

AGILENT TECHNOLOGIES INC

Form 10-Q

September 06, 2013

Table of Contents

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, 2013

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.

(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

(Address of principal executive offices)

95051

(Zip Code)

Registrant's telephone number, including area code: (408) 345-8886

(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

OUTSTANDING AT JULY 31, 2013

COMMON STOCK, \$0.01 PAR VALUE

330,791,981

---

Table of Contents

AGILENT TECHNOLOGIES, INC.  
TABLE OF CONTENTS

	Page Number
<u>Part I.</u>	<u>3</u>
<u>Financial Information</u>	
<u>Item 1.</u>	<u>3</u>
<u>Condensed Consolidated Financial Statements (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statement of Operations</u>	<u>3</u>
<u>Condensed Consolidated Statement of Comprehensive Income</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheet</u>	<u>5</u>
<u>Condensed Consolidated Statement of Cash Flows</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2.</u>	<u>26</u>
<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>Item 3.</u>	<u>42</u>
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	
<u>Item 4.</u>	<u>43</u>
<u>Controls and Procedures</u>	
<u>Part II.</u>	<u>43</u>
<u>Other Information</u>	
<u>Item 1.</u>	<u>43</u>
<u>Legal Proceedings</u>	
<u>Item 1A.</u>	<u>43</u>
<u>Risk Factors</u>	
<u>Item 2.</u>	<u>53</u>
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	
<u>Item 6.</u>	<u>53</u>
<u>Exhibits</u>	
<u>Signature</u>	<u>54</u>
<u>Exhibit Index</u>	<u>55</u>

Table of Contents

## PART I— FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## AGILENT TECHNOLOGIES, INC.

## CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(in millions, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	July 31,		July 31,	
	2013	2012	2013	2012
Net revenue:				
Products	\$1,335	\$1,428	\$4,139	\$4,205
Services and other	317	295	925	886
Total net revenue	1,652	1,723	5,064	5,091
Costs and expenses:				
Cost of products	625	676	1,936	1,927
Cost of services and other	171	157	501	482
Total costs	796	833	2,437	2,409
Research and development	171	162	531	490
Selling, general and administrative	449	458	1,430	1,351
Total costs and expenses	1,416	1,453	4,398	4,250
Income from operations	236	270	666	841
Interest income	2	2	5	7
Interest expense	(27	) (24	) (77	) (75
Other income (expense), net	1	(10	) 11	14
Income before taxes	212	238	605	787
Provision (benefit) for income taxes	44	(5	) 92	59
Net income	\$168	\$243	\$513	\$728
Net income per share:				
Basic	\$0.50	\$0.70	\$1.49	\$2.09
Diluted	\$0.49	\$0.69	\$1.47	\$2.06
Weighted average shares used in computing net income per share:				
Basic	339	348	344	348
Diluted	343	353	348	353
Cash dividends declared per common share	\$0.12	\$0.10	\$0.34	\$0.20

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

Table of Contents

AGILENT TECHNOLOGIES, INC.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in millions)

(Unaudited)

	Three Months Ended July 31,		Nine Months Ended July 31,		
	2013	2012	2013	2012	
Net income	\$ 168	\$ 243	\$ 513	\$ 728	
Other comprehensive income (loss):					
Change in unrealized gain on investments, net of tax expense (benefit) of \$1, \$0, \$2 and \$(8)	4	—	5	6	
Change in unrealized gain on derivative instruments, net of tax expense (benefit) of \$(3), \$0, \$2 and \$2	(4	) (2	) 7	2	
Amounts reclassified into earnings related to derivative instruments, net of tax benefit of \$(1), \$(1), \$(3) and \$(2)	(3	) —	(8	) (4	)
Foreign currency translation	(32	) (102	) (87	) (160	)
Net defined benefit pension cost and post retirement plan costs:					
Change in actuarial net loss, net of tax expense of \$6, \$3, \$16 and \$9	15	13	45	41	
Change in net prior service benefit, net of tax benefit of \$(4), \$0, \$(12) and \$0	(8	) (12	) (24	) (36	)
Other comprehensive loss	(28	) (103	) (62	) (151	)
Total comprehensive income	\$ 140	\$ 140	\$ 451	\$ 577	

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

Table of Contents

AGILENT TECHNOLOGIES, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEET  
 (in millions, except par value and share amounts)  
 (Unaudited)

	July 31, 2013	October 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$2,330	\$2,351
Accounts receivable, net	875	923
Inventory	1,054	1,014
Other current assets	325	341
Total current assets	4,584	4,629
Property, plant and equipment, net	1,139	1,164
Goodwill	2,995	3,025
Other intangible assets, net	945	1,086
Long-term investments	124	109
Other assets	491	523
Total assets	\$10,278	\$10,536
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$407	\$461
Employee compensation and benefits	345	387
Deferred revenue	463	420
Short-term debt	—	250
Other accrued liabilities	335	375
Total current liabilities	1,550	1,893
Long-term debt	2,701	2,112
Retirement and post-retirement benefits	463	554
Other long-term liabilities	774	792
Total liabilities	5,488	5,351
Commitments and contingencies (Note 12)		
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; 600 million shares at July 31, 2013 and 595 million shares at October 31, 2012 issued	6	6
Treasury stock at cost; 269 million shares at July 31, 2013 and 249 million shares at October 31, 2012	(9,607	) (8,707
Additional paid-in-capital	8,660	8,489
Retained earnings	5,901	5,505
Accumulated other comprehensive loss	(173	) (111
Total stockholders' equity	4,787	5,182
Non-controlling interest	3	3
Total equity	4,790	5,185
Total liabilities and equity	\$10,278	\$10,536

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



Table of Contents

AGILENT TECHNOLOGIES, INC.  
 CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
 (in millions)  
 (Unaudited)

	Nine Months Ended		
	July 31,		
	2013	2012	
Cash flows from operating activities:			
Net income	\$513	\$728	
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	277	207	
Share-based compensation	66	59	
Excess tax benefit from share-based plans	(2	) —	
Deferred taxes	1	2	
Excess and obsolete inventory and inventory-related charges	36	20	
Other non-cash expenses, net	8	2	
Changes in assets and liabilities:			
Accounts receivable	31	(22	)
Inventory	(81	) (74	)
Accounts payable	(47	) (1	)
Employee compensation and benefits	(37	) (105	)
Other assets and liabilities	10	(73	)
Net cash provided by operating activities	775	743	
Cash flows from investing activities:			
Investments in property, plant and equipment	(163	) (132	)
Proceeds from lease receivable	—	80	
Proceeds from sale of property, plant and equipment	2	—	
Payment to acquire equity method investment	(21	) —	
Purchase of other investments	(15	) —	
Proceeds from sale of investments	11	5	
Acquisitions of businesses and intangible assets, net of cash acquired	(11	) (2,227	)
Net cash used in investing activities	(197	) (2,274	)
Cash flows from financing activities:			
Issuance of common stock under employee stock plans	116	90	
Payment of dividends	(117	) (70	)
Purchase of non-controlling interest	(3	) (6	)
Excess tax benefit from share-based plans	2	—	
Issuance of senior notes	597	—	
Debt issuance costs	(5	) —	
Repayment of senior notes	(250	) —	
Repayment of credit facility	—	(1	)
Treasury stock repurchases	(900	) (78	)
Net cash used in financing activities	(560	) (65	)
Effect of exchange rate movements	(39	) (8	)



Net decrease in cash and cash equivalents	(21	) (1,604	)
Cash and cash equivalents at beginning of period	2,351	3,527	
Cash and cash equivalents at end of period	\$2,330	\$1,923	

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

6

---

Table of Contents

AGILENT TECHNOLOGIES, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (UNAUDITED)

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

Overview. Agilent Technologies, Inc. (“we”, “Agilent” or the “company”), incorporated in Delaware in May 1999, is a measurement company, providing core bio-analytical and electronic measurement solutions to the life sciences, chemical analysis, diagnostics and genomics, 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 Dako A/S. On June 21, 2012, we completed the acquisition of Dako A/S through the acquisition of 100% of the share capital of Dako A/S, a limited liability company incorporated under the laws of Denmark (“Dako”), under the share purchase agreement dated May 16, 2012. As a result of the acquisition, Dako has become a wholly-owned subsidiary of Agilent. The consideration paid was approximately \$2,143 million, of which \$1,400 million was paid directly to the seller and \$743 million was paid to satisfy the outstanding debt of Dako. Agilent funded the acquisition using existing cash. The results of Dako are included in Agilent's condensed consolidated financial statements from the date of acquisition.

Acquisition and integration costs directly related to the Dako acquisition totaled \$4 million and \$9 million for the three and nine months ended July 31, 2013, respectively and were \$13 million in both the three and nine months ended July 31, 2012. These costs were recorded in selling, general and administrative expenses and were expensed in accordance with the authoritative accounting guidance.

The following represents pro forma operating results as if Dako had been included in the company's condensed consolidated statements of operations as of the beginning of fiscal 2011 (in millions, except per share amounts):

	Three Months Ended July 31, 2012	Nine Months Ended
Net revenue	\$1,783	\$5,333
Net income	\$252	\$707
Net income per share - basic	\$0.72	\$2.03
Net income per share - diluted	\$0.71	\$2.00

The pro forma financial information assumes that the companies were combined as of November 1, 2010 and include business combination accounting effects from the acquisition including amortization charges from acquired intangible assets, the impact on cost of sales due to the respective estimated fair value adjustments to inventory, changes to interest income for cash used in the acquisition, interest expense and currency losses associated with debt paid in connection with the acquisition and 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 2011.

The unaudited pro forma financial information for the three months ended July 31, 2012 combines the historical results of Agilent for the three months ended July 31, 2012 (which includes Dako from the acquisition date) and for Dako for the two months ended May 31, 2012. The unaudited pro forma financial information for the nine months

ended July 31, 2012 combines the historical results of Agilent for the nine months ended July 31, 2012 (which includes Dako from the acquisition date) and for Dako for the six months ended March 31, 2012 and the two months ended May 31, 2012.

Basis of Presentation. We have prepared the accompanying financial data for the three and nine months ended July 31, 2013 and 2012 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 accompanying financial data and information should be read in conjunction with our Annual Report on Form 10-K.

Table of Contents

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, 2013 and October 31, 2012, condensed consolidated statement of comprehensive income for the three and nine months ended July 31, 2013 and 2012, condensed consolidated statement of operations for the three and nine months ended July 31, 2013 and 2012, and condensed consolidated statement of cash flows for the nine months ended July 31, 2013 and 2012.

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, restructuring, share-based compensation, retirement and post-retirement benefit plan assumptions, goodwill and purchased intangible assets and accounting for income taxes.

In the third quarter of 2012, we formed a new operating segment. The new diagnostics and genomics segment was formed from a portion of our pre-existing life sciences business plus the business of the acquisition of Dako. Following this reorganization, Agilent has four business segments comprised of the life sciences business, the chemical analysis business, the diagnostics and genomics business and the electronic measurement business. The historical segment numbers for both life sciences and diagnostics and genomics segments have been recast to conform to this new reporting structure in our financial statements

Revision. The statement of cash flows for the nine months ended July 31, 2012 has been revised to correct the presentation of the purchase of non-controlling interest from investing to financing activities and is not considered material. There was no impact on previously reported net income or the change in net cash for the nine months ended July 31, 2012.

Update to Significant Accounting Policies. During the second fiscal quarter of 2013 typical standard warranty arrangements within our electronic measurement business were extended from one year to three years from the date of delivery. Prior to the change in standard warranty terms, we sold extended warranties of more than one year and less than three years which were deferred. Those existing warranties greater than one year and less than three years and previously classified as extended warranties will be amortized over the original period of the warranty. We will continue to sell extended warranties for terms beyond three years within the electronic measurement business. The impact will not be material to the segment or consolidated revenue of Agilent and the anticipated increase to the warranty accrual as a result of the new arrangements will not be material to the condensed consolidated balance sheet of Agilent. No changes were made to the standard and extended warranty terms within our other businesses. There have been no other material changes to our significant accounting policies, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2012.

In the first quarter of 2013, we adopted the updated authoritative guidance that increases the prominence of items reported in other comprehensive income. For additional details related to the updated authoritative guidance, see Note 2, "New Accounting Pronouncements".

Fair Value of Financial Instruments. The carrying values of certain of our financial instruments including cash and cash equivalents, accounts receivable, accounts payable, accrued compensation and other accrued liabilities approximate fair value because of their short maturities. The fair value of long-term equity investments is determined using quoted market prices for those securities when available which are Level 1 inputs under the accounting guidance

fair value hierarchy. For those long-term equity investments accounted for under the cost method, their carrying value approximates their estimated fair value. The fair value of our long-term debt, calculated from quoted prices which are primarily Level 1 inputs under the accounting guidance fair value hierarchy, exceeds their carrying value by approximately \$96 million as of July 31, 2013. The fair value of foreign currency contracts used for hedging purposes is estimated internally by using inputs tied to active markets which are primarily level 2 inputs. These inputs, for example, interest rate yield curves, foreign exchange rates, and forward and spot prices for currencies are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. See also Note 8, "Fair Value Measurements" for additional information on the fair value of financial instruments.

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

## Table of Contents

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

If it is determined, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the provisions of authoritative guidance require that we perform a two-step impairment test on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. The second step (if necessary) measures the amount of impairment by applying fair-value-based tests to the individual assets and liabilities within each reporting unit. As defined in the authoritative guidance, a reporting unit is an operating segment, or one level below an operating segment. We aggregate components of an operating segment that have similar economic characteristics into our reporting units. During the third quarter of fiscal year 2012, we formed a fourth segment, diagnostics and genomics, from a portion of our life sciences segment. As a result, Agilent now has four segments, life sciences, chemical analysis, diagnostics and genomics and electronic measurement, which are the same as our reporting units. In fiscal year 2012, we assessed goodwill impairment for our reporting units; life sciences, chemical analysis, diagnostics and genomics, and electronic measurement. Based on the results of our qualitative test for goodwill impairment by reporting unit, as of September 30, 2012, we believe that it is more-likely-than-not that the fair value of each of our reporting units, life sciences, chemical analysis, diagnostics and genomics and electronic measurement is greater than their respective carrying values. There was no impairment of goodwill during the three and nine months ended July 31, 2013 and 2012.

Purchased intangible assets consist primarily of acquired developed technologies, proprietary know-how, trademarks, and customer relationships and are amortized using the best estimate of the asset's useful life that reflect the pattern in which the economic benefits are consumed or used up or a straight-line method ranging from 6 months to 15 years. In-process research and development ("IPR&D") is initially capitalized at fair value as an intangible asset with an indefinite life and assessed for impairment thereafter. When the IPR&D project is complete, it is reclassified as an amortizable purchased intangible asset and is amortized over its estimated useful life. If an IPR&D project is abandoned, Agilent will record a charge for the value of the related intangible asset to Agilent's consolidated statement of operations in the period it is abandoned.

In July 2012, the FASB simplified the guidance for testing for impairment of indefinite-lived intangible assets other than goodwill. The changes are intended to reduce compliance costs. Agilent's indefinite-lived intangible assets are IPR&D intangible assets. The revised guidance allows a qualitative approach for testing indefinite-lived intangible assets for impairment, similar to the issued impairment testing guidance for goodwill and allows the option to first assess qualitative factors (events and circumstances) that could have affected the significant inputs used in determining the fair value of the indefinite-lived intangible asset to determine whether it is more-likely-than-not (i.e. greater than 50% chance) that the indefinite-lived intangible asset is impaired. An organization may choose to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to calculating its fair value. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. Agilent adopted this guidance for the year ended October 31, 2012. We recorded an impairment of zero and \$1 million for the three and nine months ended July 31, 2013, respectively, due to the cancellation of an IPR&D project within our electronic measurement business. There was no impairment related to an IPR&D project during the three and nine months ended July 31, 2012.

## 2. NEW ACCOUNTING PRONOUNCEMENTS

In June 2011, the FASB issued guidance related to the presentation of comprehensive income. The guidance aims to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. In the first quarter of 2013, we adopted the updated authoritative guidance that increases the prominence of items reported in other comprehensive income. The updated authoritative guidance eliminates the option to present components of other comprehensive income as part of the statement of changes in equity and requires that changes in other comprehensive income be presented either as a single continuous statement of comprehensive income or in two but consecutive statements. The adoption of the updated authoritative guidance did impact the presentation of comprehensive income, as we have elected to present two separate but consecutive statements, but did not have an impact on our financial position or results of operations.

In December 2011, the FASB issued guidance related to the enhanced disclosures that will enable the users of financial statements to evaluate the effect or potential effect of netting arrangements of an entity's financial position. The amendments require improved information about financial instruments and derivative instruments that are either offset or subject to enforceable master netting arrangements or similar agreement. The guidance is effective for annual reporting periods beginning on or after

Table of Contents

January 1, 2013, and interim periods within those annual periods. We do not expect a material impact to our consolidated financial statements due to the adoption of this guidance.

In February 2013, the FASB issued the guidance for reporting of amounts reclassified out of accumulated other comprehensive income. The revised guidance requires reporting the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required to be reclassified in its entirety to net income. For other amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures that provide additional detail about these amounts. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. The guidance is effective prospectively for annual reporting periods beginning after December 15, 2012 and interim periods within those years. Early adoption is permitted. We do not expect a material impact to our consolidated financial statements due to the adoption of this guidance.

In March 2013, the FASB issued an amendment to the accounting guidance on foreign currency matters in order to clarify the guidance for the release of cumulative translation adjustment. When a parent ceases to have a controlling interest in a subsidiary or group of assets within a foreign entity, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The guidance is effective for interim and annual periods beginning after December 15, 2013. We have no plans to deconsolidate a subsidiary or derecognize a group of assets in the near future and we do not expect a material impact to our consolidated financial statements due to the adoption of this guidance.

