AGILENT TECHNOLOGIES INC
Form 10-Q
September 07, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JULY 31, 2010

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 001-15405

AGILENT TECHNOLOGIES, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	**77-0518772**
(State or other jurisdiction of incorporation or organization)	(IRS employer Identification no.)
5301 STEVENS CREEK BLVD., SANTA CLARA, CALIFORNIA	**95051**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

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

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

CLASS	**OUTSTANDING AT JULY 31, 2010**

COMMON STOCK, $0.01 PAR VALUE	346,370,351 SHARES

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PART I FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

AGILENT TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(in millions, except per share amounts)

(Unaudited)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2010	2009	2010	2009
Net revenue:				
Products	$ 1,147	$ 835	$ 3,152	$ 2,636
Services and other	237	222	716	678
Total net revenue	1,384	1,057	3,868	3,314
Costs and expenses:				
Cost of products	527	395	1,379	1,284
Cost of services and other	132	123	393	372
Total costs	659	518	1,772	1,656
Research and development	154	153	453	492
Selling, general and administrative	456	387	1,280	1,190
Total costs and expenses	1,269	1,058	3,505	3,338
Income (loss) from operations	115	(1)	363	(24)
Interest income	3	5	9	25
Interest expense	(24)	(21)	(69)	(67)
Gain on sale of network solutions division, net	127		127	
Other income (expense), net	6	(24)	19	(6)
Income (loss) before taxes	227	(41)	449	(72)
Provision (benefit) for income taxes	22	(22)	57	(16)
Net income (loss)	$ 205	$ (19)	$ 392	$ (56)
Net income (loss) per share basic:	$ 0.59	$ (0.06)	$ 1.13	$ (0.16)
Net income (loss) per share diluted:	$ 0.58	$ (0.06)	$ 1.11	$ (0.16)
Weighted average shares used in computing net income (loss) per share:				
Basic	347	345	348	347
Diluted	352	345	352	347

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, 2010		October 31, 2009
ASSETS				
Current assets:				
Cash and cash equivalents	$	2,317	$	2,479
Short-term restricted cash and cash equivalents		1,551		
Short-term investments				14
Accounts receivable, net		790		595
Inventory		688		552
Other current assets		389		321
Total current assets		5,735		3,961
Property, plant and equipment, net		957		845
Goodwill		1,399		655
Other intangible assets, net		513		167
Long-term restricted cash and cash equivalents		11		1,566
Long-term investments		136		163
Other assets		349		255
Total assets	$	9,100	$	7,612
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable	$	459	$	307
Employee compensation and benefits		315		336
Deferred revenue		331		285
Short-term debt		1,501		1
Other accrued liabilities		311		194
Total current liabilities		2,917		1,123
Long-term debt		2,177		2,904
Retirement and post-retirement benefits		497		498
Other long-term liabilities		699		573
Total liabilities		6,290		5,098
Total equity:				
Stockholders equity:				
Preferred stock; $0.01 par value; 125 million shares authorized; none issued and outstanding				
Common stock; $0.01 par value; 2 billion shares authorized; 577 million shares at July 31, 2010 and 566 million shares at October 31, 2009, issued		6		6
Treasury stock at cost; 231 million shares at July 31, 2010 and 220 million shares at October 31, 2009		(7,986)		(7,627)
Additional paid-in-capital		7,855		7,552
Retained earnings		3,152		2,760
Accumulated other comprehensive loss		(225)		(185)
Total stockholder s equity		2,802		2,506
Non-controlling interest		8		8
Total equity		2,810		2,514
Total liabilities and equity	$	9,100	$	7,612

