee and regular benefits that other directors receive.

II. PURPOSE

A. The Committee serves as the representative of the Board for the general oversight of Company affairs relating to:

1. The quality and integrity of the Company s financial statements,
2. The Company s compliance with legal and regulatory requirements,
3. The independent auditor s qualifications and independence, and
4. The performance of the Company s internal audit function and independent auditors.

B. Through its activities, the Committee facilitates open communication among directors, independent auditors, the internal auditor and management by meeting in private session regularly with these parties.

C. The Committee also provides oversight regarding significant financial matters, including borrowings, currency exposures, dividends, share issuance and repurchases, and the financial aspects of the Company s benefit plans.

III. MEETINGS AND PROCEDURES

A. The Committee shall convene at least four times each year.

B It shall endeavor to determine that auditing procedures and controls are adequate to safeguard Company assets and to assess compliance with Company policies and legal requirements.

C. The Committee shall be given full access to the Company s internal auditors, Board Chairman, Company executives and independent auditors. When any audit has been prepared by a registered public accounting firm for the Company, the Committee shall timely receive a report from such firm on (1) all critical accounting policies and practices; (2) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management officials of the issuer, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the registered public accounting firm; and (3) other material written communications between the registered public accounting firm and company management, such as any management letter or schedule of unadjusted differences.

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IV. RESPONSIBILITIES

A. The Committee shall:

1. Have the sole authority to appoint, retain, compensate, oversee, evaluate and, where appropriate, replace the independent auditor.

2. Annually review and approve the proposed scope of each fiscal year s internal and outside audit at the beginning of each new fiscal year.

3. Inform each registered public accounting firm performing audit, review or attest work for the Company that such firm shall report directly to the Committee.

4. Directly oversee the work of any registered public accounting firm employed by the Company, including the resolution of any disagreement between management and the auditor regarding financial reporting, for the purpose of preparing or issuing an audit opinion or related work.

5. Review and approve in advance any audit and non-audit services and fees to be provided by the Company s independent auditor, other than prohibited non-auditing services as specified in the Act and the applicable rules of the SEC. The Committee has the sole authority to make these approvals, although such approval may be delegated to any committee member so long as the approval is presented to the full Committee at a later time.

6. At, or shortly after the end of each fiscal year, review with the independent auditor, the internal auditor and Company management, the audited financial statements and related opinion and costs of the audit of that year.

7. Annually obtain and review a report by the independent auditor describing: the audit firm s internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, regarding one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and, to assess the auditor s independence, all relationships between the independent auditor and the Company.

8. Review funding and investment policies, implementation of funding policies and investment performance of the Company s benefit plans.

9. Provide any recommendations, certifications and reports that may be required by the NYSE or the SEC including the report of the Committee that must be included in the Company s annual proxy statement.

10. Review and discuss the annual audited financial statements and quarterly financial statements with management and the independent auditor.

11. Discuss with management the type of presentation and type of information to be included in the Company s earnings press releases and the financial information and earnings guidance provided to analysts and rating agencies.

12. Establish and oversee procedures for (a) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and (b) the confidential anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

13. Have the authority to engage independent counsel and other advisers as it determines necessary to carry out its duties. The Company shall provide for appropriate funding, as determined by the Committee, in its capacity as a committee of the Board of Directors, for payment of compensation to any advisers employed by the Committee and to the independent auditor employed by the Company for the purpose of rendering or issuing an audit report or

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performing other audit, review or attest services and ordinary administrative expenses of the audit committee that are necessary or appropriate in carrying out its duties.

14. Ensure the rotation of the audit partners of the Company s independent auditor as defined in and as required by the Act and the rules of the SEC.

15. Confirm with any independent auditor retained to provide audit services for any fiscal year that the lead (or coordinating) audit partner (having primary responsibility for the audit), or the audit partner responsible for reviewing the audit, has not performed audit services for the Company in each of the five previous fiscal years of the Company and that the firm meets all legal and professional requirements for independence.

16. Discuss with management and the independent auditor the Company s policies with respect to risk assessment and risk management.

17. Meet separately, periodically, with management, with internal auditors and with the independent auditor.

18. In consultation with the independent auditor, management and the internal auditors, review the integrity of the Company s financial reporting process.

19. Review periodically major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company s selection or application of accounting principles, and major issues as to the adequacy of the Company s internal controls and any special audit steps adopted in light of material control deficiencies; analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements; and the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company.