In July 2013, the FASB issued an amendment to the accounting guidance related to the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. The guidance requires an unrecognized tax benefit to be presented as a decrease in a deferred tax asset where a net operating loss, a similar tax loss, or a tax credit carryforward exists and certain criteria are met. This guidance is effective prospectively for annual and interim reporting periods beginning after December 15, 2013 and is consistent with our current practice.

Other amendments to GAAP in the U.S. that have been issued by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on our consolidated financial statements upon adoption.

### 3. SHARE-BASED COMPENSATION

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

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

	Three Months Ended July 31, 2013		Nine Months Ended July 31, 2013	
	2012	2012	2012	2012
	(in millions)			
Cost of products and services	\$4	\$2	\$15	\$12



Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

Research and development	3	2	10	8
Selling, general and administrative	11	11	43	40
Total share-based compensation expense	\$18	\$15	\$68	\$60

At July 31, 2013 there was no share-based compensation capitalized within inventory. For the three and nine months ended July 31, 2013, the windfall tax benefit realized from exercised stock options and similar awards was zero and \$2 million, respectively. For the three and nine months ended July 31, 2012, the windfall tax benefits from exercised stock options and similar awards was zero.

Table of Contents

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

	Three Months Ended July 31, 2013		Nine Months Ended July 31, 2013		2012	
Stock Option Plans:						
Weighted average risk-free interest rate	—	—	0.9	%	0.9	%
Dividend yield	—	—	1	%	—	%
Weighted average volatility	—	—	39	%	38	%
Expected life	—	—	5.8yrs		5.8yrs	
LTPP:						
Volatility of Agilent shares	37	%	41	%	37	%
Volatility of selected peer-company shares	6%-64%		17%-75%		6%-64%	17%-75%
Price-wise correlation with selected peers	49	%	62	%	49	%

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 adjusted for expected dividend yield. On January 17, 2012, the company's Board of Directors approved the initiation of quarterly cash dividends to the company's shareholders. The fair value of all the awards granted prior to the declaration of quarterly cash dividend was measured based on an expected dividend yield of 0%. The ESPP allows eligible employees to purchase shares of our common stock at 85 percent of the purchase price and uses the purchase date to establish the fair market value.

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

#### 4. INCOME TAXES

Income tax expense was \$44 million and \$92 million for the three and nine months ended July 31, 2013, respectively, compared to an income tax benefit of \$5 million and an income tax expense of \$59 million for the same periods last year.

The increase in income tax expense for the three months ended July 31, 2013 relates primarily to the impact of discrete items. The income tax provision for the three months ended July 31, 2013 included a net \$18 million discrete tax expense compared to a net \$27 million discrete tax benefit for the same period last year. The net discrete tax expense for the three months ended July 31, 2013 was primarily driven by a \$7 million decrease in deferred tax assets due to a reduction in the statutory tax rate in the U.K. and a \$7 million additional tax expense due to return to provision adjustments associated with the filing of the 2012 tax returns in various jurisdictions. The net discrete tax benefit for the three months ended July 31, 2012 primarily related to favorable tax settlements and lapses in statute of limitations in foreign jurisdictions.

The increase in income tax expense for the nine months ended July 31, 2013 relates primarily to the impact of discrete items. The income tax provision for the nine months ended July 31, 2013 included a net \$22 million discrete tax

expense compared to a net \$13 million discrete tax benefit for the same period last year. The net discrete tax expense for the nine months ended July 31, 2013 was primarily driven by the above mentioned \$18 million discrete charges recognized in the third quarter of 2013 and a \$12 million out of period adjustment to tax expense, recognized in the second quarter of 2013, associated with the write off of deferred tax assets related to foreign tax credits incorrectly claimed in prior years; partially offset by a \$7 million discrete tax benefit, recognized in the first quarter of 2013, due to research and development tax credits relating to the company's prior fiscal year. The net discrete tax benefit for the nine months ended July 31, 2012 primarily related to favorable tax settlements and lapses in statute of limitations in foreign jurisdictions.

In the U.S., tax years remain open back to the year 2006 for federal income tax purposes and the year 2000 for significant states. Agilent's U.S. federal income tax returns for 2006 through 2007 are currently under audit by the IRS. During the three months ended July 31, 2012, the company received a Revenue Agents Report ("RAR") for these years and filed a protest to dispute certain adjustments, the most significant of which pertains to the amount of a gain from the disposition of a business that was

Table of Contents

allocated to the U.S. for income tax purposes. There can be no assurance that the outcome of this dispute will not have a material effect on our operating results or financial condition. In other major jurisdictions where the company conducts business, the tax years generally remain open back to the year 2003. With these jurisdictions and the U.S., it is reasonably possible that there could be significant changes to our unrecognized tax benefits in the next twelve months due to either the expiration of a statute of limitation or a tax audit settlement. Given the number of years and numerous matters that remain subject to examination in various tax jurisdictions, management is unable to estimate the range of possible changes to the balance of our unrecognized tax benefits.

## 5. NET INCOME PER SHARE

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

	Three Months Ended July 31, 2013		Nine Months Ended July 31, 2013	
	2012	2012	2012	2012
	(in millions)			
Numerator:				
Net income	\$ 168	\$ 243	\$ 513	\$ 728
Denominator:				
Basic weighted-average shares	339	348	344	348
Potentially dilutive common stock equivalents — stock options and other employee stock plans	4	5	4	5
Diluted weighted-average shares	343	353	348	353

The dilutive effect of share-based awards is reflected in diluted net income per share by application of the treasury stock method, which includes consideration of unamortized share-based compensation expense, the tax benefits or shortfalls recorded to additional paid-in capital 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 and tax benefits or shortfalls collectively 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.

We exclude stock options with exercise prices greater than the average market price of our common stock from the calculation of diluted earnings per share because their effect would be anti-dilutive. For the three and nine months ended July 31, 2013, options to purchase 5,600 shares were excluded from the calculation of diluted earnings per share as compared to 10,500 shares and 578,500 shares for the three and nine months ended July 31, 2012, respectively. In addition, we also exclude from the calculation of diluted earnings per share, stock options, ESPP, LTTP and restricted stock awards whose combined exercise price, unamortized fair value and excess tax benefits or shortfalls collectively were greater than the average market price of our common stock because their effect would also be anti-dilutive. For the three and nine months ended July 31, 2013 we excluded an additional 15,500 shares and 22,500 shares, respectively, as compared to 1.4 million shares and 1.6 million shares for the three and nine months ended July 31, 2012, respectively.

## 6. INVENTORY

July 31, 2013	October 31, 2012
(in millions)	

Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

Finished goods	\$538	\$509
Purchased parts and fabricated assemblies	516	505
Inventory	\$1,054	\$1,014

12

---

Table of Contents

## 7. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents goodwill balances and the movements for each of our reportable segments during the nine months ended July 31, 2013:

	Life Sciences	Chemical Analysis	Diagnostics and Genomics	Electronic Measurement	Total
	(in millions)				
Goodwill as of October 31, 2012	\$347	\$756	\$1,464	\$458	\$3,025
Foreign currency translation impact	(5	) (17	) 31	(49	) (40
Goodwill arising from acquisitions/adjustments	—	—	11	(1	) 10
Goodwill as of July 31, 2013	\$342	\$739	\$1,506	\$408	\$2,995

The components of other intangibles as of July 31, 2013 and October 31, 2012 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, 2012:			
Purchased technology	\$849	\$333	\$516
Backlog	14	14	—
Trademark/Tradename	168	27	141
Customer relationships	391	155	236
Total amortizable intangible assets	1,422	529	893
In-Process R&D	193	—	193
Total	\$1,615	\$529	\$1,086
As of July 31, 2013:			
Purchased technology	1,000	428	572
Backlog	14	14	—
Trademark/Tradename	173	37	136
Customer relationships	394	200	194
Total amortizable intangible assets	1,581	679	902
In-Process R&D	43	—	43
Total	\$1,624	\$679	\$945

During the three and nine months ended July 31, 2013, we recorded additions to goodwill of zero and \$10 million, respectively, primarily related to the acquisition of two businesses. During the three and nine months ended July 31, 2012, we recorded additions to goodwill of \$1,392 million and \$1,445 million, respectively. During the three and nine months ended July 31, 2013, we recorded additions to other intangible assets of zero and \$1 million, respectively. During the three and nine months ended July 31, 2012, we recorded additions to other intangible assets of \$744 million and \$768 million, respectively. During the three and nine months ended July 31, 2013, intangible assets decreased by \$2 million and increased by \$8 million, respectively, due to the impact of foreign exchange translation. During the three and nine months ended July 31, 2013, we transferred \$1 million and \$148 million, respectively, from in-process R&D to purchased technology as projects were completed. We recorded an impairment of \$1 million for

the nine months ended July 31, 2013 due to the cancellation of an IPR&D project.

Amortization of intangible assets was \$48 million and \$149 million for the three and nine months ended July 31, 2013, respectively. Amortization of intangible assets was \$31 million and \$84 million for the three and nine months ended July 31, 2012, respectively. Future amortization expense related to existing finite-lived purchased intangible assets is estimated to be \$49 million for the remainder of 2013, \$195 million for 2014, \$183 million for 2015, \$155 million for 2016, \$108 million for 2017, \$67 million for 2018, and \$145 million thereafter.

#### 8. FAIR VALUE MEASUREMENTS

The authoritative guidance defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value

Table of Contents

measurements for assets and liabilities required or permitted to be recorded at fair value, we consider the principal or most advantageous market and assumptions that market participants would use when pricing the asset or liability.

## Fair Value Hierarchy

The guidance establishes a fair value hierarchy that prioritizes the use of inputs used in valuation techniques into three levels. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. There are three levels of inputs that may be used to measure fair value:

Level 1- applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2- applies to assets or liabilities for which there are inputs other than quoted prices included within level 1 that are observable, either directly or indirectly, for the asset or liability such as: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in less active markets; or other inputs that can be derived principally from, or corroborated by, observable market data.

Level 3- applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

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

Assets and liabilities measured at fair value on a recurring basis as of July 31, 2013 were as follows:

	July 31, 2013	Fair Value Measurement at July 31, 2013 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in millions)			
Assets:				
Short-term				
Cash equivalents (money market funds)	\$1,658	\$1,658	\$—	\$—
Derivative instruments (foreign exchange contracts)	16	—	16	—
Long-term				
Trading securities	49	49	—	—
Available-for-sale investments	21	21	—	—
Total assets measured at fair value	\$1,744	\$1,728	\$16	\$—
Liabilities:				
Short-term				
Derivative instruments (foreign exchange contracts)	\$9	\$—	\$9	\$—
Long-term				
Deferred compensation liability	49	—	49	—
Total liabilities measured at fair value	\$58	\$—	\$58	\$—





Table of Contents

Assets and liabilities measured at fair value on a recurring basis as of October 31, 2012 were as follows:

	October 31, 2012	Fair Value Measurement at October 31, 2012 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in millions)			
Assets:				
Short-term				
Cash equivalents (money market funds)	\$1,834	\$1,834	\$—	\$—
Derivative instruments (foreign exchange and interest rate swap contracts)	7	—	7	—
Long-term				
Trading securities	50	50	—	—
Total assets measured at fair value	\$1,891	\$1,884	\$7	\$—
Liabilities:				
Short-term				
Derivative instruments (foreign exchange contracts)	\$6	\$—	\$6	\$—
Long-term				
Deferred compensation liability	48	—	48	—
Total liabilities measured at fair value	\$54	\$—	\$54	\$—

Our money market funds, trading securities investments and available-for-sale investments are generally valued using quoted market prices and therefore are classified within level 1 of the fair value hierarchy. Our derivative financial instruments are classified within level 2, as there is not an active market for each hedge contract, but the inputs used to calculate the value of the instruments are tied to active markets. Our deferred compensation liability is classified as level 2 because, although the values are not directly based on quoted market prices, the inputs used in the calculations are observable.

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

Impairment of Investments. There were no impairments for investments for the three and nine months ended July 31, 2013 and 2012.

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

##### Long-Lived Assets

For assets measured at fair value on a non-recurring basis, the following table summarizes the impairments included in net income during the three and nine months ended July 31, 2013 and 2012:

Three Months Ended July 31,	Nine Months Ended July 31,
--------------------------------	-------------------------------

Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

	2013	2012	2013	2012
	(in millions)			
Long-lived assets held and used	\$1	\$—	\$2	\$—
Long-lived assets held for sale	\$—	\$—	\$1	\$—

For the three months ended July 31, 2013, long-lived assets held and used with a carrying value of \$1 million were written down to their fair value of zero. For the nine months ended July 31, 2013, long-lived assets held and used with a carrying value of \$2 million were written down to their fair value of zero. For the three and nine months ended July 31, 2012 there were no impairments of long-lived assets held and used. There were no impairments of long-lived assets held for sale for the three months ended July 31, 2013 and 2012. For the nine months ended July 31, 2013, long-lived assets held for sale with a carrying value of \$3 million were written down to their fair value of \$2 million. There were no impairments of long-lived assets held for sale for

## Table of Contents

the nine months ended July 31, 2012. Fair value for the impaired long-lived assets was measured using level 2 inputs and impairments were included in net income for the period stated.

### Investments in Leases

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

## 9. DERIVATIVES

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

### Fair Value Hedges

We are exposed to interest rate risk due to the mismatch between the interest expense we pay on our loans at fixed rates and the variable rates of interest we receive from cash, cash equivalents and other short-term investments. We have issued long-term debt in U.S. dollars at fixed interest rates based on the market conditions at the time of financing. The fair value of our fixed rate debt changes when the underlying market rates of interest change, and, in the past, we have used interest rate swaps to change our fixed interest rate payments to U.S. dollar LIBOR-based variable interest expense to match the floating interest income from our cash, cash equivalents and other short term investments. As of July 31, 2013, all interest rate swap contracts had either been terminated or had expired.

On November 25, 2008, we terminated two interest rate swap contracts associated with our 2017 senior notes that represented the notional amount of \$400 million. The gain to be amortized at July 31, 2013 was \$23 million. On June 6, 2011, we also terminated five interest rate swap contracts associated with our 2015 senior notes that represented the notional amount of \$500 million. The gain to be amortized at July 31, 2013 was \$14 million. On August 9, 2011, we terminated five interest rate swap contracts related to our 2020 senior notes that represented the notional amount of \$500 million. The gain to be amortized at July 31, 2013 was \$27 million. All deferred gains from terminated interest rate swaps are being amortized over the remaining life of the respective senior notes.

### Cash Flow Hedges

We enter into foreign exchange contracts to hedge our forecasted operational cash flow exposures resulting from changes in foreign currency exchange rates. These foreign exchange contracts, carried at fair value, have maturities between one and twelve months. These derivative instruments are designated and qualify as cash flow hedges under the criteria prescribed in the authoritative guidance. The changes in fair value of the effective portion of the derivative instrument are recognized in accumulated other comprehensive income. Amounts associated with cash flow hedges are reclassified to cost of sales in the consolidated statement of operations when the forecasted transaction occurs. If it becomes probable that the forecasted transaction will not occur, the hedge relationship will be de-designated and amounts accumulated in other comprehensive income will be reclassified to other income (expense) in the current period. Changes in the fair value of the ineffective portion of derivative instruments are recognized in other income (expense) in the consolidated statement of operations in the current period. We record the premium paid (time value) of an option on the date of purchase as an asset. For options designated as cash flow hedges, changes in the time value are excluded from the assessment of hedge effectiveness and are recognized in other income (expense) over the life of the option contract. Ineffectiveness in the three and nine months ended July 31, 2013 and 2012 was not significant. For the three and nine months ended July 31, 2013 and 2012 gains and losses recognized in other income (expense)

due to de-designation of cash flow hedge contracts were not significant.

In July 2012, Agilent executed treasury lock agreements for \$400 million in connection with future interest payments to be made on our 2022 senior notes issued on September 10, 2012. We designated the treasury lock as a cash flow hedge. The treasury lock contracts were terminated on September 10, 2012 and we recognized a deferred gain in accumulated other comprehensive income of \$3 million to be amortized to interest expense over the life of the 2022 senior notes.

#### Other Hedges

Additionally, we enter into foreign exchange contracts to hedge monetary assets and liabilities that are denominated in currencies other than the functional currency of our subsidiaries. These foreign exchange contracts are carried at fair value and

Table of Contents

do not qualify for hedge accounting treatment and are not designated as hedging instruments. Changes in value of the derivative are recognized in other income (expense) in the consolidated statement of operations, in the current period, along with the offsetting foreign currency gain or loss on the underlying assets or liabilities.

Our use of derivative instruments exposes us to credit risk to the extent that the counterparties may be unable to meet the terms of the agreement. We do, however, seek to mitigate such risks by limiting our counterparties to major financial institutions which are selected based on their credit ratings and other factors. We have established policies and procedures for mitigating credit risk that include establishing counterparty credit limits, monitoring credit exposures, and continually assessing the creditworthiness of counterparties.

A number of our derivative agreements contain threshold limits to the net liability position with counterparties and are dependent on our corporate credit rating determined by the major credit rating agencies. The counterparties to the derivative instruments may request collateralization, in accordance with derivative agreements, on derivative instruments in net liability positions.

The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position as of July 31, 2013, was \$4 million. The credit-risk-related contingent features underlying these agreements had not been triggered as of July 31, 2013.

There were 155 foreign exchange forward contracts and 16 foreign exchange option contracts open as of July 31, 2013 and designated as cash flow hedges. There were 157 foreign exchange forward contracts open as of July 31, 2013 not designated as hedging instruments. The aggregated notional amounts by currency and designation as of July 31, 2013 were as follows:

Currency	Derivatives in Cash Flow Hedging Relationships		Derivatives Not Designated as Hedging Instruments
	Forward Contracts Buy/(Sell)	Option Contracts Buy/(Sell)	Forward Contracts Buy/(Sell)
	(in millions)		
Euro	\$(41 )	\$—	\$203
British Pound	(26 )	—	7
Canadian Dollar	(40 )	—	4
Australian Dollars	12	—	7
Malaysian Ringgit	111	—	19
Japanese Yen	(41 )	(92 )	33
Other	(7 )	—	(10 )
Totals	\$(32 )	\$(92 )	\$263

Table of Contents

The notional amounts within derivatives not designated as hedging instruments include forward cross currency contracts of Danish Krone equivalent of \$65 million to sell Euro, \$4 million to sell Japanese Yen and \$5 million to buy other currencies.