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, 2010	Nine Months Ended July 31, 2009
Cash flows from operating activities:		
Net income (loss)	$ 392	$ (56)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	135	122
Share-based compensation	51	56
Deferred taxes	(27)	14
Excess and obsolete and inventory-related charges	21	49
Asset impairment charges	20	37
Net pension curtailment gains		(13)
Net loss/(gain) on sale of assets and divestitures	(124)	23
Allowance for doubtful accounts		4
Other		(1)
Changes in assets and liabilities:		
Accounts receivable	(109)	243
Inventory	(22)	37
Accounts payable	85	(63)
Employee compensation and benefits	(54)	(140)
Interest rate swap proceeds		43
Other assets and liabilities	(23)	(160)
Net cash provided by operating activities	345	195
Cash flows from investing activities:		
Investments in property, plant and equipment	(87)	(98)
Proceeds from sale of property, plant and equipment	7	
Purchase of investments		(30)
Proceeds from sale of investments	38	81
Proceeds from divestiture, net of cash divested	216	1
Acquisitions of businesses and intangible assets, net of cash acquired	(1,310)	(2)
Change in restricted cash and cash equivalents, net	5	14
Net cash used in investing activities	(1,131)	(34)
Cash flows from financing activities:		
Issuance of common stock under employee stock plans	264	53
Repayment of long-term debt	(29)	
Proceeds from revolving credit facility		325
Repayment of revolving credit facility		(325)
Issuance of senior notes	747	
Debt issuance cost	(5)	
Treasury stock repurchases	(359)	(157)
Net cash provided by (used in) financing activities	618	(104)
Effect of exchange rate movements	6	17

Net increase (decrease) in cash and cash equivalents		(162)		74
Cash and cash equivalents at beginning of period		2,479		1,405
Cash and cash equivalents at end of period	$	2,317	$	1,479

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 life sciences, chemical analysis, communications and electronics industries.

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

Acquisition of Varian, Inc. On May 14, 2010, we completed our acquisition of Varian, Inc. (Varian), a leading supplier of scientific instrumentation and associated consumables for life science and chemical analysis market applications, by means of a merger of one of our wholly-owned subsidiaries with and into Varian such that Varian became a wholly-owned subsidiary of Agilent. The $1.5 billion total purchase price of Varian includes $52 cash per share of Varian s outstanding common stock including vested and non-vested in-the-money stock options at $52 cash per share less their exercise price. Varian s non-vested restricted stock awards, non-vested performance shares, at 100 percent of target, and non-vested director s stock units were also paid at $52 per share. As part of the European Commission s merger approval and the Federal Trade Commission consent order, Agilent had previously committed to sell Varian s laboratory gas chromatography (GC) business; Varian s triple quadrupole gas chromatography-mass spectrometry (GC-MS) business; Varian s inductively-coupled plasma-mass spectrometry (ICP-MS) business; and Agilent s micro GC business. On May 19, 2010 we completed the sale of the Varian laboratory GC business, the triple quadrupole GC-MS business, the ICP-MS business and the Agilent micro GC business for approximately $42 million subject to post-closing adjustments. We financed the purchase price of Varian using the proceeds from our September 2009 offering of senior notes and other existing cash. The Varian merger has been accounted for in accordance with the authoritative accounting guidance and the results of Varian are included in Agilent s consolidated financial statements from the date of merger. We expect to realize operational and cost synergies, leverage the existing sales channels and product development resources, and utilize the assembled workforce. The company expects the combined entity to achieve significant savings in corporate and divisional overhead costs. The company also anticipates opportunities for growth through expanded geographic and customer segment diversity and the ability to leverage additional products and capabilities. For additional details related to the acquisition of Varian, see Note 3, Acquisition of Varian .

Sale of Network Solutions Division. On May 1, 2010, we completed the sale of the Network Solutions Division (NSD) of our electronic measurement business to JDS Uniphase Corporation (JDSU), a leading communications test and measurement company. JDSU paid Agilent $165 million which is subject to post-closing working capital and other adjustments. We recorded a net gain on the sale of NSD of $127 million in the third quarter of fiscal 2010. NSD includes Agilent s network assurance solutions, network protocol test and drive test products. The results of operations of NSD were not significant to the income from operations of Agilent for the three and nine months ended July 31, 2010.

Basis of Presentation. We have prepared the accompanying financial data for the three and nine months ended July 31, 2010 and 2009 pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included

in financial statements prepared in accordance with generally accepted accounting principles (GAAP) in the U.S. have been condensed or omitted pursuant to such rules and regulations. The following discussion should be read in conjunction with our current report on Form 8-K, dated July 13, 2010 and our 2009 Annual Report on Form 10-K dated December 21, 2009.

