

AGILENT TECHNOLOGIES INC

Form 10-Q

September 04, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JULY 31, 2009

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 001-15405

AGILENT TECHNOLOGIES, INC.

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(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

77-0518772

(IRS employer
Identification no.)

**5301 STEVENS CREEK BLVD.,
SANTA CLARA, CALIFORNIA**
(Address of principal executive offices)

95051
(Zip Code)

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

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

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

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

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

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

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

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

CLASS
COMMON STOCK, \$0.01 PAR VALUE

OUTSTANDING AT JULY 31, 2009
345,112,058 SHARES

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AGILENT TECHNOLOGIES, INC.

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	Three Months Ended July 31,		Nine Months Ended July 31,	
	2009	2008	2009	2008
Net revenue:				
Products	\$ 835	\$ 1,195	\$ 2,636	\$ 3,570
Services and other	222	249	678	723
Total net revenue	1,057	1,444	3,314	4,293
Costs and expenses:				
Cost of products	395	505	1,284	1,518
Cost of services and other	123	136	372	409
Total costs	518	641	1,656	1,927
Research and development	153	170	492	534
Selling, general and administrative	387	415	1,190	1,289
Total costs and expenses	1,058	1,226	3,338	3,750
Income (loss) from operations	(1)	218	(24)	543
Interest income	5	23	25	89
Interest expense	(21)	(31)	(67)	(90)
Other income (expense), net	(24)	5	(6)	16
Income (loss) before taxes	(41)	215	(72)	558
Provision (benefit) for income taxes	(22)	46	(16)	96
Net income (loss)	\$ (19)	\$ 169	\$ (56)	\$ 462
Net income (loss) per share basic:	\$ (0.06)	\$ 0.47	\$ (0.16)	\$ 1.27
Net income (loss) per share diluted:	\$ (0.06)	\$ 0.45	\$ (0.16)	\$ 1.23
Weighted average shares used in computing net income (loss) per share:				
Basic	345	362	347	365
Diluted	345	372	347	375

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

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AGILENT TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEET

(in millions, except par value and share amounts)

(Unaudited)

	July 31, 2009	October 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,479	\$ 1,405
Short-term investments	20	24
Accounts receivable, net	544	770
Inventory	571	646
Other current assets	283	337
Total current assets	2,897	3,182
Property, plant and equipment, net	839	824
Goodwill	642	646
Other intangible assets, net	178	228
Restricted cash and cash equivalents	1,568	1,582
Long-term investments	153	206
Other long-term assets	296	339
Total assets	\$ 6,573	\$ 7,007
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 250	\$ 308
Employee compensation and benefits	277	409
Deferred revenue	286	280
Income and other taxes payable	38	128
Other accrued liabilities	140	205
Total current liabilities	991	1,330
Long-term debt	1,515	1,514
Senior notes	638	611
Retirement and post-retirement benefits	378	324
Other long-term liabilities	562	669
Total liabilities	4,084	4,448
Stockholders' equity:		
Preferred stock; \$0.01 par value; 125 million shares authorized; none issued and outstanding		
Common stock; \$0.01 par value; 2 billion shares authorized; 565 million shares at July 31, 2009 and 561 million shares at October 31, 2008 issued	6	6
Treasury stock at cost; 220 million shares at July 31, 2009 and 211 million shares at October 31, 2008	(7,627)	(7,470)
Additional paid-in-capital	7,516	7,410
Retained earnings	2,735	2,791
Accumulated other comprehensive loss	(141)	(178)
Total stockholders' equity	2,489	2,559
Total liabilities and stockholders' equity	\$ 6,573	\$ 7,007

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

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AGILENT TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions)

(Unaudited)