Derivative instruments are subject to master netting arrangements and are disclosed gross in the balance sheet. The gross fair values and balance sheet location of derivative instruments held in the consolidated balance sheet as of July 31, 2013 and October 31, 2012 were as follows:

## Fair Values of Derivative Instruments

Asset Derivatives			Liability Derivatives		
Balance Sheet Location	Fair Value July 31, 2013	October 31, 2012	Balance Sheet Location	Fair Value July 31, 2013	October 31, 2012
(in millions)					
Derivatives designated as hedging instruments:					
Cash flow hedges					
Foreign exchange contracts					
Other current assets	\$8	\$4	Other accrued liabilities	\$7	\$2
Derivatives not designated as hedging instruments:					
Foreign exchange contracts					
Other current assets	\$8	\$3	Other accrued liabilities	\$2	\$4
Total derivatives	\$16	\$7		\$9	\$6

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

	Three Months Ended July 31, 2013		Nine Months Ended July 31, 2013	
	2012	2012	2012	2012
(in millions)				
Derivatives designated as hedging instruments:				
Fair Value Hedges				
Gain (loss) on interest rate swap contracts, including interest accrual, recognized in interest expense	\$—	\$—	\$—	\$—
Gain (loss) on hedged item, recognized in interest expense	\$—	\$—	\$—	\$2
Cash Flow Hedges				
Foreign exchange contracts:				
Gain (loss) recognized in accumulated other comprehensive income	\$(7	) \$(1	) \$9	\$5
Gain reclassified from accumulated other comprehensive income into cost of sales	\$4	\$1	\$11	\$6
Treasury lock agreements:				
Loss recognized in accumulated other comprehensive income	\$—	\$(1	) \$—	\$(1
Derivatives not designated as hedging instruments:				
Gain (loss) recognized in other income (expense)	\$2	\$(28	) \$—	\$(38

The estimated amount of existing net gain at July 31, 2013 that is expected to be reclassified from other comprehensive income to cost of sales within the next twelve months is zero.

#### 10. RESTRUCTURING

In the second quarter of 2013, in response to slow revenue growth due to macroeconomic conditions, we accrued for a targeted restructuring program that is expected to reduce Agilent's total headcount by approximately 450 regular employees, representing approximately 2 percent of our global workforce. The timing and scope of workforce reductions will vary based on local legal requirements. When completed, the restructuring program is expected to result in a reduction in annual cost of sales

18

---



Table of Contents

and operating expenses.

As previously announced, we are streamlining our manufacturing operations. As part of this action, we anticipate the reduction of approximately 250 positions to reduce our annual cost of sales.

Total headcount reductions from targeted restructuring and manufacturing streamlining will be approximately 700 positions. We expect to complete a majority of these actions by the end of fiscal year 2013. As of July 31, 2013, approximately 200 employees were terminated and paid under the above actions.

A summary of total restructuring accrual activity is shown in the table below:

	Workforce Reduction (in millions)
Balance as of October 31, 2012	\$—
Income statement expense	56
Cash payments	(15 )
Balance as of July 31, 2013	\$41

The restructuring accruals which totaled \$41 million at July 31, 2013, are recorded in other accrued liabilities on the consolidated balance sheet. These balances reflect estimated future cash outlays.

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

	Three Months Ended		Nine Months Ended	
	July 31, 2013	2012	July 31, 2013	2012
	(in millions)			
Cost of products and services	\$1	\$—	\$19	\$—
Research and development	1	—	9	—
Selling, general and administrative	(1 )	—	28	—
Total restructuring and other related costs	\$1	\$—	\$56	\$—

Table of Contents

## 11. RETIREMENT PLANS AND POST RETIREMENT PENSION PLANS

Components of net periodic costs. For the three and nine months ended July 31, 2013 and 2012, our net pension and post retirement benefit costs were comprised of the following:

	Pensions		Non-U.S.		U.S. Post Retirement	
	U.S. Plans		Plans		Benefit Plans	
	Three Months Ended July 31, 2013	2012	2013	2012	2013	2012
	(in millions)					
Service cost—benefits earned during the period	\$11	\$10	\$9	\$8	\$1	\$1
Interest cost on benefit obligation	6	7	17	19	3	3
Expected return on plan assets	(13 )	(12 )	(24 )	(23 )	(5 )	(5 )
Amortization:						
Actuarial losses	3	2	13	11	4	4
Prior service cost	(3 )	(3 )	—	(1 )	(9 )	(8 )
Total net plan costs	\$4	\$4	\$15	\$14	\$(6 )	\$(5 )

	Pensions		Non-U.S.		U.S. Post Retirement	
	U.S. Plans		Plans		Benefit Plans	
	Nine Months Ended July 31, 2013	2012	2013	2012	2013	2012
	(in millions)					
Service cost—benefits earned during the period	\$33	\$30	\$27	\$24	\$3	\$3
Interest cost on benefit obligation	18	21	52	56	9	11
Expected return on plan assets	(39 )	(35 )	(73 )	(69 )	(15 )	(15 )
Amortization:						
Actuarial losses	10	5	41	32	13	12
Prior service cost	(9 )	(9 )	—	(1 )	(26 )	(26 )
Total net plan costs	\$13	\$12	\$47	\$42	\$(16 )	\$(15 )

We contributed approximately zero to our U.S. defined benefit plans and \$19 million to our non-U.S. defined benefit plans during the three months ended July 31, 2013, respectively, and \$30 million and \$72 million, respectively, for the nine months ended July 31, 2013. We contributed approximately zero to our U.S. defined benefit plans and \$16 million to our non-U.S. defined benefit plans during the three months ended July 31, 2012, respectively, and \$30 million and \$39 million, respectively, for the nine months ended July 31, 2012. We do not expect to contribute to our U.S. defined benefit plans during the remainder of 2013 and expect to contribute \$14 million to our non-U.S. defined benefit plans during the remainder of 2013.

## 12. WARRANTIES AND CONTINGENCIES

## Warranties

We accrue for standard warranty costs based on historical trends in warranty charges as a percentage of net product shipments. The accrual is reviewed regularly and periodically adjusted to reflect changes in warranty cost estimates. Estimated warranty charges are recorded within cost of products at the time products are sold. The standard warranty accrual balances are held in other accrued and other long-term liabilities on our condensed consolidated balance sheet.

Our standard warranty terms typically extend between one and three years from the date of delivery, depending on the product.

20

---

Table of Contents

A summary of the standard warranty accrual activity is shown in the table below:

	Nine Months Ended July 31,	
	2013	2012
	(in millions)	
Beginning balance as of November 1	\$60	\$50
Accruals for warranties including change in estimate	69	65
Reserve acquired upon close of Dako acquisition	—	1
Settlements made during the period	(64	) (57
Ending balance as of July 31	\$65	\$59

## Contingencies

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

On March 4, 2013, we made a report to the Inspector General of the Department of Defense (“DOD IG”) regarding pricing irregularities relating to certain sales of electronic measurement products to U.S. government agencies. We have conducted a thorough investigation with the help of external counsel, and we have approached the DOD IG with a proposed methodology for resolving possible overcharges to U.S. government purchasers resulting from these sales. Based on our investigation and our interactions with the DOD IG, we do not believe that this matter is reasonably possible of having a material impact on Agilent's financial condition, results of operations or cash flows. As of July 31, 2013, we have accrued for this matter based on our current understanding.

As part of routine internal audit activities, the Company determined that certain employees of Agilent's subsidiaries in China did not comply with the Company's Standards of Business Conduct and other policies. Based on those findings, the Company has initiated an internal investigation, with the assistance of outside counsel, relating to certain sales of our products through third party intermediaries in China. The internal investigation includes a review of compliance by our employees in China with the requirements of the U.S. Foreign Corrupt Practices Act and other applicable laws and regulations. On September 5, 2013, the Company voluntarily contacted the United States Securities and Exchange Commission and United States Department of Justice to advise both agencies of this internal investigation. We will cooperate with any government investigation of this matter. At this point, we cannot predict or estimate the duration, scope, cost, or result of this matter, or whether the government will commence any legal action, which could result in possible fines and penalties, criminal or civil sanctions, or other consequences. Accordingly, no provision with respect to these matters has been made in the Company's consolidated financial statements. Adverse findings or other negative outcomes from any governmental proceedings could have a material impact on the Company's consolidated financial statements in future periods.

## 13. SHORT-TERM DEBT

## Credit Facilities

On October 20, 2011, we entered into a five-year credit agreement, which provides for a \$400 million unsecured credit facility that will expire on October 20, 2016. The company may use amounts borrowed under the facility for

general corporate purposes. As of July 31, 2013 the company had no borrowings outstanding under the facility. We were in compliance with the covenants for the credit facility during the three and nine months ended July 31, 2013.

As a result of the Dako acquisition, we have a credit facility in Danish Krone equivalent of \$9 million with a Danish financial institution. No borrowings were outstanding under the facility as of July 31, 2013.

#### 2013 Senior Notes

In July 2010, the company issued an aggregate principal amount of \$250 million in senior notes ("2013 senior notes"). The 2013 senior notes matured on July 15, 2013 and were paid in full.

Table of Contents

## 14. LONG-TERM DEBT

## Senior Notes

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

	July 31, 2013			October 31, 2012		
	Amortized Principal (in millions)	Swap	Total	Amortized Principal	Swap	Total
2015 Senior Notes	\$499	\$14	\$513	\$499	\$18	\$517
2017 Senior Notes	599	23	622	599	26	625
2020 Senior Notes	498	27	525	498	29	527
2022 Senior Notes	399	—	399	399	—	399
2023 Senior Notes	597	—	597	—	—	—
Total	\$2,592	\$64	\$2,656	\$1,995	\$73	\$2,068

In June 2013, the company issued aggregate principal amount of \$600 million in senior notes ("2023 senior notes"). The 2023 senior notes were issued at 99.544% of their principal amount. The notes will mature on July 15, 2023 and bear interest at a fixed rate of 3.875% per annum. The interest is payable semi annually on January 15th and July 15th of each year and payments commence January 15, 2014. Debt issuance costs of \$5 million were incurred in connection with the 2023 senior notes. These costs were capitalized in other assets on the consolidated balance sheet and are being amortized to interest expense over the term of the senior notes. The notes are unsecured and rank equally in right of payment with all of Agilent's other senior unsecured indebtedness.

There have been no changes to the principal, maturity, interest rates and interest payment terms of the other senior notes, detailed in the table above, in the three and nine months ended July 31, 2013 as compared to the senior notes described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2012. All swap contracts have been terminated and amounts to be amortized over the remaining life of the senior notes as of July 31, 2013 and October 31, 2012 are detailed above.

## Other Debt

As of July 31, 2013, and as a result of the Dako acquisition, we have a mortgage debt, secured on buildings in Denmark, in Danish Krone equivalent of \$45 million aggregate principal outstanding with a Danish financial institution. The loan has a variable interest rate based on 3 months Copenhagen Interbank Rate ("Cibor") and will mature on September 30, 2027. Interest payments are made in March, June, September and December of each year.

## 15. STOCKHOLDERS' EQUITY

## Stock Repurchase Program

On November 19, 2009 our board of directors approved a share-repurchase program to reduce or eliminate dilution of basic outstanding shares in connection with issuances of stock under the company's equity incentive plans (the "2009 repurchase program"). The 2009 repurchase program did not require the company to acquire a specific number of shares and could be suspended or discontinued at any time. There was no fixed termination date for the 2009 repurchase program.

On January 16, 2013, our board of directors terminated the 2009 repurchase program and approved a new share-repurchase program (the "2013 repurchase program"). The 2013 repurchase program authorizes the use of up to \$500 million to repurchase shares of the company's common stock in open market transactions, inclusive of any amounts repurchased under the 2009 repurchase program since November 1, 2012. On May 14, 2013, we announced that our board of directors authorized an increase of \$500 million to the 2013 repurchase program bringing the cumulative authorization to \$1 billion. Unless terminated earlier by the board of directors, the 2013 repurchase program is designed to cover purchases until the end of the calendar year 2013 and any unused portion may be used in calendar year 2014. The 2013 repurchase program does not require the company to acquire a specific number of shares and may be suspended or discontinued at any time.

For the three months ended July 31, 2013, we repurchased 15 million shares for \$681 million. For the nine months ended July 31, 2013, we repurchased 20 million shares for \$900 million. For the three months ended July 31, 2012, no shares were

## Table of Contents

repurchased. For the nine months ended July 31, 2012, we repurchased 2 million shares for \$78 million. All such shares and related costs are held as treasury stock and accounted for using the cost method. As of July 31, 2013, \$100 million remains to be used to repurchase shares under the 2013 repurchase program.

### Cash Dividends on Shares of Common Stock

During the three and nine months ended July 31, 2013, we paid cash dividends of \$0.12 per common share or \$41 million and \$0.34 per common share or \$117 million, respectively, on the company's common stock. During the three and nine months ended July 31, 2012, we paid cash dividends of \$0.10 per common share or \$35 million and \$0.20 per common share or \$70 million, respectively, on the company's common stock.

The timing and amounts of any future dividends are subject to determination and approval by our board of directors.

## 16. SEGMENT INFORMATION

**Description of segments.** We are a measurement company providing core bio-analytical and electronic measurement solutions to the life sciences, chemical analysis, diagnostics and genomics, communications and electronics industries. In the third fiscal quarter of 2012, we formed a new operating segment. The new diagnostics and genomics segment was formed from a portion of our pre-existing life sciences business plus the business of our acquisition of Dako. Following this reorganization, Agilent has four business segments comprised of the life sciences business, the chemical analysis business, diagnostics and genomics business and the electronic measurement business. The four operating segments were determined based primarily on how the chief operating decision maker views and evaluates our operations. Operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Other factors, including market separation and customer specific applications, go-to-market channels, products and services and manufacturing are considered in determining the formation of these operating segments.

A description of our four reportable segments is as follows:

Our life sciences business provides application-focused solutions that include instruments, software, consumables, and services that enable customers to identify, quantify and analyze the physical and biological properties of substances and products. Key product categories in life sciences include: liquid chromatography ("LC") systems, columns and components; liquid chromatography mass spectrometry ("LCMS") systems; laboratory software and informatics systems; laboratory automation and robotic systems; nucleic acid solutions; nuclear magnetic resonance ("NMR"), magnetic resonance imaging ("MRI"), and x-ray diffraction ("XRD") systems; and services and support for the aforementioned products.

Our chemical analysis business provides application-focused solutions that include instruments, software, consumables, and services that enable customers to identify, quantify and analyze the physical and biological properties of substances and products. Key product categories in chemical analysis include: gas chromatography (GC) systems, columns and components; gas chromatography mass spectrometry (GC-MS) systems; inductively coupled plasma mass spectrometry (ICP-MS) instruments; atomic absorption (AA) instruments; inductively coupled plasma optical emission spectrometry (ICP-OES) instruments; molecular spectroscopy instruments; software and data systems; vacuum pumps and measurement technologies; services and support for our products.

Our diagnostics and genomics business provides solutions that include reagents, instruments, software and consumables that enable customers in the clinical and life sciences research areas to interrogate samples at the cellular and molecular level. With the acquisition of Dako, a group of solutions have been added that extend our product offerings to cancer diagnostics with anatomic pathology workflows. Our broad portfolio of offerings include immunohistochemistry ("IHC"), In Situ Hybridization ("ISH"), Hematoxylin and Eosin ("H&E") staining, special staining, DNA mutation detection, genotyping, gene copy number determination, identification of gene rearrangements, DNA



methylation profiling, gene expression profiling, as well as automated gel electrophoresis-based sample analysis systems. We also collaborate with a number of major pharmaceutical companies to develop new potential pharmacodiagnosics, also known as companion diagnostics, which may be used to identify patients most likely to benefit from a specific targeted therapy.

Our electronic measurement business provides electronic measurement instruments and systems, software design tools and related services that are used in the design, development, manufacture, installation, deployment and operation of electronics equipment, and microscopy products. Related services include start-up assistance, instrument productivity and application services and instrument calibration and repair. We also offer customization, consulting and optimization services throughout the customer's product lifecycle.

Table of Contents

The historical segment numbers for both the life sciences and diagnostics and genomics segments have been recast to conform to this new reporting structure in our financial statements.

A significant portion of the segments' expenses arise from shared services and infrastructure that we have historically provided to the segments in order to realize economies of scale and to efficiently use resources. These expenses, collectively called corporate charges, include costs of centralized research and development, legal, accounting, real estate, insurance services, information technology services, treasury and other corporate infrastructure expenses. Charges are allocated to the segments, and the allocations have been determined on a basis that we consider to be a reasonable reflection of the utilization of services provided to or benefits received by the segments. Beginning in fiscal year 2012, we created the Agilent Order Fulfillment ("AOF") organization to centralize all order fulfillment and supply organizations and operations. AOF provides resources for manufacturing, engineering, strategic sourcing and logistics to life sciences, chemical analysis and electronic measurement businesses. In general, AOF employees are dedicated to specific businesses and the associated costs are directly allocated to businesses.

The following tables reflect the results of our reportable segments under our management reporting system. These results are not necessarily in conformity with U.S. GAAP. The performance of each segment is measured based on several metrics, including adjusted income from operations. These results are used, in part, by the chief operating decision maker in evaluating the performance of, and in allocating resources to, each of the segments.

The profitability of each of the segments is measured after excluding restructuring and asset impairment charges, investment gains and losses, interest income, interest expense, acquisition and integration costs, non-cash amortization and other items as noted in the reconciliations below.