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, 2010 and October 31, 2009, condensed consolidated statement of operations for the three and nine months ended July 31, 2010 and 2009, and condensed consolidated statement of cash flows for the nine months ended July 31, 2010 and 2009.

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

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

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

Fair Value of Financial Instruments. The carrying values of certain of our financial instruments including cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, accounts payable, short-term debt, accrued compensation and other accrued liabilities approximate fair value because of their short maturities. 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 and interest rate contracts used for hedging purposes is estimated internally by using inputs tied to active markets. See Note 9, Fair Value Measurements for additional information on the fair value of financial instruments.

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

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

For the nine months ended July 31, 2010, no impairments of goodwill were recorded.

The process of evaluating the potential impairment of goodwill is highly subjective and requires significant judgment, as our businesses operate in a number of markets and geographical regions. We determine the fair value of our reporting units based on an income approach, whereby we calculate the fair value of each reporting unit based on the present value of estimated future cash flows, which are formed by evaluating historical trends, current budgets, operating plans and industry data. We evaluate the reasonableness of the fair value calculations of our

reporting units by reconciling the total of the fair values of all of our reporting units to our total market capitalization, taking into account an appropriate control premium. We then compare the carrying value of our reporting units to the fair value calculations based on the income approach noted above.

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

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Purchased intangible assets consist primarily of acquired developed technologies, proprietary know-how, in-process R&D, backlog, trademarks, and customer relationships and is amortized using the straight-line method over estimated useful lives ranging from 6 months to 15 years.

2. NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

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

In April 2010, the FASB issued guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. The guidance is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010, with early adoption permitted. We do not expect a material impact on our consolidated financial statements due to the adoption of this guidance.

3. ACQUISITION OF VARIAN

On May 14, 2010, we completed the previously announced acquisition of Varian through the merger of Varian and Cobalt Acquisition Corp., a direct wholly-owned subsidiary of Agilent (the Purchaser) under the Merger Agreement, dated July 26, 2009. As a result of the merger, Varian has become a wholly-owned subsidiary of Agilent. Accordingly, the results of Varian are included in Agilent s consolidated financial statements from the date of the merger. For the period from May 15, 2010 to July 31, 2010, Varian s net revenue was $135 million.

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

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

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

A portion of the overall purchase price was allocated to acquired intangible assets. Amortization expense associated with acquired intangible assets is not deductible for tax purposes. Therefore, approximately $138 million was established as a deferred tax liability for the future amortization of these intangibles.

The following table summarizes the preliminary allocation of the purchase price to the estimated fair values of the assets acquired and liabilities assumed on the closing date of May 14, 2010 (in millions):

Cash and cash equivalents	$	226
Accounts receivable		138
Inventories		170
Other current assets		83
Property, plant and equipment		132
Intangible assets		419
Other assets		32
Goodwill		780
Total assets acquired		1,980
Accounts payable		(65)
Employee compensation and benefits		(45)
Deferred revenue		(30)
Other accrued liabilities		(71)
Long-term debt		(15)
Retirement and post-retirement benefits		(18)
Other long-term liabilities		(212)
Net assets acquired	$	1,524

The fair value of cash and cash equivalents, accounts receivable, other current assets, accounts payable and other accrued liabilities were generally determined using historical carrying values given the short-term nature of these assets and liabilities.

The fair values for acquired inventory, property, plant and equipment, intangible assets retirement and post-retirement benefits, and deferred revenue were determined with the assistance of valuations performed by independent valuation specialists.

The fair values of certain other assets, long-term debt, and certain other long-term liabilities were determined internally using discounted cash flow analyses and estimates made by management.

The company has completed the majority of its business combination accounting as of May 14, 2010 and expects to substantially complete the remainder in the fourth quarter of 2010. Final determination of the values of assets acquired and liabilities assumed may result in adjustments to the values presented above and a corresponding adjustment to goodwill.