20. Review with the independent auditor (a) any audit problems or other difficulties encountered by the auditor in the course of the audit process, including any restrictions on the scope of the independent auditor s activities or on access to requested information, and any significant disagreements with management and (b) management s responses to such matters.

21. Review and discuss with the independent auditor the responsibility, budget and staffing of the Company s internal audit function.

22. Set clear hiring policies for employees or former employees of the independent auditor in accordance with the standards set forth in the Act and the rules of the SEC.

23. Report regularly to the Board of Directors. Such report to the Board of Directors may take the form of an oral report by the Chairman or any other member of the Committee designated by the Committee to make such report.

24. Perform a review and evaluation, at least annually, of the performance of the Committee. In addition, the Committee shall review and reassess, at least annually, the adequacy of this Charter and recommend to the Board of Directors any improvements to this Charter that the Committee considers necessary or valuable. The Committee shall conduct such evaluations and reviews in such manner as it deems appropriate.

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PROXY

Agilent Technologies, Inc.

Annual Meeting of Stockholders March 2, 2004

This Proxy is solicited on Behalf of the Board of Directors.

The undersigned hereby appoints Edward W. Barnholt and D. Craig Nordlund, and each of them, as proxies for the undersigned, with full power of substitution, to act and to vote all the shares of Common Stock of Agilent Technologies, Inc. held of record by the undersigned on January 5, 2004, at the Annual Meeting of Stockholders to be held on Tuesday, March 2, 2004, or any adjournment thereof.

IMPORTANT This Proxy must be signed and dated on the reverse side.

Address Changes/Comments:

(If you noted any address changes/comments above, please mark corresponding box on other side.)

(Continued and to be voted on reverse side.)

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If you vote by telephone or the Internet, **DO NOT** mail back the proxy card.

THANK YOU FOR VOTING!

YOU CAN VOTE YOUR SHARES BY

TELEPHONE OR INTERNET!

QUICK EASY IMMEDIATE AVAILABLE 24 HOURS A DAY

7 DAYS A WEEK

AGILENT TECHNOLOGIES, INC. encourages you to take advantage of convenient ways to vote your shares. If voting by proxy, you may vote by mail, or choose one of the two methods described below. Your telephone or Internet vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed, and returned your proxy card. To vote by telephone or Internet, read the 2004 proxy statement and then follow these easy steps:

VOTE BY INTERNET www.computershare.com/us/proxy

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you access the web site. You will be prompted to enter the 5-digit number which is located below to obtain your records and to create an electronic voting instruction form.

VOTE BY PHONE 1-888-726-7790

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you call. You will be prompted to enter the 5-digit number which is located below and then follow the simple instructions the Vote Voice provides you.

VOTE BY MAIL

Mark, sign, and date your proxy card and return it in the postage-paid envelope we have provided or return it to Agilent Technologies, Inc., c/o Computershare Investor Services, P.O. Box 2000, Bedford Park, IL 60499-9910

TO VOTE, MARK BLOCKS BELOW IN

BLUE OR BLACK INK AS FOLLOWS: AGTEC1 KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED

AGILENT TECHNOLOGIES, INC.

The Board of Directors Recommends a Vote

FOR the listed nominees.

1. Election of Directors

			For	**Withhold**
Nominees:	01)	James G. Cullen	..	..
	02)	Robert L. Joss	..	..
	03)	Walter B. Hewlett	..	..

The Board of Directors Recommends a Vote FOR the following proposal.

2. The ratification of the Audit and Finance Committee s appointment of independent auditors PricewaterhouseCoopers LLP.

For	**Against**	**Abstain**
..	..	..

In their discretion the Proxies are authorized to vote upon such other business as may properly come before the Annual Meeting.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED STOCKHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR ITEMS 1 AND 2.

Please sign exactly as your name or names appear above. For joint accounts, each owner should sign. When signing as executor, administrator, attorney, trustee or guardian, etc., please give your full title.

HOUSEHOLDING ELECTION

Mark FOR to enroll this account to receive certain future investor communications in a single package per household. Mark AGAINST if you do not want to participate. See enclosed notice.

	For	Against
To change your election in the future, call 1-800-542-1061.	¨	¨

If you have Address Change or Comments, please check the box to the right, and note on the reverse side. ¨

If you plan on attending the Annual Meeting, please check the box to the right. ¨

Signature [PLEASE SIGN WITHIN BOX]	Date	Signature (Joint Owners)	Date