	Life Sciences	Chemical Analysis	Diagnostics and Genomics	Electronic Measurement	Total
	(in millions)				
Three months ended July 31, 2013:					
Total net revenue	\$401	\$387	\$163	\$701	\$1,652
Segment income from operations	\$67	\$83	\$24	\$129	\$303
Three months ended July 31, 2012:					
Total net revenue	\$391	\$381	\$106	\$845	\$1,723
Segment income from operations	\$57	\$80	\$16	\$197	\$350
	Life Sciences	Chemical Analysis	Diagnostics and Genomics	Electronic Measurement	Total
	(in millions)				
Nine months ended July 31, 2013:					
Total net revenue	\$1,207	\$1,182	\$492	\$2,183	\$5,064
Segment income from operations	\$189	\$253	\$73	\$410	\$925
Nine months ended July 31, 2012:					
Total net revenue	\$1,181	\$1,165	\$246	\$2,499	\$5,091
Segment income from operations	\$159	\$241	\$39	\$562	\$1,001

Table of Contents

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

	Three Months Ended		Nine Months Ended		
	July 31,		July 31,		
	2013	2012	2013	2012	
	(in millions)				
Total reportable segments' income from operations	\$303	\$350	\$925	\$1,001	
Restructuring	(1	) —	(56	) —	
Acceleration of depreciation for held and used assets	—	(15	) —	(15	)
Asset impairments	(1	) —	(3	) —	
Transformational initiatives	(8	) (3	) (14	) (19	)
Amortization of intangibles	(48	) (32	) (149	) (85	)
Acquisition and integration costs	(6	) (29	) (22	) (40	)
Other	(3	) (1	) (15	) (1	)
Interest income	2	2	5	7	
Interest expense	(27	) (24	) (77	) (75	)
Other income (expense), net	1	(10	) 11	14	
Income before taxes, as reported	\$212	\$238	\$605	\$787	

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

	Life Sciences	Chemical Analysis	Diagnostics and Genomics	Electronic Measurement	Total
	(in millions)				
Assets:					
As of July 31, 2013	\$1,381	\$1,732	\$2,871	\$2,008	\$7,992
As of October 31, 2012	\$1,477	\$1,768	\$2,595	\$2,157	\$7,997

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (UNAUDITED)

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Form 10-Q and our Annual Report on Form 10-K. This report contains forward-looking statements including, without limitation, statements regarding trends, seasonality, cyclicalities and growth in, and drivers of, the markets we sell into, our strategic direction, our future effective tax rate and tax valuation allowance, earnings from our foreign subsidiaries, remediation activities, new product and service introductions, the ability of our products to meet market needs, changes to our manufacturing processes, the use of contract manufacturers, the impact of local government regulations on our ability to pay vendors or conduct operations, our liquidity position, our ability to generate cash from operations, growth in our businesses, our investments, the potential impact of adopting new accounting pronouncements, our financial results, our purchase commitments, our contributions to our pension plans, the selection of discount rates and recognition of any gains or losses for our benefit plans, our cost-control activities, savings and headcount reduction recognized from our restructuring programs and other cost saving initiatives, uncertainties relating to Food and Drug Administration ("FDA") and other regulatory approvals, the integration of our acquisitions and other transactions, our stock repurchase program, our declared dividends, our transition to lower-cost regions, and the existence of economic instability, that involve risks and uncertainties. Our actual results could differ materially from the results contemplated by these forward-looking statements due to various factors, including those discussed in Part II Item 1A and elsewhere in this Form 10-Q.

Basis of Presentation

The financial information presented in this Form 10-Q is not audited and is not necessarily indicative of our future consolidated financial position, results of operations, comprehensive income or cash flows. Our fiscal year-end is October 31, and our fiscal quarters end on January 31, April 30 and July 31. Unless otherwise stated, all dates refer to our fiscal year and fiscal periods.

Executive Summary

Agilent is the world's premier measurement company, providing core bio-analytical and electronic measurement solutions to the life sciences, chemical analysis, diagnostic and genomics, communications and electronics industries.

Total orders for the three and nine months ended July 31, 2013 decreased 4 percent and 3 percent, respectively, compared to the same periods last year. Foreign currency movements for the three and nine months ended July 31, 2013, had an unfavorable impact of approximately 2 percentage points in both periods when compared to the same periods last year. The Dako acquisition contributed approximately 3 percentage points and 4 percentage points of order growth, respectively, in the three and nine months ended July 31, 2013. For the three months ended July 31, 2013, life sciences orders increased 1 percent, chemical analysis orders increased 5 percent, diagnostics and genomics increased 52 percent and electronic measurement orders decreased 17 percent when compared to the same period last year. For the nine months ended July 31, 2013, life sciences orders increased 1 percent, chemical analysis orders increased 1 percent, diagnostics and genomics increased 103 percent and electronic measurement orders decreased 16 percent when compared to the same period last year. Dako orders within the diagnostics and genomics business accounted for 49 percentage points and 99 percentage points of the order increase for the three and nine months ended July 31, 2013, respectively.

Net revenue of \$1,652 million and \$5,064 million for the three and nine months ended July 31, 2013, respectively, decreased 4 percent and 1 percent, respectively, compared to the same periods last year. Foreign currency movements for the three and nine months ended July 31, 2013 had an unfavorable impact of approximately 1 percentage point and 2 percentage points, respectively, when compared to the same periods last year. The revenue associated with the Dako

acquisition accounted for 3 percentage points and 4 percentage points of revenue growth, respectively, in the three and nine months ended July 31, 2013. Revenue grew 3 percent and 2 percent in the life sciences business, for the three and nine months ended July 31, 2013, respectively, when compared to the same periods last year. Increased revenue in the three and nine months ended July 31, 2013 was led by demand for products in pharmaceutical and biotechnology and food markets while academic and government research markets declined and applied markets were flat. Revenue increased 1 percent within the chemical analysis business in both the three and nine months ended July 31, 2013 when compared to the same periods last year. Revenue generated within food safety, petrochemical and pharmaceutical and biotechnology markets increased whereas environmental and academic and government markets decreased in the three and nine months ended July 31, 2013. In the three and nine months ended July 31, 2013, total diagnostics and genomics revenue increased 54 percent and 99 percent, respectively, when compared to the same period last year. The Dako acquisition accounted for approximately 48 percentage points and 97 percentage points of revenue increase for the three and nine months ended July 31, 2013, respectively. The increase in revenue of the diagnostics and genomics business excluding Dako reflects the increase in demand for both clinical and diagnostic solutions. Electronic measurement revenue decreased 17 percent and 13 percent in the three and nine months ended July 31, 2013, respectively, when compared to the same periods last year. Within electronic

Table of Contents

measurement, revenue from aerospace and defense markets was flat in the three months ended July 31, 2013 and increased moderately in the nine months ended July 31, 2013 when compared to the same periods last year. The remainder of the general purpose market declined in both the three and nine months ended July 31, 2013 when compared to last year, reflecting weak market conditions. Also within electronic measurement there was significant weakness in the wireless manufacturing test market in the three months and nine months ended July 31, 2013 when compared to the same periods last year mostly driven by the loss of business from a large customer with whom we could not agree on contractual terms. The wireless R&D test market was down moderately during both the three months and nine months ended July 31, 2013.

Net income for the three and nine months ended July 31, 2013 was \$168 million and \$513 million, respectively, compared to \$243 million and \$728 million, respectively, for the corresponding periods last year. In the nine months ended July 31, 2013, we generated \$775 million of cash from operations compared with \$743 million generated in the same period last year.

For the nine months ended July 31, 2013, cash dividends of \$117 million were paid on the company's outstanding common stock, respectively. The timing and amounts of any future dividends are subject to determination and approval by our board of directors.

On May 14, 2013, we announced that our board of directors authorized an increase of \$500 million to our existing stock repurchase program. Under the increased program, Agilent is authorized to repurchase up to \$1 billion of its common stock, inclusive of amounts repurchased since the beginning of this fiscal year. As of July 31, 2013, the remaining amount to be repurchased under the 2013 program is \$100 million. We expect the program to be completed by December 31, 2013.

In the second quarter of 2013, we accrued for a targeted restructuring program that is expected to reduce Agilent's total headcount by approximately 450 regular employees, representing approximately 2 percent of our global workforce. The timing and scope of workforce reductions will vary based on local legal requirements. When completed, the restructuring program is expected to result in an approximately \$50 million reduction in annual cost of sales and operating expenses. In addition we have been streamlining our manufacturing operations. As part of this action, we anticipate the reduction of approximately 250 positions to reduce our annual cost of sales. In the nine months ended July 31, 2013 we accrued \$56 million associated with the headcount reductions. We expect to complete the majority of these restructuring activities by the end of fiscal 2013. As of July 31, 2013, approximately 200 employees were terminated and \$15 million was paid under the above actions.

We have previously announced that we are optimizing our order fulfillment operations which are expected to realize approximately \$200 million of cost savings over a four year period starting fiscal year 2012 with \$50 million of cost savings expected within this fiscal year. The cost reduction activities have been focused on value engineering, procurement leveraging and optimization of the logistics network. We are currently on track to realize the projected savings for this fiscal year.

Looking forward, we are in a slow-growth environment where the macroeconomic environment will remain challenging, in particular within electronic measurement, and continue to dampen demand and impact the timing of delivery for our products and services. In the near term, our results are impacted by decreases in U.S. government spending across all business segments.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting

principles (“GAAP”) in the U.S. The preparation of condensed consolidated financial statements in conformity with GAAP in the U.S. requires management to make estimates, judgments and assumptions that affect the amounts reported in our condensed consolidated financial statements and accompanying notes. Our critical accounting policies are those that affect our financial statements materially and involve difficult, subjective or complex judgments by management. Those policies are revenue recognition, inventory valuation, restructuring, share-based compensation, retirement and post-retirement benefit plan assumptions, goodwill and purchased intangible assets and accounting for income taxes. We have revised our critical accounting policies within the second fiscal quarter to include restructuring. There have been no other significant changes to our critical accounting policies as described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2012. A number of our critical accounting policies are described in the following paragraphs. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management’s best knowledge of current events and actions that may impact the company in the future, actual results may be different from the estimates.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used or changes in the accounting estimate that are reasonably likely to occur could materially change the financial statements.

Table of Contents

Share-based compensation. We estimate the stock price volatility using the historical volatility of Agilent's stock options over the most recent historical period equivalent to the expected life of stock options. In reaching this conclusion, we have considered many factors including the extent to which our options are currently traded and our ability to find traded options in the current market with similar terms and prices to the options we are valuing. A 10 percent increase in our estimated historical volatility from 39 percent to 49 percent for our most recent employee stock option grant would generally increase the value of an award and the associated compensation cost by approximately 23 percent if no other factors were changed. In estimating the expected life of our options granted we considered the historical option exercise behavior of our executive employees, which we believe is representative of future behavior.

Goodwill and purchased intangible assets. Agilent reviews goodwill for impairment annually during our fourth fiscal quarter and whenever events or changes in circumstances indicate the carrying value may not be recoverable. As defined in the authoritative guidance, a reporting unit is an operating segment, or one level below an operating segment. We aggregate 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. During the third quarter of fiscal 2012, we formed a fourth segment, diagnostics and genomics, from a portion of our life sciences segment. As a result, Agilent now has four segments, life sciences, chemical analysis, diagnostics and genomics and electronic measurement, which are the same as our reporting units.

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

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

The qualitative indicators replace those previously used to determine whether an interim goodwill impairment test is required.

If it is determined, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the provisions of authoritative guidance require that we perform a two-step impairment test on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. The second step (if necessary) measures the amount of impairment by applying fair-value-based tests to the individual assets and liabilities within each reporting unit.

In fiscal year 2012, we assessed goodwill impairment for our four reporting units: life sciences, chemical analysis, diagnostics and genomics and electronic measurement. Based on our results of our qualitative test for goodwill impairment, by reporting unit, as of September 30, 2012, we believe that it is more-likely-than-not that the fair value of each of our four reporting units, life sciences, chemical analysis, diagnostics and genomics and electronic measurement, is greater than their respective carrying values. There was no impairment of goodwill during the three and nine months ended July 31, 2013 and 2012. Each quarter we review the events and circumstances to determine if goodwill impairment is indicated.



Purchased intangible assets consist primarily of acquired developed technologies, proprietary know-how, trademarks, and customer relationships and are amortized using the best estimate of the asset's useful life that reflect the pattern in which the economic benefits are consumed or used up or a straight-line method ranging from 6 months to 15 years. The useful life is the period over which the asset is expected to contribute directly or indirectly to future cash flows. In-process research and development (IPR&D) is initially capitalized at fair value as an intangible asset with an indefinite life and assessed for impairment thereafter. When the IPR&D project is complete, it is reclassified as an amortizable purchased intangible asset and is amortized over its estimated useful life. If an IPR&D project is abandoned, Agilent will record a charge for the value of the related intangible asset to Agilent's consolidated statement of operations in the period it is abandoned.

In July 2012, the FASB simplified the guidance for testing for impairment of indefinite-lived intangible assets other than goodwill. The changes are intended to reduce compliance costs. Agilent's IPR&D intangible assets are indefinite-lived intangible assets. The revised guidance allows a qualitative approach for testing indefinite-lived intangible assets for impairment, similar to the issued impairment testing guidance for goodwill and allows the option to first assess qualitative factors (events and

Table of Contents

circumstances) that could have affected the significant inputs used in determining the fair value of the indefinite-lived intangible assets to determine whether it is more-likely-than-not (i.e. > 50% chance) that the indefinite lived intangible asset is impaired. An organization may choose to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to calculating its fair value. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Agilent adopted this guidance for the year ended October 31, 2012. We recorded an impairment of zero and \$1 million for the three and nine months ended July 31, 2013, respectively, due to the cancellation of an IPR&D project within our electronic measurement business in the second quarter. No impairments of indefinite-lived intangible assets were recorded during the three and nine months ended July 31, 2012.

We continually monitor events and changes in circumstances that could indicate carrying amounts of long-lived assets, including purchased intangible assets, may not be recoverable. When such events or changes in circumstances occur, we assess the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the undiscounted future cash flows is less than the carrying amount of those assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets. For the three and nine months ended July 31, 2013, there were impairments of long-lived assets of \$1 million and \$3 million, respectively.

There were no impairments of long-lived assets, including purchased intangible assets for the three and nine months ended July 31, 2012.

**Restructuring.** The main component of our restructuring plan is related to workforce reductions. Workforce reduction charges are accrued when payment of benefits becomes probable that the employees are entitled to the severance and the amounts can be estimated. If the amounts and timing of cash flows from restructuring activities are significantly different from what we have estimated, the actual amount of restructuring and other related charges could be materially different, either higher or lower, than those we have recorded.

**Accounting for income taxes.** We must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, benefits and deductions, and in the calculation of certain tax assets and liabilities which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes, as well as interest and penalties related to uncertain tax positions. Significant changes to these estimates may result in an increase or decrease to our tax provision in a subsequent period.

Significant management judgment is also required in determining whether deferred tax assets will be realized in full or in part. When it is more-likely-than-not that all or some portion of specific deferred tax assets such as net operating losses or foreign tax credit carryforwards will not be realized, a valuation allowance must be established for the amount of the deferred tax assets that cannot be realized. We consider all available positive and negative evidence on a jurisdiction-by-jurisdiction basis when assessing whether it is more likely than not that deferred tax assets are recoverable. We consider evidence such as our past operating results, the existence of losses in recent years and our forecast of future taxable income. In the fourth quarter of fiscal 2012 we released the valuation allowance for the majority of our U.S. deferred tax assets. At July 31, 2013, we continue to recognize a valuation allowance for certain U.S. state and foreign deferred tax assets. We intend to maintain a valuation allowance in these jurisdictions until sufficient positive evidence exists to support its reversal.

We have not provided for all U.S. federal income and foreign withholding taxes on the undistributed earnings of some of our foreign subsidiaries because we intend to reinvest such earnings indefinitely. Should we decide to remit this income to the U.S. in a future period, our provision for income taxes will increase materially in that period.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax law and regulations in a multitude of jurisdictions. Although the guidance on the accounting for uncertainty in income taxes

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

As a part of our accounting for business combinations, intangible assets are recognized at fair values and goodwill is measured as the excess of consideration transferred over the net estimated fair values of assets acquired. Impairment charges associated with goodwill are generally not tax deductible and will result in an increased effective income tax rate in the period

Table of Contents

that any impairment is recorded. Amortization expenses associated with acquired intangible assets are generally not tax deductible and therefore deferred tax liabilities have been recorded for non-deductible amortization expenses as a part of the accounting for business combinations.

## Adoption of New Pronouncements

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

## Restructuring

In the second quarter of 2013, we accrued for a targeted restructuring program that is expected to reduce Agilent's total headcount by approximately 450 regular employees, representing approximately 2 percent of our global workforce. The timing and scope of workforce reductions will vary based on local legal requirements. When completed, the restructuring program is expected to result in an approximately \$50 million reduction in annual cost of sales and operating expenses. In addition we have been streamlining our manufacturing operations. As part of this action, we anticipate the reduction of approximately 250 positions to reduce our annual cost of sales. In the nine months ended July 31, 2013 we accrued \$56 million associated with the headcount reductions. We expect to complete the majority of these restructuring activities by the end of fiscal 2013. As of July 31, 2013, approximately 200 employees were terminated and \$15 million was paid under the above actions.

## Foreign Currency

Our revenues, costs and expenses, and monetary assets and liabilities are exposed to changes in foreign currency exchange rates as a result of our global operating and financing activities. We hedge revenues, expenses and balance sheet exposures that are not denominated in the functional currencies of our subsidiaries on a short term and anticipated basis. We do experience some fluctuations within individual lines of the condensed consolidated statement of operations and balance sheet because our hedging program is not designed to offset the currency movements in each category of revenues, expenses, monetary assets and liabilities. Our hedging program is designed to hedge currency movements on a relatively short-term basis (up to a rolling twelve month period). Therefore, we are exposed to currency fluctuations over the longer term. To the extent that we are required to pay for all, or portions, of an acquisition price in foreign currencies, Agilent may enter into foreign exchange contracts to reduce the risk that currency movements will impact the U.S. dollar cost of the transaction.