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Valuations of intangible assets acquired

The components of intangible assets acquired in connection with the Varian acquisition were as follows (in millions):

		Fair Value	Estimated Useful Life
Developed product technology	$	222	1-7 yrs
Customer relationships		158	2-10 yrs
Tradenames and trademarks		10	1.5 yrs
Order backlog		9	0.5-1 yr
Total intangible assets subject to amortization		399	
In-process research and development		20	
Total intangible assets	$	419	

Acquisition and integration costs directly related to the Varian merger totaled $50 million and $77 million for the three and nine months ended July 31, 2010 and were substantially recorded in selling, general and administrative expenses. Such costs are expensed in accordance with the authoritative accounting guidance.

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

	Three Months Ended July 31,				Nine Months Ended July 31,			
		2010		2009		2010		2009
Net revenue	$	1,413	$	1,248	$	4,292	$	3,900
Net income (loss)	$	248	$	(30)	$	338	$	(197)
Net income (loss) per share basic	$	0.71	$	(0.09)	$	0.97	$	(0.57)
Net income (loss) per share diluted	$	0.70	$	(0.09)	$	0.96	$	(0.57)

The pro forma financial information assumes that the companies were combined as of November 1, 2009 and 2008 and include business combination accounting effects from the acquisition including amortization charges from acquired intangible assets, reduction in revenue and increase in cost of sales due to the respective estimated fair value adjustments to deferred revenue and inventory, decrease to interest income for cash used in the acquisition, increase in interest expense associated with debt issue to fund the acquisition, acquisition related transaction costs and tax related effects. The pro forma information as presented above is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of fiscal 2010 and 2009.

The unaudited pro forma financial information for the three months ended July 31, 2010 combine the historical results of Agilent and Varian for the three months ended July 31, 2010. The unaudited pro forma financial information for the nine months ended July 31, 2010 combine the historical results of Agilent for the nine months ended July 31, 2010 (which include Varian after the acquisition date) and the historical results of Varian for the six months ended April 2, 2010 and the three months ended July 31, 2010.

The unaudited pro forma financial information for the three and nine months ended July 31, 2009 combine the historical results of Agilent for the three and nine months ended July 31, 2009 and the historical results for Varian for the three and nine months ended July 3, 2009 (due to differences in reporting periods).

4. SHARE-BASED COMPENSATION

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

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2010	2009	2010	2009
	(in millions)			
Cost of products and services	$ 3	$ 3	$ 11	$ 11
Research and development	2	3	8	9
Selling, general and administrative	8	11	32	36
Total share-based compensation expense	$ 13	$ 17	$ 51	$ 56

The incremental expense for the acceleration of share-based compensation related to the announced workforce reduction plan was immaterial and $2 million for three months and nine months ended July 31, 2010, respectively, as compared to $1 million and $4 million for the same periods last year. Upon termination of the employees impacted by workforce reduction, the non-vested Agilent awards held by these employees immediately vest. Employees have a period of up to three months in which to exercise the Agilent options before such options are cancelled. In addition, during the nine months ended July 31, 2010, we reversed approximately $3 million of expense for the cancellation of non-vested awards related to the separation of a senior executive.

At July 31, 2010 there was no share-based compensation capitalized within inventory. The windfall tax benefit realized from exercised stock options and similar awards was not material for the three and nine months ended July 31, 2010 and 2009.

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2010	2009	2010	2009
Stock Option Plans:				
Weighted average risk-free interest rate	2.1%		2.2%	2.3%
Dividend yield	0%		0%	0%
Weighted average volatility	36%		37%	32%
Expected life	4.4 yrs		4.4 yrs	4.4 yrs
LTPP:				
Volatility of Agilent shares	39%	33%	39%	33%
Volatility of selected peer-company shares	20%-80%	18%-62%	20%-80%	17%-62%
Price-wise correlation with selected peers	53%	36%	53%	35%

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

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

5. PROVISION FOR INCOME TAXES

For the three and nine months ended July 31, 2010, we recorded an income tax provision of $22 million and $57 million, respectively, compared to an income tax benefit of $22 million and $16 million, respectively, for the same periods last year. The income tax provision for the three and nine months ended July 31, 2010 includes a discrete tax expense netting to zero and $3 million, respectively. The net discrete expense relates primarily to tax settlements and lapses of statutes of limitation. 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, and are

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primarily associated with valuation allowance adjustments based on changes in other comprehensive income, lapses of statutes of limitation and tax settlements. Without considering interest and penalties, the expense reflects taxes in all jurisdictions except the U.S. and foreign jurisdictions in which income tax expense or benefit continues to be offset by adjustments to valuation allowances. We intend to maintain partial or full valuation allowances in these jurisdictions until sufficient positive evidence exists to support the reversal of the valuation allowances.