	Nine Months Ended July 31,	
	2009	2008
Cash flows from operating activities:		
Net income (loss)	\$ (56)	\$ 462
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	122	157
Share-based compensation	56	67
Deferred taxes	14	43
Excess and obsolete and inventory-related charges	49	15
Translation gain from liquidation of a subsidiary		(25)
Asset impairment charges	37	4
Net pension curtailment gains	(13)	
Net loss on divestitures	23	
Allowance for doubtful accounts	4	2
Other	(1)	6
Changes in assets and liabilities:		
Accounts receivable	243	14
Inventory	37	(38)
Accounts payable	(63)	(10)
Employee compensation and benefits	(140)	(74)
Income taxes and other taxes payable	(101)	(71)
Interest rate swap proceeds	43	
Other assets and liabilities	(59)	(54)
Net cash provided by operating activities	195	498
Cash flows from investing activities:		
Investments in property, plant and equipment	(98)	(110)
Proceeds from sale of property, plant and equipment		14
Purchase of investments	(30)	(256)
Proceeds from sale of investments	81	133
Acquisitions of businesses and intangible assets, net of cash acquired		(171)
Purchase of minority interest		(14)
Change in restricted cash and cash equivalents, net	14	33
Other, net	(1)	
Net cash used in investing activities	(34)	(371)
Cash flows from financing activities:		
Issuance of common stock under employee stock plans	53	198
Proceeds from revolving credit facility	325	490
Repayment of revolving credit facility	(325)	(280)
Treasury stock repurchases	(157)	(750)
Net cash used in financing activities	(104)	(342)
Effect of exchange rate movements	17	29
Net increase (decrease) in cash and cash equivalents	74	(186)

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Cash and cash equivalents at beginning of period		1,405		1,826
Cash and cash equivalents at end of period	\$	1,479	\$	1,640

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

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AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

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

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

Proposed Acquisition of Varian, Inc. On July 26, 2009, Agilent, Varian, Inc. (Varian), and Cobalt Acquisition Corp., a direct, wholly-owned subsidiary of Agilent, entered into an Agreement and Plan of Merger (the Merger Agreement). Pursuant to the terms of the Merger Agreement, Varian would become a wholly-owned subsidiary of Agilent. Varian is a leading worldwide supplier of scientific instrumentation and associated consumables for life science and applied market applications. The estimated \$1.5 billion total purchase price of Varian includes \$52 cash per share of Varian s common stock, the cashing out of in the money stock options (after acceleration) and assumed debt. The transaction is subject to approval by shareholders of Varian and will be completed after achieving customary closing conditions and regulatory approvals, which we expect before calendar year-end.

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

Basis of Presentation. We have prepared the accompanying financial data for the three months and nine months ended July 31, 2009 and 2008 pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles (GAAP) in the U.S. have been condensed or omitted pursuant to such rules and regulations. The following discussion should be read in conjunction with our 2008 Annual Report on Form 10-K.

In the opinion of management, the accompanying condensed consolidated financial statements contain all normal and recurring adjustments necessary to present fairly our condensed consolidated balance sheet as of July 31, 2009 and October 31, 2008, condensed consolidated

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statement of operations for the three and nine months ended July 31, 2009 and 2008, and condensed consolidated statement of cash flows for the nine months ended July 31, 2009 and 2008.

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

Fair Value of Financial Instruments. The carrying values of certain of our financial instruments including cash and cash equivalents, restricted cash and cash equivalents, short-term debt, accrued compensation and other accrued liabilities approximate fair value because of their short maturities. Agilent determines the fair value of short-term and long-term investments in debt securities considering information obtained from independent pricing sources. The fair value of long-term equity investments is determined using quoted market prices for those securities when available. The fair value of our long-term debt approximates the carrying value. The fair value of foreign currency contracts used for hedging purposes is estimated internally by using inputs tied to active markets. See also Note 8, Fair Value Measurements for additional information on the fair value of financial instruments.

Goodwill and Purchased Intangible Assets. We review goodwill for impairment annually as of September 30 and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with SFAS No. 142,

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Goodwill and Other Intangible Assets (SFAS No. 142). The circumstances that could trigger a goodwill impairment could include, but are not limited to, the following items to the extent that management believes the occurrence of one or more would make it more likely than not that we would fail the first step of the goodwill impairment test (as described in the next paragraph): significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of, a portion of a reporting unit's goodwill has been included in the carrying amounts of a business that will be disposed or if our market capitalization is below our net book value.

The provisions of SFAS No. 142 require that we perform a two-step impairment test on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. The second step (if necessary) measures the amount of impairment by applying fair-value-based tests to the individual assets and liabilities within each reporting unit. As defined in SFAS No. 142, paragraph 30, a reporting unit is an operating segment, or one level below an operating segment. In accordance with paragraph 30 of SFAS No. 142, we have aggregated components of an operating segment that have similar economic characteristics into our reporting units. At the time of an acquisition, we assign goodwill to the reporting unit that is expected to benefit from the synergies of the combination. For the nine months ended July 31, 2009, Agilent had three reporting units, which were the same as our operating segments: electronic measurement, bio-analytical measurement and semiconductor and board test.