## Results from Operations

## Orders and Net Revenue

	Three Months Ended		Nine Months Ended		Year over Year Change	
	July 31, 2013	2012	July 31, 2013	2012	Three Months	Nine Months
	(in millions)					
Orders	\$1,600	\$1,662	\$4,998	\$5,126	(4)%	(3)%
Net revenue:						
Products	\$1,335	\$1,428	\$4,139	\$4,205	(7)%	(2)%
Services and other	317	295	925	886	8%	4%
Total net revenue	\$1,652	\$1,723	\$5,064	\$5,091	(4)%	(1)%

Total orders for the three and nine months ended July 31, 2013 decreased 4 percent and 3 percent, respectively, compared to the same periods last year. Foreign currency movements for the three and nine months ended July 31, 2013, had an unfavorable impact of approximately 2 percentage points in both periods when compared to the same periods last year. The Dako acquisition contributed approximately 3 percentage points and 4 percentage points of order growth, respectively, in the three and nine months ended July 31, 2013. For the three months ended July 31, 2013, life sciences orders increased 1 percent, chemical analysis orders increased 5 percent, diagnostics and genomics increased 52 percent and electronic measurement orders decreased 17 percent when compared to the same period last year. For the nine months ended July 31, 2013, life sciences orders increased 1 percent, chemical analysis orders increased 1 percent, diagnostics and genomics increased 103 percent and electronic measurement orders decreased 16 percent when compared to the same period last year. Dako orders within the diagnostics and genomics business accounted for 49 percentage points and 99 percentage points of the order increase for the three and nine months ended July 31, 2013, respectively.

Table of Contents

Net revenue of \$1,652 million and \$5,064 million for the three and nine months ended July 31, 2013, respectively, decreased 4 percent and 1 percent, respectively, compared to the same periods last year. Foreign currency movements for the three and nine months ended July 31, 2013 had an unfavorable impact of approximately 1 percentage point and 2 percentage points, respectively, when compared to the same periods last year. The revenue associated with the Dako acquisition accounted for 3 percentage points and 4 percentage points of revenue growth, respectively, in the three and nine months ended July 31, 2013. Revenue grew 3 percent and 2 percent in the life sciences business, for the three and nine months ended July 31, 2013, respectively, when compared to the same periods last year. Increased revenue in the three and nine months ended July 31, 2013 was led by demand for products in pharmaceutical and biotechnology and food markets while academic and government research markets declined and applied markets were flat. Revenue increased 1 percent within the chemical analysis business in both the three and nine months ended July 31, 2013 when compared to the same periods last year. Revenue generated within food safety, petrochemical and pharmaceutical and biotechnology markets increased whereas environmental and academic and government markets decreased in the three and nine months ended July 31, 2013. In the three and nine months ended July 31, 2013, total diagnostics and genomics revenue increased 54 percent and 99 percent, respectively, when compared to the same period last year. The Dako acquisition accounted for approximately 48 percentage points and 97 percentage points of revenue increase for the three and nine months ended July 31, 2013, respectively. The increase in revenue of the diagnostics and genomics business excluding Dako reflects the increase in demand for both clinical and diagnostic solutions. Electronic measurement revenue decreased 17 percent and 13 percent in the three and nine months ended July 31, 2013, respectively, when compared to the same periods last year. Within electronic measurement, revenue from aerospace and defense markets was flat in the three months ended July 31, 2013 and increased moderately in the nine months ended July 31, 2013 when compared to the same periods last year. The remainder of the general purpose market declined in both the three and nine months ended July 31, 2013 when compared to last year, reflecting weak market conditions. Also within electronic measurement there was significant weakness in the wireless manufacturing test market in the three months and nine months ended July 31, 2013 when compared to the same periods last year mostly driven by the loss of business from a large customer with whom we could not agree on contractual terms. The wireless R&D test market was down moderately during both the three months and nine months ended July 31, 2013.

Services and other revenue include revenue generated from servicing our installed base of products, warranty extensions and consulting. Services and other revenue increased 8 percent and 4 percent in the three and nine months ended July 31, 2013, respectively, compared to the same periods last year. Approximately 1 percentage point of growth was attributable to the Dako acquisition in the three and nine months ended July 31, 2013. The service and other revenue growth is impacted by a portion of the revenue being driven by the current and previously installed product base. Service and other revenue increased in the three and nine months ended July 31, 2013 due to increased contract service extensions and multi-vendor sales.

## Operating Results

	Three Months Ended July 31,		Nine Months Ended July 31,		Year over Year Change	
	2013	2012	2013	2012	Three Months	Nine Months
Total gross margin	51.8	% 51.7	% 51.9	% 52.7	% —	(1)ppt
Operating margin	14.3	% 15.7	% 13.2	% 16.5	% (1)ppt	(3)ppts

(in millions)

Research and development	\$171	\$162	\$531	\$490	6%	8%
Selling, general and administrative	\$449	\$458	\$1,430	\$1,351	(2)%	6%

Total gross margins for the three and nine months ended July 31, 2013 were flat and decreased 1 percentage point, respectively, compared to the same periods last year. Operating margins decreased 1 percentage point and 3

percentage points in the three and nine months ended July 31, 2013, respectively, compared to the same periods last year. The decrease in operating margin in the three and nine months ended July 31, 2013 was due to increased operating expenses associated with the Dako acquisition, including increased intangible amortization, and restructuring costs and higher wages offset by reductions in variable and incentive pay compared to the same periods last year.

Research and development expenses increased 6 percent and 8 percent in the three and nine months ended July 31, 2013, respectively, compared to the same periods last year. Increased expenditures, compared to the same periods last year, were due to restructuring costs, the Dako acquisition and investments in new products and technologies partially offset by lower variable and incentive pay. We remain committed to invest approximately 10 percent of revenues in research and development and have focused our development efforts on key strategic opportunities in order to align our business with available markets and position ourselves to capture market share.

Table of Contents

Selling, general and administrative expenses decreased 2 percent and increased 6 percent for the three and nine months ended July 31, 2013, respectively, compared to the same periods last year. Decreased expenses in the three months ended July 31, 2013 were due to the effects of strict expense controls and lower variable and incentive pay. Increased expenditures in the nine months ended July 31, 2013 were due to restructuring costs, higher wages and the Dako acquisition.

At July 31, 2013, our headcount was approximately 20,600 as compared to approximately 20,200 at July 31, 2012.

Income Taxes

Income tax expense was \$44 million and \$92 million for the three and nine months ended July 31, 2013, respectively, compared to an income tax benefit of \$5 million and an income tax expense of \$59 million for the same periods last year.

The increase in income tax expense for the three months ended July 31, 2013 relates primarily to the impact of discrete items. The income tax provision for the three months ended July 31, 2013 included a net \$18 million discrete tax expense compared to a net \$27 million discrete tax benefit for the same period last year. The net discrete tax expense for the three months ended July 31, 2013 was primarily driven by a \$7 million decrease in deferred tax assets due to a reduction in the statutory tax rate in the U.K. and a \$7 million additional tax expense due to return to provision adjustments associated with the filing of the 2012 tax returns in various jurisdictions. The net discrete tax benefit for the three months ended July 31, 2012 primarily related to favorable tax settlements and lapses in statute of limitations in foreign jurisdictions.

The increase in income tax expense for the nine months ended July 31, 2013 relates primarily to the impact of discrete items. The income tax provision for the nine months ended July 31, 2013 included a net \$22 million discrete tax expense compared to a net \$13 million discrete tax benefit for the same period last year. The net discrete tax expense for the nine months ended July 31, 2013 was primarily driven by the above mentioned \$18 million discrete charges recognized in the third quarter of 2013 and a \$12 million out of period adjustment to tax expense, recognized in the second quarter of 2013, associated with the write off of deferred tax assets related to foreign tax credits incorrectly claimed in prior years; partially offset by a \$7 million discrete tax benefit, recognized in the first quarter of 2013, due to research and development tax credits relating to the company's prior fiscal year. The net discrete tax benefit for the nine months ended July 31, 2012 primarily related to favorable tax settlements and lapses in statute of limitations in foreign jurisdictions.

At July 31, 2013, our estimate of the annual effective tax rate including discrete items to date was 14.2 percent. We determine our interim tax provision using an estimated annual effective tax rate methodology except in jurisdictions where we anticipate a full year loss or we have a year-to-date ordinary loss for which no tax benefit can be recognized. In these jurisdictions, tax expense is computed based on an actual or discrete method. Our effective tax rate differs from the U.S. statutory rate primarily due to the mix of earnings in non-U.S. jurisdictions taxed at lower statutory rates; in particular Singapore and Malaysia where we enjoy tax holidays.

In the U.S., tax years remain open back to the year 2006 for federal income tax purposes and the year 2000 for significant states. Our U.S. federal income tax returns for 2006 through 2007 are currently under audit by the IRS. During the three months ended July 31, 2012, we received a Revenue Agents Report ("RAR") for these years and filed a protest to dispute certain adjustments, the most significant of which pertains to the amount of a gain from the disposition of a business that was allocated to the U.S. for income tax purposes. There can be no assurance that the outcome of this dispute will not have a material effect on our operating results or financial condition. In other major jurisdictions where we conduct business, the tax years generally remain open back to the year 2003. With these jurisdictions and the U.S., it is reasonably possible that there could be significant changes to our unrecognized tax



benefits in the next twelve months due to either the expiration of a statute of limitation or a tax audit settlement.

Given the number of years and numerous matters that remain subject to examination in various tax jurisdictions, we are unable to estimate the range of possible changes to the balance of our unrecognized tax benefits.

#### Segment Overview

Agilent is a measurement company providing core bio-analytical and electronic measurement solutions to the life sciences, chemical analysis, communications and electronics, diagnostics and genomics industries. In the third fiscal quarter of 2012, we formed a new operating segment. The new diagnostics and genomics segment was formed from a portion of our pre-existing life sciences business plus the business of our acquisition of Dako. Following this reorganization, Agilent has four business segments comprised of the life sciences business, the chemical analysis business, diagnostics and genomics business and the electronic measurement business. The historical segment numbers for both the life sciences and diagnostics and genomics segments have been recast to conform to this new reporting structure in our financial statements.

Table of Contents

## Life Sciences

Our life sciences business provides application-focused solutions that include instruments, software, consumables, and services that enable customers to identify, quantify and analyze the physical and biological properties of substances and products. Key product categories in life sciences include: liquid chromatography ("LC") systems, columns and components; liquid chromatography mass spectrometry ("LCMS") systems; laboratory software and informatics systems; laboratory automation and robotic systems; nucleic acid solutions; nuclear magnetic resonance ("NMR"), magnetic resonance imaging ("MRI"), and x-ray diffraction ("XRD") systems; and services and support for the aforementioned products.

## Orders and Net Revenue

	Three Months Ended		Nine Months Ended		Year over Year Change	
	July 31, 2013	2012	July 31, 2013	2012	Three Months	Nine Months
	(in millions)					
Orders	\$376	\$373	\$1,189	\$1,177	1%	1%
Net revenue	\$401	\$391	\$1,207	\$1,181	3%	2%

Life sciences orders for the three and nine months ended July 31, 2013 increased 1 percent in both periods compared to the same periods last year. Foreign currency movements for the three and nine months ended July 31, 2013 had an unfavorable impact on orders of 1 percentage point for both periods compared to the same periods last year. Order results were led by demand for consumables and services as these businesses held up well despite difficult macroeconomic conditions. Geographically, orders were relatively flat in the Americas, grew 4 percent in Europe, declined 18 percent in Japan, and grew 3 percent in other Asia Pacific for the three months ended July 31, 2013 compared to the same period last year. Japan's decline was caused by an unfavorable currency impact of 20 percentage points on orders. Orders grew 4 percent in the Americas, declined 1 percent in Europe, declined 23 percent in Japan, and grew 5 percent in other Asia Pacific for the nine months ended July 31, 2013 compared to the same period last year. Japan's decline included an unfavorable currency impact of 12 percentage points.

Life sciences revenue for the three and nine months ended July 31, 2013 increased 3 percent and 2 percent, respectively, compared to the same periods last year. Foreign currency movements for the three and nine months ended July 31, 2013 had an unfavorable impact on revenues of 1 percentage point in both periods compared to the same periods last year. Revenue growth in the three months ended July 31, 2013 was led by informatics systems, consumables, and services. Services growth included strong aftermarket sales of service contracts and education. Geographically, revenues declined 1 percent in the Americas, grew 5 percent in Europe, declined 17 percent in Japan (including an unfavorable currency impact of 19 percentage points), and grew 9 percent in other Asia Pacific for the three months ended July 31, 2013 compared to the same period last year. Business in the Americas declined given the impact of U.S. sequestration on our academic and government markets. Revenues grew 2 percent in the Americas, were relatively flat in Europe, declined 21 percent in Japan (including an unfavorable currency impact of 11 percentage points), and grew 11 percent in other Asia Pacific for the nine months ended July 31, 2013 compared to the same period last year. For both periods, the impact of U.S. sequestration, challenging European macroeconomic conditions and limited capital expansion in Japan weighed on our markets.

End market performance reflected mixed results for the three and nine months ended July 31, 2013. Pharmaceutical and biotech had solid growth, which was partially offset by declines in academic and government markets and softness in applied markets. Pharmaceutical companies are investing in upgrading technology to stay ahead of the curve in biologic drugs yet still maintain an edge in chemical drugs, particularly in generic drugs and emerging markets. Academic and government market spending declined, consistent with recent quarters. Food market growth

continues as demand for safe and high-quality food is critical worldwide. Food safety continues to drive increased testing capacity and instrument purchases in all product categories, as well as consumables and services. Applied markets were flat as growth in petrochemical was largely offset by declines in the environmental and forensics markets.

While the overall macroeconomic environment has softened demand for our instruments and application solutions, we continue to invest in expanding and improving our life sciences applications and solutions portfolio. Looking forward, we expect near-term downward pressure to continue in academic and government markets given the impact of U.S. budget sequestration, but we expect businesses such as consumables and services to partially offset this effect.

Regional growth trends in both Europe and Japan are expected to continue in the near-term, though we do expect the impact of the Japan stimulus to provide a positive

Table of Contents

impact in the coming quarters. In pharmaceutical markets, we continue to invest in the development of new application methodologies for our customers in traditional Ultra High-Performance LC (UHPLC), two dimensional LC (2DLC) and LCMS. This quarter, our LCMS business announced several new solutions, including the new StreamSelect LCMS, which allows the multiplexing of two Agilent 1200 series HPLCs with a single Agilent 6400 Triple Quadrupole (QQQ) LCMS. The StreamSelect LCMS system was designed to increase productivity without the need to purchase an additional mass spectrometer.

## Operating Results

	Three Months Ended		Nine Months Ended		Year over Year Change	
	July 31,		July 31,		Three	Nine
	2013	2012	2013	2012	Months	Months
Gross margin	51.2	% 50.5	% 51.3	% 50.1	% 1 ppt	1 ppt
Operating margin	16.6	% 14.5	% 15.6	% 13.4	% 2 ppts	2 ppts

(in millions)

Research and development	\$34	\$35	\$103	\$105	(3)%	(3)%
Selling, general and administrative	\$105	\$106	\$328	\$328	(1)%	—

Gross margins for products and services for the three and nine months ended July 31, 2013 increased 1 percentage point in both periods compared to the same periods last year. The increases were mainly volume-driven along with lower infrastructure expenses, lower variable pay and product gross margin improvements.

Research and development expenses for the three and nine months ended July 31, 2013 decreased 3 percent in both periods compared to the same periods last year. Decreases during these periods were mainly due to lower infrastructure expenses and lower variable pay.

Selling, general and administrative expenses for the three months ended July 31, 2013 decreased 1 percent compared to the same period last year. The decrease was mainly due to lower infrastructure expenses, variable pay, and discretionary expenses. Selling, general and administrative expenses for the nine months ended July 31, 2013 remained flat compared to the same period last year. Higher people costs were offset by lower infrastructure expenses and variable pay.

Operating margins for products and services for the three and nine months ended July 31, 2013 increased 2 percentage points in both periods compared to the same periods last year. The increases were mainly due to higher gross margin performance coupled with lower operating expenses.

## Income from Operations

Income from operations for the three and nine months ended July 31, 2013, increased \$10 million and increased \$30 million, respectively, on corresponding revenue increases of \$10 million and \$26 million. The resultant year-over-year operating margin incremental was 94 percent and 112 percent, respectively, for the three and nine months ended July 31, 2013. Operating margin incremental is measured by the increase in income from operations compared to prior period divided by the increase in revenue compared to the prior period.

## Chemical Analysis

Our chemical analysis business provides application-focused solutions that include instruments, software, consumables, and services that enable customers to identify, quantify and analyze the physical and biological properties of substances and products. Key product categories in chemical analysis include: gas chromatography (GC) systems, columns and components; gas chromatography mass spectrometry (GC-MS) systems; inductively coupled plasma mass spectrometry (ICP-MS) instruments; atomic absorption (AA) instruments; inductively coupled plasma optical emission spectrometry (ICP-OES) instruments; molecular spectroscopy instruments; software and data systems; vacuum pumps and measurement technologies; services and support for our products.