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

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

Subsequent to July 31, 2010 Agilent and the IRS agreed to various adjustments to its U.S. federal income tax returns 2000-2002. In the aggregate, these adjustments will have no material impact to our statement of operations.

6. 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,	
	2010	2009	2010	2009
	(in millions)			
Numerator:				
Net income (loss)	$ 205	$ (19)	$ 392	$ (56)
Denominators:				
Basic weighted-average shares	347	345	348	347
Potentially dilutive common stock equivalents stock options and other employee stock plans	5		4	
Diluted weighted-average shares	352	345	352	347

The dilutive effect of share-based awards is reflected in diluted net income (loss) per share by application of the treasury stock method, which includes consideration of unamortized share-based compensation expense and the dilutive effect of in-the-money options and non-vested restricted stock units. Under the treasury stock method, the amount the employee must pay for exercising stock options and unamortized share-based compensation expense are assumed proceeds to be used to repurchase hypothetical shares. An increase in the fair market value of the company s common stock can result in a greater dilutive effect from potentially dilutive awards.

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2010	**2009**	**2010**	**2009**
Options to purchase shares of common stock (in millions)	11	30	11	32
Weighted-average exercise price	$ 34	$ 30	$ 34	$ 29
Average common stock price	$ 31	$ 20	$ 31	$ 18

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7. INVENTORY

	July 31, 2010	October 31, 2009
	(in millions)	
Finished goods	$ 318	$ 285
Purchased parts and fabricated assemblies	370	267
Inventory	$ 688	$ 552

8. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents goodwill balances and the movements for each of our reportable segments during the nine months ended July 31, 2010:

	Life Sciences	Chemical Analysis	Electronic Measurement	Total
		(in millions)		
Goodwill as of October 31, 2009	$ 123	$ 151	$ 381	$ 655
Foreign currency translation impact	(2)	(6)	3	(5)
Divestitures	(1)	(22)	(13)	(36)
Goodwill arising from acquisitions	179	601	5	785
Goodwill as of July 31, 2010	$ 299	$ 724	$ 376	$ 1,399

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

	Purchased Other Intangible Assets		
	Gross Carrying Amount	Accumulated Amortization and Impairments	Net Book Value
		(in millions)	
As of October 31, 2009:			
Purchased technology	$ 281	$ 170	$ 111
Trademark/Tradename	32	6	26
Customer relationships	85	55	30
Total	$ 398	$ 231	$ 167
As of July 31, 2010:			
Purchased technology	$ 469	$ 171	$ 298
In-Process R&D	20		20
Backlog	9	3	6
Trademark/Tradename	39	11	28
Customer relationships	235	74	161
Total	$ 772	$ 259	$ 513

During the three and nine months ended July 31, 2010, we recorded additions to goodwill of $780 million and $785 million, respectively, primarily due to the Varian acquisition. During the three and nine months ended July 31, 2010, we reduced goodwill due to divestitures by $35 million and $36 million, respectively. During the three and nine months ended July 31, 2010, we recorded additions to other intangibles of $419 million and $421 million, respectively, primarily due to the Varian acquisition. The additions during the three months ended July 31, 2010 included $20 million of in-process R&D due to the Varian acquisition. During the nine months ended July 31, 2010 we also reduced other intangibles by $25 million including $12 million in impairments related to a divestiture. See Note 3 for additional disclosures relating to the Varian acquisition.

Amortization of intangible assets was $27 million and $46 million for the three and nine months ended July 31, 2010 and $11 million and $34 million for the same periods in the prior year. Future amortization expense related to existing purchased intangible assets is estimated to be $31 million for the remainder of 2010 , $104 million for 2011, $84 million for 2012, $68 million for 2013, $60 million for 2014, $49 million for 2015, and $117 million thereafter.

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9. FAIR VALUE MEASUREMENTS

The authoritative guidance defines fair value as the price that would b