The process of evaluating the potential impairment of goodwill is highly subjective and requires significant judgment, as our businesses operate in a number of markets and geographical regions. We determine the fair value of our reporting units based on an income approach, whereby we calculate the fair value of each reporting unit based on the present value of estimated future cash flows, which are formed by evaluating historical trends, current budgets, operating plans and industry data. We evaluate the reasonableness of the fair value calculations of our reporting units by reconciling the total of the fair values of all of our reporting units to our total market capitalization, taking into account an appropriate control premium. We then compare the carrying value of our reporting units to the fair value calculations based on the income approach noted above.

If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its estimated fair value, then the second step of the goodwill impairment test must be performed. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with its goodwill carrying amount to measure the amount of impairment, if any. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit's assets and liabilities in a manner similar to a purchase price allocation, with any residual fair value allocated to goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, an impairment loss is recognized in an amount equal to that excess. Estimates of the future cash flows associated with the businesses are critical to these assessments. Changes in these estimates based on changed economic conditions or business strategies could result in material impairment charges in future periods.

2. NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements; rather, it applies to other accounting pronouncements that require or permit fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2, Effective Date of FASB Statement No. 157 (FSP No. 157-2). FSP No. 157-2 delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for certain items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Effective November 1, 2008, we adopted the measurement and disclosure requirements related to financial assets and financial liabilities. The adoption of SFAS No. 157 for financial assets and financial liabilities did not have a material impact on the company's

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results of operations or the fair values of its financial assets and liabilities. We will be required to apply the provisions of SFAS No. 157 to nonfinancial assets and nonfinancial liabilities as of November 1, 2009 and are currently evaluating the impact of the application of SFAS No. 157 as it pertains to these items.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* including an amendment of FAS 115 (SFAS No. 159). SFAS No. 159 allows companies to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. Unrealized gains and losses shall be reported on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 also establishes presentation and disclosure requirements. Effective November 1, 2008, we adopted SFAS 159, but we have not elected the fair value option for any eligible financial instruments as of July 31, 2009.

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In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133 (SFAS No. 161), which requires additional disclosures about objectives and strategies for using derivative instruments, how the derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* , and related interpretations, and how the derivative instruments and related hedged items affect our financial statements. SFAS No. 161 also requires disclosures about credit risk-related contingent features in derivative agreements. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008 and will be applied prospectively. Effective February 1, 2009 we adopted the additional disclosures required under SFAS No. 161. The adoption of SFAS No. 161 did not have a material impact on our condensed consolidated financial statements. See Note 9, *Derivatives* for additional information on adoption of SFAS No. 161.

In December 2008, the FASB issued FASB Staff Position (FSP) FAS No. 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* (FSP 132(R)-1). FSP 132(R)-1 requires detailed disclosures regarding the investment strategies, fair value measurements, and concentrations of risk of plan assets of a defined benefit pension or other postretirement plan. FSP 132(R)-1 is effective for fiscal years ending after December 15, 2009 and will be applied prospectively. We are currently evaluating the impact of adopting FSP 132(R)-1.

In April 2009, the FASB issued FSP FAS No. 107-1 and Accounting Principles Board (APB) Opinion No. 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP No. 107-1). FSP No. 107-1 extends the disclosure requirements of SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, to interim period financial statements, in addition to the existing requirements for annual periods and reiterates SFAS No. 107's requirement to disclose the methods and significant assumptions used to estimate fair value. FSP No. 107-1 is effective for interim and annual periods ending after June 15, 2009. We adopted FSP No. 107-1 in the quarter ended July 31, 2009. The required disclosures are included in Note 8, *Fair Value Measurements* .

In April 2009, the FASB issued FSP FAS No. 115-2 and FAS No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP No. 115-2). FSP No. 115-2 establishes a new method for recognizing and reporting other-than-temporary impairment of debt securities and also contains additional disclosure requirements for both debt and equity securities. FSP No. 115-2 is effective for interim and annual periods ending after June 15, 2009. We adopted FSP No. 115-2 in the quarter ended July 31, 2009 and there was no material impact on our condensed consolidated financial statements.