Table of Contents

## Orders and Net Revenue

	Three Months Ended		Nine Months Ended		Year over Year Change	
	July 31, 2013	2012	July 31, 2013	2012	Three Months	Nine Months
	(in millions)					
Orders	\$390	\$372	\$1,197	\$1,183	5%	1%
Net revenue	\$387	\$381	\$1,182	\$1,165	1%	1%

Chemical analysis orders for the three and nine months ended July 31, 2013 increased 5 percent and 1 percent, respectively, compared to the same periods last year. Foreign currency movements for the three and nine months ended July 31, 2013 had an unfavorable currency impact on orders of 2 percentage points in both periods compared to the same period last year. Order results were led by solid performance in GC, Midrange GC, and ICP-MS instruments, along with services. Geographically, orders grew 3 percent in the Americas, grew 5 percent in Europe, declined 14 percent in Japan, and grew 11 percent in other Asia Pacific for the three months ended July 31, 2013 compared to the same period last year. Orders declined 1 percent in the Americas, grew 2 percent in Europe, declined 14 percent in Japan, and grew 6 percent in other Asia Pacific for the nine months ended July 31, 2013 compared to the same period last year. The Americas and Europe were still relatively soft. Results in the Americas reflected the U.S. budget sequestration impact. Asia Pacific was up especially in China, with continued focus on environmental and food safety investments. In addition, India is recovering with an improved economic situation. Currency was a major factor in Japan's results. For the three months ended July 31, 2013, Japan had an unfavorable currency impact of 22 percentage points on orders. Therefore, Japan orders grew 8 percent in local currency, reflecting the impact of government stimulus. For the nine months ended July 31, 2013, Japan's decline included an unfavorable currency impact of 14 percentage points on orders.

Chemical analysis revenues for the three and nine months ended July 31, 2013 increased 1 percent in both periods compared to the same periods last year. Foreign currency movements for the three and nine months ended July 31, 2013 had an unfavorable currency impact on revenues of 2 percentage points in both periods compared to the same periods last year. Revenue growth was led by services and consumables. Instrumentation revenue was slightly down compared to last year but reflected mixed results across the product portfolio. Weakness in GC-MS and spectroscopy instruments was partially offset by strength in GC. Services growth featured strong aftermarket sales of service contracts and education. Geographically, revenues were flat in the Americas, declined 2 percent in Europe, declined 21 percent in Japan (including an unfavorable currency impact of 19 percentage points), and grew 11 percent in other Asia Pacific for the three months ended July 31, 2013 compared to the same period last year. Revenues grew 2 percent in the Americas, declined 1 percent in Europe, declined 19 percent in Japan (including an unfavorable currency impact of 12 percentage points), and grew 9 percent in other Asia Pacific for the nine months ended July 31, 2013 compared to the same period last year. We saw weakness in Europe, where the general economic situation remains difficult. In Asia Pacific, food testing remains an important driver of growth given demand from importers and exporters within the region.

In the three and nine months ended July 31, 2013, investments in the food market continue across geographies, resulting in solid growth especially related to high end mass spectrometry solutions in China. In the U.S., there is increased demand related to testing for pesticides. Food safety import/export regulations tied to globalization of the food supply also continue to drive strong demand. The petrochemical market was slightly up compared to the prior year. Limited government funds led to declines in the environmental and forensics markets, but markets outside of U.S. and Western Europe are showing signs of improvement. The pharmaceutical and biotech market grew due to technology upgrades and the expansion of our service offering, but the academic and government market was down with U.S. sequestration constraints and declining government research spending.

While the economic environment is still challenging, strength in third quarter instrument orders reflect some improvement in our chemical analysis core markets. We will continue to invest in research and development and seek

to expand our position in developing countries and emerging markets. New instrument launches over the next twelve months should improve our product differentiation and competitive position.

Table of Contents

## Operating Results

	Three Months Ended		Nine Months Ended				Year over Year Change	
	July 31,		July 31,				Three	Nine
	2013	2012	2013	2012	2013	2012	Months	Months
Gross margin	51.0	% 50.1	%	51.2	% 50.9	%	1 ppt	—
Operating margin	21.5	% 20.9	%	21.4	% 20.7	%	1 ppt	1 ppt
(in millions)								
Research and development	\$23	\$23	\$70	\$70	—	—		
Selling, general and administrative	\$91	\$89	\$282	\$283	2%	—		

Gross margins for products and services for the three months ended July 31, 2013 increased 1 percentage point compared to the same period last year. The increase was mainly due to favorable product mix in consumables, supply chain savings, and lower variable pay partially offset by higher product discounts. Gross margins for products and services for the nine months ended July 31, 2013 remained relatively flat compared to the same period last year. Lower infrastructure expenses and lower variable pay were offset by higher product discounts.

Research and development expenses for the three and nine months ended July 31, 2013 remained relatively flat compared to the same periods last year. We continue to invest in R&D for current and future products.

Selling, general and administrative expenses for the three months ended July 31, 2013 increased 2 percent compared to the same period last year. The increase was mainly due to higher infrastructure expenses and commissions partially offset by reduced discretionary expenses including marketing programs and travel. Selling, general and administrative expenses for the nine months ended July 31, 2013 remained relatively flat compared to the same period last year. Reduced discretionary expenses including marketing programs and lower variable pay were offset by higher infrastructure expenses and commissions.

Operating margins for products and services for the three and nine months ended July 31, 2013 increased 1 percentage point in both periods compared to the same periods last year. The increases were mainly due to favorable gross margin performance outpacing operating expense growth.

## Income from Operations

Income from operations for the three and nine months ended July 31, 2013, increased \$3 million and \$12 million, respectively, on a corresponding revenue increases of \$6 million and \$17 million. The resultant year-over-year operating margin incremental was 67 percent and 73 percent for the three and nine months ended July 31, 2013.

## Diagnostics and Genomics

Our diagnostics and genomics business provides solutions that include reagents, instruments, software and consumables that enable customers in the clinical and life sciences research areas to interrogate samples at the cellular and molecular level. With the acquisition of Dako, a group of solutions have been added that extend our product offerings to cancer diagnostics with anatomic pathology workflows. Our broad portfolio of offerings include immunohistochemistry (“IHC”), In Situ Hybridization (“ISH”), Hematoxylin and Eosin (“H&E”) staining, special staining, DNA mutation detection, genotyping, gene copy number determination, identification of gene rearrangements, DNA methylation profiling, gene expression profiling, as well as automated gel electrophoresis-based sample analysis systems. We also collaborate with a number of major pharmaceutical companies to develop new potential pharmacodiagnosics, also known as companion diagnostics, which may be used to identify patients most likely to benefit from a specific targeted therapy.





Table of Contents

## Orders and Net Revenue

	Three Months Ended		Nine Months Ended		Year over Year Change	
	July 31, 2013	2012	July 31, 2013	2012	Three Months	Nine Months
	(in millions)					
Orders	\$160	\$106	\$488	\$241	52%	103%
Net revenue	\$163	\$106	\$492	\$246	54%	99%

Diagnostics and genomics orders for the three and nine months ended July 31, 2013, increased 52 percent and 103 percent, respectively, when compared to the same periods last year. Incremental orders associated with the Dako acquisition for the three and nine months ended July 31, 2013 accounted for 49 percentage points and 99 percentage points of the order growth, respectively. Foreign currency movements had an unfavorable impact of 2 percentage points for both the three and nine months ended July 31, 2013. Excluding the impact of the Dako acquisition, orders were strong in SureSelect and HaloPlex, BioAnalyzer chips and reagents and TapeStation products for the three and nine months ended July 31, 2013. Geographically, excluding the impact of the Dako acquisition, orders grew in all regions except for Japan for both the three and nine month period. Japan orders for the three and nine months ended July 31, 2013 declined 18 percent and 12 percent, respectively, and included 21 percentage points and 12 percentage points of unfavorable currency impact, respectively. Orders in Europe grew 5 percent and 7 percent for the three and nine months ended July 31, 2013, respectively, driven by strength in TapeStation products, BioAnalyzer consumables, HaloPlex and scanners. The Americas grew 3 percent for both the three and nine months ended July 31, 2013 on strength of SureSelect products. Asia Pacific excluding Japan grew 21 percent for both the three and nine months ended July 31, 2013 with strength in target enrichment and SureFish.

Diagnostic and genomics revenue for three and nine months ended July 31, 2013, increased 54 percent and 99 percent, respectively, when compared to the same periods last year. Revenue associated with the Dako acquisition accounted for 57 percent of our diagnostics and genomics business for the three and nine months ended July 31, 2013, and 48 percentage points and 97 percentage points of the revenue growth compared to the same periods last year. Foreign currency movements for both the three and nine months ended July 31, 2013 had an unfavorable currency impact of 2 percentage points. Geographically, excluding the impact of the Dako acquisition, the Americas increased 11 percent and 2 percent for the three and nine months ended July 31, 2013, respectively, driven by growth in SureSelect and HaloPlex. Revenue in Europe grew 7 percent and 6 percent for the three and nine months ended July 31, 2013, respectively, due to strength in HaloPlex, TapeStations and Bioanalyzer consumables. Asia Pacific excluding Japan grew 3 percent and 17 percent for the three and nine months ended July 31, 2013 on solid growth in China from CGH solutions and HaloPlex adoption in parts of Asia. Japan declined 20 percent and 15 percent due to the negative impact of currency movements.

Revenue performance was mixed in core end markets. We saw double-digit growth in the clinical market, excluding the impact of the Dako acquisition, on good demand for our CGH array and target enrichment solutions. CGH array customer expansion into applications for prenatal and clinical research reflects opportunities for growth in this market. Year-over-year growth in the pharmaceutical and biotech market reflected strength in demand from companies with clinical service offerings and CROs. The academia and government market saw expected year-over-year declines, reflecting the impacts of the U.S. budget sequestration and European cautious funding environment. Despite this weakness, next generation sequencing continues to attract government funding in many fields, including medical science, microbiology, and bio-agriculture, resulting in continued health of consumables budgets for genomics products. The cancer diagnostics market results were relatively flat year-over-year due to ongoing U.S. and European cautious funding environments. Despite the ongoing pressure on healthcare expenditures, the global clinical cancer diagnostics market remains robust as the fundamental socio-demographic growth drivers continue to increase test volumes, while the more efficient automation solutions and test procedure standardization drove demand due to its cost and labor reduction advantages. We continue to experience high growth in our pharma partnerships from

increased demand around contractual business.

Looking forward, we are optimistic about our growth opportunities in the clinical and clinical research markets as our broad portfolio of products and solutions are well suited to address customer needs. Strong adoption of our HaloPlex sequencing target enrichment solution continues, with a growing customer base and nice ramp-up of re-order rates and we plan to continue investing in target enrichment. On the microarray front, we are continuing to work with the FDA to advance filings for a 510K pre-market clearance for our CGH cytogenetic arrays. Having signed an agreement with a former competitor who has exited the microarray business, we have made good progress in converting their customers onto Agilent's microarray platform. These new customers have ordered both gene expression and CGH arrays, as well as other products in the genomics portfolio. Our Dako business should be boosted by Omnis, our new advanced staining platform, bringing both IHC and ISH capabilities to one integrated platform. Additionally, we continue to work with pharmaceutical partners to develop companion diagnostic solutions.

37

---

Table of Contents

## Operating Results

	Three Months Ended		Nine Months Ended		Year over Year Change	
	July 31,		July 31,		Three	Nine
	2013	2012	2013	2012	Months	Months
Gross margin	59.4	% 60.8	% 60.8	% 62.6	% (1) ppt	(2) ppts
Operating margin	14.6	% 15.2	% 14.8	% 15.8	% (1) ppt	(1) ppt
(in millions)						
Research and development	\$22	\$13	\$66	\$33	72%	101%
Selling, general and administrative	\$51	\$36	\$161	\$83	43%	94%

Gross margins for products and services for the three and nine months ended July 31, 2013, declined 1 percentage point and 2 percentage points, respectively, compared to the same periods last year. The decline in gross margins was due to the impact of the Dako acquisition and unfavorable currency impacts partially offset by lower freight and logistics costs and favorable production and price variances. For the nine months ended July 31, 2013, the decline in gross margins was due to the impact of the Dako acquisition, unfavorable currency impacts and prior year's hedging gain. Partially offsetting the unfavorable impacts were lower royalty expenses due to patent expiration.

Research and development expenses for the three and nine months ended July 31, 2013, increased 72 percent and 101 percent, respectively, when compared to the same periods last year. The increase was due to the acquisition of Dako. Selling, general and administrative expenses for the three and nine months ended July 31, 2013, increased 43 percent and 94 percent, respectively, compared to the same periods last year. The increase was due to the acquisition of Dako. Operating margins for products and services for both the three and nine months ended July 31, 2013, declined 1 percentage point compared to the same periods last year. Factors which led to the decline in operating margin over the prior year are due to the impact of the Dako acquisition and unfavorable currency impacts partially offset by lower freight and logistics costs and favorable production and price variances. Partially offsetting the unfavorable impacts were lower royalty expenses due to a patent expiration.

## Income from Operations

Income from operations for the three and nine months ended July 31, 2013, increased \$8 million and \$34 million, respectively, on a corresponding revenue increase of \$57 million and \$246 million. The resultant year-over-year operating margin incremental was 13 percent and 14 percent for the three and nine months ended July 31, 2013, respectively.

## Electronic Measurement

Our electronic measurement business provides electronic measurement instruments and systems, software design tools and related services that are used in the design, development, manufacture, installation, deployment and operation of electronics equipment, and microscopy products. Related services include start-up assistance, instrument productivity and application services and instrument calibration and repair. We also offer customization, consulting and optimization services throughout the customer's product lifecycle.

## Orders and Net Revenue

	Three Months		Nine Months Ended		Year over Year Change	
	Ended		July 31,		Three	Nine
	July 31,	2012	2013	2012	Months	Months
	2013					

Edgar Filing: AGILENT TECHNOLOGIES INC - Form 10-Q

	(in millions)					
Orders	\$674	\$811	\$2,124	\$2,525	(17)%	(16)%
Net revenue	\$701	\$845	\$2,183	\$2,499	(17)%	(13)%

38

---

Table of Contents

Electronic measurement orders for the three and nine months ended July 31, 2013, decreased 17 percent and 16 percent, respectively, when compared to the same periods last year. Foreign currency movements had an unfavorable impact of 2 percentage points in the three and nine months ended July 31, 2013. Order trends by market were similar for both periods. Orders declined year-over-year for general purpose test applications primarily due to lower industrial, computers, and semiconductor test demand. Communications test decreased year-over-year on weak wireless manufacturing orders. For the three and nine months ended July 31, 2013, the Americas declined 26 percent and 24 percent, respectively, when compared to the same periods last year on weak wireless communications and lower aerospace and defense business. Japan orders were 15 percent lower year-over-year in the three-month period but grew 2 percent excluding the impact of unfavorable currency movements. For the nine-month period, Japan orders declined 11 percent year-over-year including 10 percentage points from unfavorable currency movements. Orders from Asia Pacific excluding Japan declined 11 percent year-over-year in both the three and nine-month periods on weaker industrial, computer, semiconductor, and aerospace and defense demand. Europe orders for the three and nine-month periods decreased 8 percent and 10 percent, respectively, when compared to the same periods last year on lower communications, computer, and semiconductor test business partially offset by improved aerospace and defense.

Electronic measurement revenue for the three and nine months ended July 31, 2013, decreased 17 percent and 13 percent, respectively, when compared to the same periods last year. Foreign currency movements had an unfavorable impact of 2 percentage points in the three and nine-month periods. For both periods, revenue declined in all regions. The Americas decreased 31 percent and 18 percent year-over-year for the three and nine-months ended July 31, 2013, respectively, on weakness in wireless manufacturing and aerospace and defense. Europe revenue was 9 percent and 7 percent lower year-over-year for the three and nine-month periods, respectively, on declines in all markets except aerospace and defense. Japan revenue decreased 6 percent in the three months ended July 31, 2013, but increased 12 percent excluding the impact of unfavorable currency movements, with strength in aerospace and defense. For the nine months ended July 31, 2013, Japan revenue declined 11 percent year-over-year due to the impact of unfavorable currency movements. Asia Pacific excluding Japan declined 4 percent and 9 percent for the three and nine-month periods, respectively; industrial, computer, and semiconductor test demand was weak in both periods while communications was flat in the three-months ended July 31, 2013, but declined for the nine-month period. General purpose test, representing approximately 66 percent of electronic measurement revenue, reflected weak industrial, computer, and semiconductor related demand. Aerospace and defense was relatively flat year-over-year in the three months ended July 31, 2013, but slightly higher in the nine-month period reflecting weak demand in the United States offset by stronger spending internationally, particularly Europe and Japan. For both the three and nine-month periods, our computer and semiconductor related business declined year-over-year. The shift from personal computers to lower priced, more highly integrated tablets has resulted in a reduction in test equipment demand. Investments in new semiconductor technology moderated and manufacturing capacity expansion remained weak. Uncertain global economic conditions contributed to lower industrial related business.

Communications test, representing approximately 34 percent of electronic measurement revenue, declined year-over-year primarily due to lower wireless manufacturing business. In the three and nine-month periods ended July 31, 2013, significant weakness in wireless manufacturing test compared to the same periods last year was mostly driven by the loss of business from a large customer with whom we could not agree on contractual terms. Wireless R&D spending remained soft reflecting a cautious spending environment though long-term industry fundamentals remain intact, with continued interest in high data rate applications such as long-term evolution (LTE).

In the near term, we expect a year-over-year decline in revenue driven by macroeconomic uncertainty and challenging market conditions, with continued softness in communications, industrial, computer, and semiconductor markets. We expect modest seasonal improvement in the fourth quarter for aerospace and defense demand related to higher spending by the United States government and prime contractors. Longer term growth drivers such as mobility, computing, and transformational initiatives, including modular and hand-held instrumentation, support our ongoing investments.



Table of Contents

## Operating Results

	Three Months Ended		Nine Months Ended				Year over Year Change	
	July 31,		July 31,				Three	Nine
	2013	2012	2013	2012	2013	2012	Months	Months
Gross margin	56.6	% 55.9	% 57.0	% 56.9	%	%	1 ppt	—
Operating margin	18.5	% 23.3	% 18.8	% 22.5	%	%	(5) ppts	(4) ppts
(in millions)								
Research and development	\$89	\$91	\$277	\$281	(2)%	(1)%		
Selling, general and administrative	\$178	\$184	\$557	\$578	(3)%	(4)%		

Gross margins for products and services for the three and nine months ended July 31, 2013, decreased 1 percentage point and was flat, respectively, compared to the same periods last year. For the three months ended July 31, 2013, gross margins were higher year-over-year on a volume-adjusted basis driven by the lower proportion of wireless manufacturing business. For the nine months ended July 31, 2013, gross margins were also higher on a volume-adjusted basis primarily due to the decrease in wireless manufacturing business, while the favorable impacts of lower variable and incentive pay and reduced infrastructure spending were offset by wage increases and higher inventory charges.

Research and development expenses for the three and nine months ended July 31, 2013, decreased 2 percent and 1 percent, respectively, compared to the same periods last year. For both periods, reduced development and infrastructure expenses, lower variable and incentive pay, and the favorable impact of currency movements were offset by investments in an acquisition and wage increases.

Selling, general and administrative expenses for the three and nine months ended July 31, 2013, decreased 3 percent and 4 percent, respectively, compared to the same periods last year. For both periods, reduced discretionary spending, lower variable and incentive pay, and the favorable impact of currency movements were partially offset by wage increases.

Operating margins for products and services for the three and nine months ended July 31, 2013, decreased 5 percentage points and 4 percentage points, respectively, compared to the same periods last year on lower revenue partially offset by reduced operating expenses.

## Income from Operations

Income from operations for the three and nine months ended July 31, 2013, decreased \$68 million and \$152 million, respectively, on corresponding revenue decreases of \$144 million and \$316 million. The resultant year-over-year operating margin decremental ratios were 47 percent and 48 percent for these periods, respectively.

## FINANCIAL CONDITION

## Liquidity and Capital Resources

Our financial position as of July 31, 2013 consisted of cash and cash equivalents of \$2,330 million as compared to \$2,351 million as of October 31, 2012.

As of July 31, 2013, approximately \$2,255 million of our cash and cash equivalents is held outside of the U.S. in our foreign subsidiaries. Most of the amounts held outside of the U.S. could be repatriated to the U.S. but, under current law, would be subject to U.S. federal and state income taxes, less applicable foreign tax credits. Agilent has accrued for U.S. federal and state tax liabilities on the earnings of its foreign subsidiaries except when the earnings are considered indefinitely reinvested outside of the U.S. Repatriation could result in additional material U.S. federal and



state income tax payments in future years. We utilize a variety of funding strategies in an effort to ensure that our worldwide cash is available in the locations in which it is needed.

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

Table of Contents

Net Cash Provided by Operating Activities

Net cash provided by operating activities was \$775 million for the nine months ended July 31, 2013 compared to cash provided of \$743 million for the same period in 2012. In the nine months ended July 31, 2013, we paid approximately \$98 million under our variable and incentive pay programs, as compared to \$188 million paid out during the same period of 2012. Net cash paid for income taxes was approximately \$93 million and \$74 million in the nine months ended July 31, 2013 and 2012, respectively.

In the nine months ended July 31, 2013, accounts receivable provided cash of \$31 million compared to cash used of \$22 million for the same period in 2012. Revenue was flat in the nine months ended July 31, 2013 as compared to the same period in 2012. Days' sales outstanding decreased to 48 days as of July 31, 2013 from 50 days a year ago. Accounts payable used cash of \$47 million for the nine months ended July 31, 2013 compared to cash used of \$1 million in the same period in 2012. Cash used for inventory was \$81 million for the nine months ended July 31, 2013 compared to cash used of \$74 million for the same period in 2012. Inventory days on-hand increased to 119 days as of July 31, 2013 compared to 112 days as of the end of the same period last year.

We contributed approximately \$102 million and \$69 million to our defined benefit plans in the nine months ended July 31, 2013 and 2012, respectively. Our annual contributions are highly dependent on the relative performance of our assets versus our projected liabilities, among other factors. We expect to contribute approximately \$14 million to our defined benefit plans during the remainder of 2013.

Net Cash Used in Investing Activities

Net cash used in investing activities was \$197 million for the nine months ended July 31, 2013 as compared to net cash used in investing activities of \$2,274 million for the same period of 2012. Investments in property, plant and equipment were \$163 million for the nine months ended July 31, 2013 compared to \$132 million in the same period of 2012. We expect that total capital expenditures for the current year will be approximately \$220 million. In the nine months ended July 31, 2013, there were \$36 million of purchases of investments including \$21 million for equity method investments. Proceeds from the sale of investments were \$11 million and \$5 million in the nine months ended July 31, 2013 and 2012, respectively. In the nine months ended July 31, 2013, there were \$11 million of business acquisitions and intangibles assets, net of cash acquired, compared to \$2,227 million, primarily related to Dako, in same period last year.

Net Cash Provided by/Used in Financing Activities

Net cash used in financing activities for the nine months ended July 31, 2013 was \$560 million compared to cash used of \$65 million for the same period of 2012.

Treasury stock repurchases

On November 19, 2009 our board of directors approved a share-repurchase program to reduce or eliminate dilution of basic outstanding shares in connection with issuances of stock under the company's equity incentive plans (the "2009 repurchase program"). The 2009 repurchase program did not require the company to acquire a specific number of shares and could be suspended or discontinued at any time. There was no fixed termination date for the 2009 repurchase program.

On January 16, 2013, our board of directors terminated the 2009 repurchase program and approved a new share-repurchase program (the "2013 repurchase program"). The 2013 repurchase program authorized the use of up to \$500 million to repurchase shares of the company's common stock in open market transactions, inclusive of any

amounts repurchased since November 1, 2012. On May 14, 2013 we announced that our board of directors authorized an increase of \$500 million to the 2013 repurchase program bringing the cumulative authorization to \$1 billion. Unless terminated earlier by the board of directors, the 2013 repurchase program is designed to cover purchases until the end of the calendar year and any unused portion may be used in the calendar year 2014. The 2013 repurchase program does not require the company to acquire a specific number of shares and may be suspended or discontinued at any time. As of July 31, 2013, the remaining amount to be repurchased under the 2013 program is \$100 million. We expect the program to be completed by December 31, 2013.

For the nine months ended July 31, 2013, we repurchased 20 million shares for \$900 million. For the nine months ended July 31, 2012, we repurchased 2 million shares for \$78 million. All such shares and related costs are held as treasury stock and accounted for using the cost method.

## Table of Contents

### Dividends

During the three and nine months ended July 31, 2013, we paid cash dividends of \$0.12 per common share or \$41 million and \$0.34 per common share or \$117 million, respectively, on the company's common stock. During the three and nine months ended July 31, 2012, we paid cash dividends of \$0.10 per common share or \$35 million and \$0.20 per common share or \$70 million, respectively, on the company's common stock.

The timing and amounts of any future dividends are subject to determination and approval by our board of directors.

### Credit Facility

On October 20, 2011, we entered into a five-year credit agreement, which provides for a \$400 million unsecured credit facility that will expire on October 20, 2016. The company may use amounts borrowed under the facility for general corporate purposes. As of July 31, 2013 the company had no borrowings outstanding under the facility. We were in compliance with the covenants for the credit facilities during the nine months ended July 31, 2013.

As a result of the Dako acquisition, we have a credit facility in Danish Krone equivalent of \$9 million with a Danish financial institution. As of July 31, 2013 the company had no borrowings outstanding under the facility.

### Short-term debt and Long-term debt

In July 2010, we company issued an aggregate principal amount of \$250 million in senior notes ("2013 senior notes"). The 2013 senior notes matured on July 15, 2013 and were paid in full.

In June 2013, the company issued aggregate principal amount of \$600 million in senior notes ("2023 senior notes"). The 2023 senior notes were issued at 99.544% of their principal amount. The notes will mature on July 15, 2023 and bear interest at a fixed rate of 3.875% per annum. Interest is payable semi annually on January 15th and July 15th of each year. Debt issuance costs of \$5 million were incurred in connection with the 2023 senior notes. These costs were capitalized in other assets and are being amortized to interest expense over the term of the senior notes.

### Other

There were no substantial changes from our 2012 Annual Report on Form 10-K, to our contractual commitments in the first nine months of 2013. We have contractual commitments for non-cancelable operating leases. We have no other material non-cancelable guarantees or commitments.

Other long-term liabilities include \$334 million and \$320 million of liabilities related to uncertain tax positions as of July 31, 2013 and October 31, 2012, respectively. We are unable to accurately predict when these amounts will be realized or released.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to foreign currency exchange rate risks inherent in our sales commitments, anticipated sales, and assets and liabilities denominated in currencies other than the functional currency of our subsidiaries. We hedge future cash flows denominated in currencies other than the functional currency using sales forecasts up to twelve months in advance. Our exposure to exchange rate risks is managed on an enterprise-wide basis. This strategy utilizes derivative financial instruments, including option and forward contracts, to hedge certain foreign currency exposures with the intent of offsetting gains and losses that occur on the underlying exposures with gains and losses on the derivative contracts hedging them. We do not currently and do not intend to utilize derivative financial instruments for

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

Our operations generate non-functional currency cash flows such as revenues, third party vendor payments and inter-company payments. In anticipation of these foreign currency cash flows and in view of volatility of the currency market, we enter into such foreign exchange contracts as are described above to manage our currency risk. Approximately 64 percent and 65 percent of our revenues were generated in U.S. dollars during the three months ended July 31, 2013 and 2012, respectively.

We performed a sensitivity analysis assuming a hypothetical 10 percent adverse movement in foreign exchange rates to the hedging contracts and the underlying exposures described above. As of July 31, 2013, the analysis indicated that these hypothetical

## Table of Contents

market movements would not have a material effect on our condensed consolidated financial position, results of operations or cash flows.

We are also exposed to interest rate risk due to the mismatch between the interest expense we pay on our loans at fixed rates and the variable rates of interest we receive from cash, cash equivalents and other short-term investments. We have issued long-term debt in U.S. dollars or foreign currencies at fixed interest rates based on the market conditions at the time of financing. We believe that the fair value of our fixed rate debt changes when the underlying market rates of interest change, and we may use interest rate swaps to modify such market risk.

We performed a sensitivity analysis assuming a hypothetical 10 percent adverse movement in interest rates relating to the underlying fair value of our fixed rate debt. As of July 31, 2013, the sensitivity analyses indicated that a hypothetical 10 percent adverse movement in interest rates would result in an immaterial impact to the fair value of our fixed interest rate debt.

## ITEM 4. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

### Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended July 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We are involved in lawsuits, claims, investigations and proceedings, including, but not limited to, patent, commercial and environmental matters, which arise in the ordinary course of business. There are no matters pending that we currently believe are probable of having a material impact to our business, consolidated financial condition, results of operations or cash flows.

On March 4, 2013, we made a report to the Inspector General of the Department of Defense (“DOD IG”) regarding pricing irregularities relating to certain sales of electronic measurement products to U.S. government agencies. We have conducted a thorough investigation with the help of external counsel, and we have approached the DOD IG with a proposed methodology for resolving possible overcharges to U.S. government purchasers resulting from these sales. Based on our investigation and our interactions with the DOD IG, we do not believe that this matter is reasonably possible of having a material impact on Agilent's financial condition, results of operations or cash flows. As of July 31, 2013, we have accrued for this matter based on our current understanding.

As part of routine internal audit activities, the Company determined that certain employees of Agilent's subsidiaries in China did not comply with the Company's Standards of Business Conduct and other policies. Based on those findings, the Company has initiated an internal investigation, with the assistance of outside counsel, relating to certain

sales of our products through third party intermediaries in China. The internal investigation includes a review of compliance by our employees in China with the requirements of the U.S. Foreign Corrupt Practices Act and other applicable laws and regulations. On September 5, 2013, the Company voluntarily contacted the United States Securities and Exchange Commission and United States Department of Justice to advise both agencies of this internal investigation. We will cooperate with any government investigation of this matter. At this point, we cannot predict or estimate the duration, scope, cost, or result of this matter, or whether the government will commence any legal action, which could result in possible fines and penalties, criminal or civil sanctions, or other consequences. Accordingly, no provision with respect to these matters has been made in the Company's consolidated financial statements. Adverse findings or other negative outcomes from any governmental proceedings could have a material impact on the Company's consolidated financial statements in future periods.

#### ITEM 1A. RISK FACTORS

##### Risks, Uncertainties and Other Factors That May Affect Future Results

43

---

Table of Contents

Depressed general economic conditions may adversely affect our operating results and financial condition.

Our business is sensitive to negative changes in general economic conditions, both inside and outside the U.S. The continued economic downturn may adversely impact our business resulting in:

- reduced demand for our products, delays in the shipment of orders, or increases in order cancellations;
- increased risk of excess and obsolete inventories;
- increased price pressure for our products and services; and
- greater risk of impairment to the value, and a detriment to the liquidity, of our investment portfolio.

Our operating results and financial condition could be harmed if the markets into which we sell our products decline or do not grow as anticipated.

Visibility into our markets is limited. Our quarterly sales and operating results are highly dependent on the volume and timing of orders received during the fiscal quarter, which are difficult to forecast and may be cancelled by our customers. In addition, our revenues and earnings forecasts for future fiscal quarters are often based on the expected seasonality or cyclicity of our markets. However, the markets we serve do not always experience the seasonality or cyclicity that we expect. Any decline in our customers' markets or in general economic conditions, including declines related to the current market disruptions described above, would likely result in a reduction in demand for our products and services. The broader semiconductor market is one of the drivers for our electronic measurement business, and therefore, a decrease in the semiconductor market could harm our electronic measurement business. Also, if our customers' markets decline, we may not be able to collect on outstanding amounts due to us. Such declines could harm our consolidated financial position, results of operations, cash flows and stock price, and could limit our profitability. Also, in such an environment, pricing pressures could intensify. Since a significant portion of our operating expenses is relatively fixed in nature due to sales, research and development and manufacturing costs, if we were unable to respond quickly enough these pricing pressures could further reduce our operating margins.

If we do not introduce successful new products and services in a timely manner, our products and services will become obsolete, and our operating results will suffer.

We generally sell our products in industries that are characterized by rapid technological changes, frequent new product and service introductions and changing industry standards. In addition, many of the markets in which we operate are seasonal and cyclical. Without the timely introduction of new products, services and enhancements, our products and services will become technologically obsolete over time, in which case our revenue and operating results would suffer. The success of our new products and services will depend on several factors, including our ability to:

- properly identify customer needs;
- innovate and develop new technologies, services and applications;
- successfully commercialize new technologies in a timely manner;
- manufacture and deliver our products in sufficient volumes and on time;
- differentiate our offerings from our competitors' offerings;
- price our products competitively;
- anticipate our competitors' development of new products, services or technological innovations; and
- control product quality in our manufacturing process.

Failure to adjust our purchases due to changing market conditions or failure to estimate our customers' demand could adversely affect our income.



Our income could be harmed if we are unable to adjust our purchases to reflect market fluctuations, including those caused by the seasonal or cyclical nature of the markets in which we operate. The sale of our products and services are dependent, to a large degree, on customers whose industries are subject to seasonal or cyclical trends in the demand for their products. For example, the consumer electronics market is particularly volatile, making demand difficult to anticipate. During a market upturn, we may not be able to purchase sufficient supplies or components to meet increasing product demand, which could materially affect our results. In the past we have seen a shortage of parts for some of our products. In addition, some of the parts that require custom design are not readily available from alternate suppliers due to their unique design or the length of time necessary for design work. Should a supplier cease manufacturing such a component, we would be forced to reengineer our product. In addition to discontinuing parts, suppliers may also extend lead times, limit supplies or increase prices due to capacity constraints or other factors. In order to secure components for the production of products, we may continue to enter into non-cancelable purchase commitments with vendors, or at times make advance payments to suppliers, which could impact our ability to adjust our inventory to declining

## Table of Contents

market demands. Prior commitments of this type have resulted in an excess of parts when demand for our communications and electronics products has decreased. If demand for our products is less than we expect, we may experience additional excess and obsolete inventories and be forced to incur additional charges.

Economic, political and other risks associated with international sales and operations could adversely affect our results of operations.

Because we sell our products worldwide, our business is subject to risks associated with doing business internationally. We anticipate that revenue from international operations will continue to represent a majority of our total revenue. In addition, many of our employees, contract manufacturers, suppliers, job functions and manufacturing facilities are located outside the U.S. Accordingly, our future results could be harmed by a variety of factors, including:

- interruption to transportation flows for delivery of parts to us and finished goods to our customers;
- changes in foreign currency exchange rates;
- changes in a specific country's or region's political, economic or other conditions;
- trade protection measures and import or export licensing requirements;
- negative consequences from changes in tax laws including changes to U.S. tax legislation that could materially increase our effective tax rate;
- difficulty in staffing and managing widespread operations;
- differing labor regulations;
- differing protection of intellectual property;
- unexpected changes in regulatory requirements; and
- geopolitical turmoil, including terrorism and war.

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

Additionally, we must comply with complex foreign and U.S. laws and regulations, such as the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and other local laws prohibiting corrupt payments to governmental officials, and anti-competition regulations. Violations of these laws and regulations could result in fines and penalties, criminal sanctions, restrictions on our business conduct and on our ability to offer our products in one or more countries, and could also materially affect our brand, our ability to attract and retain employees, our international operations, our business and our operating results. Although we have implemented policies and procedures designed to ensure compliance with these laws and regulations, there can be no assurance that our employees, contractors, or agents will not violate our policies. See Item 1. "Legal Proceedings", above. If government action results from our China investigation, we could face possible fines and penalties, criminal or civil sanctions, or other consequences, and our business could suffer.

In addition, although the majority of our products are priced and paid for in U.S. dollars, a significant amount of certain types of expenses, such as payroll, utilities, tax, and marketing expenses, are paid in local currencies. Our hedging programs reduce, but do not always entirely eliminate, within any given twelve month period, the impact of currency exchange rate movements, and therefore fluctuations in exchange rates, including those caused by currency controls, could impact our business operating results and financial condition by resulting in lower revenue or increased expenses. However, for expenses beyond that twelve month period, our hedging strategy does not mitigate our exposure. In addition, our currency hedging programs involve third party financial institutions as counterparties.