In April 2009, the FASB issued FSP FAS No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP No. 157-4). FSP No. 157-4 provides additional guidance for estimating fair value when the market activity for an asset or liability has declined significantly. FSP No. 157-4 is effective for interim and annual periods ending after June 15, 2009 and will be applied prospectively. We adopted FSP FAS No. 157-4 in the quarter ended July 31, 2009. The adoption of FSP No. 157-4 did not have a significant impact on our condensed consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* , (SFAS No. 165) SFAS No. 165 is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date that is, whether that date represents the date the financial statements were issued or were available to be issued. SFAS No. 165 is effective for interim and annual periods ending after June 15, 2009 and shall be applied prospectively. We adopted SFAS No. 165 in the quarter ended July 31, 2009 and evaluated all events or transactions that occurred after July 31, 2009 and up to September 4, 2009, the date we issued these financial statements. During this period, we did not have any material recognizable subsequent events that have not already been disclosed.

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In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets (SFAS No. 166). SFAS No. 166 is a revision to FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosures. It enhances information reported to users of financial statements by providing greater transparency about transfers of financial assets and an entity's continuing involvement in transferred financial assets. SFAS No. 166 will be effective as of the beginning of the first annual reporting period that begins after November 15, 2009 and will be applied prospectively. We do not expect SFAS No. 166 to have a significant impact on our financial statements.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS No. 167). SFAS No. 167 eliminates a required quantitative approach to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity in favor of a qualitatively focused analysis. It requires an ongoing reassessment of whether an

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entity is the primary beneficiary. SFAS No. 167 will be effective as of the beginning of the first annual reporting period that begins after November 15, 2009 and will be applied retrospectively. We are currently evaluating the impact, if any, that the adoption of SFAS No. 167 will have on our financial statements.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162 (SFAS No. 168). The codification, which was launched on July 1, 2009, became the single source of authoritative nongovernmental U.S. GAAP, superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF) and related literature. The codification eliminates the GAAP hierarchy contained in SFAS No. 162 and establishes one level of authoritative GAAP. All other literature is considered non-authoritative. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We will adopt SFAS No. 168 in the quarter ending October 31, 2009. There will be no change to our financial statements due to the implementation of SFAS No. 168.

3. SHARE-BASED COMPENSATION

We follow the accounting provisions of SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123 (R)), for share-based awards granted to employees and directors including employee stock option awards, restricted stock units, employee stock purchases made under our Employee Stock Purchase Plan (ESPP) and performance share awards under our Long-Term Performance Program (LTPP) using the estimated grant date fair value method of accounting in accordance with SFAS No. 123 (R).

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2009	2008	2009	2008
	(in millions)			
Cost of products and services	\$ 3	\$ 3	\$ 11	\$ 14
Research and development	3	3	9	11
Selling, general and administrative	11	12	36	42
Total share-based compensation expense	\$ 17	\$ 18	\$ 56	\$ 67

Included in the expense amount for the three and nine months ended July 31, 2009 is approximately \$1 million and \$4 million respectively of incremental expense for the acceleration of share-based compensation related to the announced workforce reduction. Upon termination of the employees impacted by the workforce reduction, the non-vested Agilent awards held by those employees immediately vest. Employees have a period of up to three months in which to exercise the Agilent options before such options are cancelled.

Share-based compensation capitalized within inventory at July 31, 2009 and 2008 was zero. The windfall tax benefit realized from exercised stock options and similar awards was immaterial for the three and nine months ended July 31, 2009 and 2008.

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The following assumptions were used to estimate the fair value of the options granted, ESPP purchases and LTPP grants. During the three months ended July 31, 2009 no employee stock option grants were made. During the three months ended July 31, 2008 we had no employee stock option or LTPP grants.

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	Three Months Ended		Nine Months Ended	
	2009	July 31, 2008	2009	July 31, 2008
Stock Option Plans:				
Weighted average risk-free interest rate			2.3%	3.2%
Dividend yield			0%	0%
Weighted average volatility			32%	33%
Expected life			4.4 yrs	4.6 yrs
ESPP:				
Weighted average risk-free interest rate	N/A	1.7%	N/A	2.9%
Dividend yield	N/A	0%	N/A	0%
Weighted average volatility	N/A	30%	N/A	31%
Expected life	N/A	0.5 yr	N/A	0.5-1 yr
LTPP:				
Volatility of Agilent shares	33%		33%	27%
Volatility of selected peer-company shares	18%-62%		17%-62%	17%-52%
Price-wise correlation with selected peers	36%		35%	24%

The fair value of share-based awards for employee stock option awards was estimated using the Black-Scholes option pricing model. Effective November 1, 2008, the Compensation Committee of the Board of Directors approved a change to our ESPP that eliminated the 24-month look back period. The ESPP continues to allow eligible employees to purchase shares of our common stock at 85 percent of the purchase price, but only uses the purchase date to establish the fair market value. As a result of the change in our plan, for the three and nine months ended July 31, 2009 no Black-Scholes assumptions were required in the valuation of awards granted under our current ESPP. Shares granted under the LTPP were valued using a Monte Carlo simulation model. Both the Black-Scholes and Monte Carlo simulation fair value models require the use of highly subjective and complex assumptions, including the option's expected life and the price volatility of the underlying stock. The estimated fair value of restricted stock unit awards is determined based on the market price of Agilent's common stock on the date of grant.

Effective November 1, 2008 we moved to historical volatility to estimate the expected stock price volatility assumption for employee stock option awards. Management believes that based on current data these estimates of volatility are more appropriate than implied volatility. In reaching this conclusion, we have considered many factors including the limited number of Agilent options currently traded and our limited ability to find traded options in the current market with similar terms and prices to the options we are valuing. For the three and nine months ended July 31, 2008, we used implied volatility of Agilent's publicly traded, similarly priced, stock options to estimate the expected stock price volatility assumption for employee stock option awards.

4. PROVISION FOR TAXES

For the three and nine months ended July 31, 2009, we recorded an income tax benefit of \$22 million and \$16 million, respectively, compared to an income tax provision of \$46 million and \$96 million in the same periods last year. The income tax benefits for the three and nine months ended July 31, 2009 include net discrete benefits of \$25 million and \$67 million, respectively, relating primarily to benefits associated with valuation allowance adjustments based on changes in other comprehensive income (OCI) items, lapses of statutes of limitations and tax settlements. The discrete tax benefits relating to the valuation allowance adjustments based on OCI items are \$24 million and \$32 million, respectively for the three and nine months ended July 31, 2009. The tax provisions for the three and nine months ended July 31, 2008 included a benefit of zero and \$12 million, respectively, for effectively settled issues related to foreign audits.

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Income tax expense is net of taxes recorded for income generated in jurisdictions other than the Netherlands, Puerto Rico, Switzerland, the U.S. and the U.K. where we have recorded valuation allowances. We intend to maintain partial or full valuation allowances in these jurisdictions until sufficient positive evidence exists to support the reversal of the valuation allowances.

In the U.S., the tax years remain open back to the year 2000. In other major jurisdictions where we conduct business, the tax years generally remain open back to the year 2003. It is reasonably possible that changes to our unrecognized tax benefits could be significant in the next twelve months due to lapses of statutes of limitation and tax audit settlements. As a result of uncertainties regarding the timing of the completion of tax audits in various jurisdictions and their possible outcomes, an estimate of the range of increase or decrease that could occur in the next twelve months cannot be made.

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Our U.S. federal income tax returns for 2000 through 2007 have been or are under audit by the Internal Revenue Service (IRS). In August 2007, we received a Revenue Agent's Report (RAR) for 2000 through 2002. The RAR proposed many adjustments to taxable income. One adjustment, however, which deals with the use of Agilent's brand name by our foreign affiliates accounts for the majority of the proposed adjustments. In August of 2009, this brand name issue was resolved with no adjustments made to Agilent's taxable income. We continue to meet with the Appeals Office of the IRS in order to resolve the remaining issues associated with the RAR's proposed adjustments. We are uncertain as to how and when these issues will be finally resolved. It may take several years. We believe that any required adjustments however will be more than offset by applying available net operating losses from the years under audit and undisputed tax credits. Based on current information, we believe that the ultimate disposition of these matters is unlikely to have a material adverse effect on our consolidated financial position, results of operations or liquidity.

5. NET INCOME (LOSS) PER SHARE

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

	Three Months Ended July 31,			Nine Months Ended July 31,		
	2009	2008		2009	2008	
	(in millions)					
Numerator:						
Net income (loss)	\$ (19)	\$ 169		\$ (56)	\$ 462	
Denominators:						