The weakening or failure of financial institution counterparties may adversely affect our hedging programs and our financial condition through, among other things, a reduction in available counterparties, increasingly unfavorable terms, and the failure of the counterparties to perform under hedging contracts.

Our business will suffer if we are not able to retain and hire key personnel.

Our future success depends partly on the continued service of our key research, engineering, sales, marketing, manufacturing, executive and administrative personnel. If we fail to retain and hire a sufficient number of these personnel, we will not be able to maintain or expand our business. The markets in which we operate are very dynamic, and our businesses continue to respond with reorganizations, workforce reductions and site closures. We believe our pay levels are very competitive within the regions that we operate. However, there is also intense competition for certain highly technical specialties in geographic areas where we continue to recruit, and it may become more difficult to retain our key employees, especially in light of our ongoing restructuring efforts.

Our acquisitions, strategic alliances, joint ventures and divestitures may result in financial results that are different than

45

---

Table of Contents

expected.

In the normal course of business, we frequently engage in discussions with third parties relating to possible acquisitions, strategic alliances, joint ventures and divestitures, and generally expect to complete several transactions per year. For example, during fiscal 2011, we completed the acquisitions of A2 Technologies, Lab901 and Biocius Life Sciences Inc. During fiscal 2012, we completed various acquisitions, including Dako A/S, BioSystem Development LLC, Halo Genomics AB, the test systems division of AT4 wireless, and the test and measurement businesses of Centellax Inc. As a result of such transactions, our financial results may differ from our own or the investment community's expectations in a given fiscal quarter, or over the long term. Such transactions often have post-closing arrangements including but not limited to post-closing adjustments, transition services, escrows or indemnifications, the financial results of which can be difficult to predict. In addition, acquisitions and strategic alliances may require us to integrate a different company culture, management team and business infrastructure. We may have difficulty developing, manufacturing and marketing the products of a newly acquired company in a way that enhances the performance of our combined businesses or product lines to realize the value from expected synergies. Depending on the size and complexity of an acquisition, our successful integration of the entity depends on a variety of factors, including:

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

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

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

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

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

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

We may not achieve the desired benefits from our acquisition of Dako. In addition, the operation of Dako within Agilent could be a costly and time-consuming process that involves a number of risks, including, but not limited to:

- difficulties in the assimilation of different corporate cultures, practices and sales and distribution methodologies, as well as in the assimilation and retention of geographically dispersed, decentralized operations and personnel;
- the potential loss of key personnel who choose not to remain with Dako or Agilent;
- the potential loss of key customers or suppliers who choose not to do business with the combined business; and
- the use of cash resources and increased capital expenditures on additional investment or research and development activities in excess of our current expectations, which could offset any synergies resulting from the Dako acquisition and limit other potential uses of our cash, including stock repurchases and retirement of outstanding debt.

## Table of Contents

Even if we are able to successfully operate Dako within Agilent, we may not be able to realize the revenue and other synergies and growth that we anticipate from the acquisition in the time frame that we currently expect, and the costs of achieving these benefits may be higher than what we currently expect, because of a number of risks, including, but not limited to:

- the possibility that the acquisition may not further our business strategy as we expected;
- the possibility that we may not be able to expand the reach and customer base for Dako current and future products as expected;
- the possibility that we may not be able to expand the reach and customer base for Agilent products as expected;
- the possibility that the carrying amounts of goodwill and other purchased intangible assets may not be recoverable;
- and
- the fact that the acquisition will substantially expand our diagnostics business, and we may not experience anticipated growth in that market.

As a result of these risks, the Dako acquisition may not contribute to our earnings as expected, we may not achieve expected revenue synergies or our return on invested capital targets when expected, or at all, and we may not achieve the other anticipated strategic and financial benefits of this transaction.

The impact of consolidation and acquisitions of competitors is difficult to predict and may harm our business.

The electronic measurement and life sciences industries are intensely competitive and have been subject to increasing consolidation. For instance, Danaher Corporation completed its acquisition of IRIS International in November 2012; Thermo Fisher Scientific announced its acquisition of Life Technologies in April 2013 and completed its acquisitions of Doe & Ingalls in May 2012 and One Lambda in September 2012; and PerkinElmer completed its acquisition of Haoyuan Biotech in November 2012. Consolidation in our industries could result in existing competitors increasing their market share through business combinations and result in stronger competitors, which could have a material adverse effect on our business, financial condition and results of operations. We may not be able to compete successfully in increasingly consolidated industries and cannot predict with certainty how industry consolidation will affect our competitors or us.

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

As part of our efforts to streamline operations and to cut costs, we outsource aspects of our manufacturing processes and other functions and continue to evaluate additional outsourcing. If our contract manufacturers or other outsourcers fail to perform their obligations in a timely manner or at satisfactory quality levels, our ability to bring products to market and our reputation could suffer. For example, during a market upturn, our contract manufacturers may be unable to meet our demand requirements, which may preclude us from fulfilling our customers' orders on a timely basis. The ability of these manufacturers to perform is largely outside of our control. Additionally, changing or replacing our contract manufacturers or other outsourcers could cause disruptions or delays. In addition, we outsource significant portions of our information technology ("IT") and other administrative functions. Since IT is critical to our operations, any failure to perform on the part of our IT providers could impair our ability to operate effectively. In addition to the risks outlined above, problems with manufacturing or IT outsourcing could result in lower revenues, unexecuted efficiencies, and impact our results of operations and our stock price. Much of our outsourcing takes place in developing countries and, as a result, may be subject to geopolitical uncertainty.

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

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

Our operating results may suffer if our manufacturing capacity does not match the demand for our products.

Because we cannot immediately adapt our production capacity and related cost structures to rapidly changing market conditions, when demand does not meet our expectations, our manufacturing capacity will likely exceed our production requirements. If, during a general market upturn or an upturn in one of our segments, we cannot increase our manufacturing

Table of Contents

capacity to meet product demand, we will not be able to fulfill orders in a timely manner which could lead to order cancellations, contract breaches or indemnification obligations. This inability could materially and adversely limit our ability to improve our results. By contrast, if during an economic downturn we had excess manufacturing capacity, then our fixed costs associated with excess manufacturing capacity would adversely affect our income, margins, and operating results.

Demand for some of our products and services depends on capital spending policies of our customers and on government funding policies.

Our customers include pharmaceutical companies, laboratories, universities, healthcare providers, government agencies and public and private research institutions. Fluctuations in the research and development budgets at these organizations could have a significant effect on the demand for our products and services. Many factors, including public policy spending priorities, available resources, mergers and consolidation, spending priorities, institutional and governmental budgetary policies and product and economic cycles, have a significant effect on the capital spending policies of these entities. These policies in turn can have a significant effect on the demand for our products and services. If demand for our products and services is adversely affected, our revenue and operating results would suffer.

Environmental contamination from past operations could subject us to unreimbursed costs and could harm on-site operations and the future use and value of the properties involved and environmental contamination caused by ongoing operations could subject us to substantial liabilities in the future.

Some of our properties are undergoing remediation by the Hewlett-Packard Company ("HP") for subsurface contaminations that were known at the time of our separation from HP. HP has agreed to retain the liability for this subsurface contamination, perform the required remediation and indemnify us with respect to claims arising out of that contamination. HP will have access to our properties to perform remediation. While HP has agreed to minimize interference with on-site operations at those properties, remediation activities and subsurface contamination may require us to incur unreimbursed costs and could harm on-site operations and the future use and value of the properties. We cannot be sure that HP will continue to fulfill its indemnification or remediation obligations. In addition, the determination of the existence and cost of any additional contamination caused by us could involve costly and time-consuming negotiations and litigation.

We have agreed to indemnify HP for any liability associated with contamination from past operations at all other properties transferred from HP to us, other than those properties currently undergoing remediation by HP. While we are not aware of any material liabilities associated with any potential subsurface contamination at any of those properties, subsurface contamination may exist, and we may be exposed to material liability as a result of the existence of that contamination.

Our current and historical manufacturing processes involve, or have involved, the use of substances regulated under various international, federal, state and local laws governing the environment. As a result, we may become subject to liabilities for environmental contamination, and these liabilities may be substantial. While we have divested substantially all of our semiconductor related businesses to Avago and Verigy and regardless of indemnification arrangements with those parties, we may still become subject to liabilities for historical environmental contamination related to those businesses. Although our policy is to apply strict standards for environmental protection at our sites inside and outside the U.S., even if the sites outside the U.S. are not subject to regulations imposed by foreign governments, we may not be aware of all conditions that could subject us to liability.

As part of our acquisition of Varian, we assumed the liabilities of Varian, including Varian's costs and potential liabilities for environmental matters. One such cost is our obligation, along with the obligation of Varian Semiconductor Equipment Associates, Inc. ("VSEA") (under the terms of a Distribution Agreement between Varian,



VSEA and Varian Medical Systems, Inc. ("VMS")) to each indemnify VMS for one-third of certain costs (after adjusting for any insurance proceeds and tax benefits recognized or realized by VMS for such costs) relating to (a) environmental investigation, monitoring and/or remediation activities at certain facilities previously operated by Varian Associates, Inc. ("VAI") and third-party claims made in connection with environmental conditions at those facilities, and (b) U.S. Environmental Protection Agency or third-party claims alleging that VAI or VMS is a potentially responsible party under the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended ("CERCLA") in connection with certain sites to which VAI allegedly shipped manufacturing waste for recycling, treatment or disposal (the "CERCLA sites"). With respect to the facilities formerly operated by VAI, VMS is overseeing the environmental investigation, monitoring and/or remediation activities, in most cases under the direction of, or in consultation with, federal, state and/or local agencies, and handling third-party claims. VMS is also handling claims relating to the CERCLA sites. Although any ultimate liability arising from environmental-related matters could result in significant expenditures that, if aggregated and assumed to occur within a single fiscal year, could be material to our financial statements, the likelihood of such occurrence is considered remote. Based on information currently available and our best assessment of the ultimate amount and timing of environmental-related events, management believes that the costs of environmental-related matters are unlikely to have a material adverse effect on our financial condition or results of operations.

## Table of Contents

Our customers and we are subject to various governmental regulations, compliance with or changes in such regulations may cause us to incur significant expenses, and if we fail to maintain satisfactory compliance with certain regulations, we may be forced to recall products and cease their manufacture and distribution, and we could be subject to civil or criminal penalties.

Our customers and we are subject to various significant international, federal, state and local regulations, including but not limited to health and safety, packaging, product content, labor and import/export regulations. These regulations are complex, change frequently and have tended to become more stringent over time. We may be required to incur significant expenses to comply with these regulations or to remedy violations of these regulations. Any failure by us to comply with applicable government regulations could also result in cessation of our operations or portions of our operations, product recalls or impositions of fines and restrictions on our ability to carry on or expand our operations. In addition, because many of our products are regulated or sold into regulated industries, we must comply with additional regulations in marketing our products. We develop, configure and market our products to meet customer needs created by these regulations. Any significant change in these regulations could reduce demand for our products, force us to modify our products to comply with new regulations or increase our costs of producing these products. If demand for our products is adversely affected or our costs increase, our business would suffer.

Our products and operations are also often subject to the rules of industrial standards bodies, like the International Standards Organization, as well as regulation by other agencies such as the U.S. Federal Communications Commission. We also must comply with work safety rules. If we fail to adequately address any of these regulations, our businesses could be harmed.

Some of our life sciences, chemical analysis and diagnostics and genomics products are exposed to particular complex regulations such as regulations of toxic substances and medical devices, and failure to comply with such regulations could harm our business.

Some of our chemical analysis products and related consumables marketed by our chemical analysis and life sciences businesses are used in conjunction with chemicals whose manufacture, processing, distribution and notification requirements are regulated by the U.S. Environmental Protection Agency under the Toxic Substances Control Act, and by regulatory bodies in other countries with similar laws. The Toxic Substances Control Act regulations govern, among other things, the testing, manufacture, processing and distribution of chemicals, the testing of regulated chemicals for their effects on human health and safety and import and export of chemicals. The Toxic Substances Control Act prohibits persons from manufacturing any chemical in the U.S. that has not been reviewed by EPA for its effect on health and safety, and placed on an EPA inventory of chemical substances. We must conform the manufacturing, processing, distribution of and notification about these chemicals to these laws and adapt to regulatory requirements in all applicable countries as these requirements change. If we fail to comply with the notification, record-keeping and other requirements in the manufacture or distribution of our products, then we could be made to pay civil penalties, face criminal prosecution and, in some cases, be prohibited from distributing or marketing our products until the products or component substances are brought into compliance.

A number of our products from our life sciences, chemical analysis and diagnostics and genomics businesses are subject to regulation by the United States Food and Drug Administration ("FDA") and certain similar foreign regulatory agencies. In addition, a number of our products may be in the future subject to regulation by the FDA and certain similar foreign regulatory agencies. As such, we continually invest in our manufacturing infrastructure to gain and maintain certifications necessary for the level of clearance. Our pathology manufacturing facilities in Denmark and California have established quality management systems and manufacturing practices designed to comply with the adequate standards for the in vitro diagnostics industry, including ISO 13485 Medical devices and FDA 21CFR Part 820 quality system regulation as well as additional international standards. Our genomics Cedar Creek, Texas

manufacturing facility has been registered with the FDA as a medical device manufacturing facility. This FDA registered facility is the site where our class I ASR SureFISH products are manufactured. Additionally, other facilities maintain ISO 13485 manufacturing compliance. If we or any of our suppliers or distributors fail to comply with FDA and other applicable regulatory requirements or are perceived to potentially have failed to comply, we may face, among other things, adverse publicity affecting both us and our customers, investigations or notices of non-compliance, fines, injunctions, and civil penalties; partial suspensions or total shutdown of production facilities or the imposition of operating restrictions; increased difficulty in obtaining required FDA clearances or approvals; seizures or recalls of our products or those of our customers; or the inability to sell our products.

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

We derive a portion of our revenues from direct and indirect sales to U.S., state, local, and foreign governments and their respective agencies. Such contracts are subject to various procurement laws and regulations, and contract provisions relating to their formation, administration and performance. Failure to comply with these laws, regulations or provisions in our government contracts could result in the imposition of various civil and criminal penalties, termination of contracts, forfeiture of profits,

Table of Contents

suspension of payments, or suspension from future government contracting. On March 4, 2013, we made a report to the Inspector General of the Department of Defense regarding pricing irregularities relating to certain sales of electronic measurement products to U.S. government agencies. See Item 1. "Legal Proceedings", above. If our government contracts are terminated, if we are suspended from government work, or if our ability to compete for new contracts is adversely affected, our business could suffer.

New regulations related to "conflict minerals" may cause us to incur additional expenses and could limit the supply and increase the cost of certain metals used in manufacturing our products.

On August 22, 2012, the SEC adopted a new rule requiring disclosures by public companies of specified minerals, known as conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured. The new rule, which went into effect for calendar year 2013 and requires a disclosure report to be filed with the SEC by May 31, 2014, will require companies to perform due diligence, disclose and report whether or not such minerals originate from the Democratic Republic of Congo or an adjoining country. The new rule could affect sourcing at competitive prices and availability in sufficient quantities of certain minerals used in the manufacture of our products, including tin, gold and tungsten. The number of suppliers who provide conflict-free minerals may be limited. In addition, there may be material costs associated with complying with the disclosure requirements, such as costs related to the due diligence process of determining the source of certain minerals used in our products, as well as costs of possible changes to products, processes, or sources of supply as a consequence of such verification activities. As our supply chain is complex and we use contract manufacturers for some of our products, we may not be able to sufficiently verify the origins of the relevant minerals used in our products through the due diligence procedures that we implement, which may harm our reputation. We may also encounter challenges to satisfy those customers who require that all of the components of our products be certified as conflict-free, which could place us at a competitive disadvantage if we are unable to do so.

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

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

Third parties may claim that we are infringing their intellectual property and we could suffer significant litigation or licensing expenses or be prevented from selling products or services.

From time to time, third parties may claim that one or more of our products or services infringe their intellectual property rights. We analyze and take action in response to such claims on a case by case basis. Any dispute or litigation regarding patents or other intellectual property could be costly and time-consuming due to the complexity of our technology and the uncertainty of intellectual property litigation and could divert our management and key personnel from our business operations. A claim of intellectual property infringement could force us to enter into a costly or restrictive license agreement, which might not be available under acceptable terms or at all, could require us to redesign our products, which would be costly and time-consuming, and/or could subject us to significant damages or to an injunction against development and sale of certain of our products or services. Our intellectual property portfolio may not be useful in asserting a counterclaim, or negotiating a license, in response to a claim of intellectual property infringement. In certain of our businesses we rely on third party intellectual property licenses and we cannot ensure that these licenses will be available to us in the future on favorable terms or at all.

Third parties may infringe our intellectual property and we may suffer competitive injury or expend significant resources enforcing our rights.

Our success depends in large part on our proprietary technology, including technology we obtained through acquisitions. We rely on various intellectual property rights, including patents, copyrights, trademarks and trade secrets, as well as confidentiality provisions and licensing arrangements, to establish our proprietary rights. If we do not enforce our intellectual property rights successfully our competitive position may suffer which could harm our operating results.

Our pending patent applications, and our pending copyright and trademark registration applications, may not be allowed or competitors may challenge the validity or scope of our patents, copyrights or trademarks. In addition, our patents, copyrights, trademarks and other intellectual property rights may not provide us a significant competitive advantage.

We may need to spend significant resources monitoring our intellectual property rights and we may or may not be able to detect infringement by third parties. Our competitive position may be harmed if we cannot detect infringement and enforce our

Table of Contents

intellectual property rights quickly or at all. In some circumstances, we may choose to not pursue enforcement because an infringer has a dominant intellectual property position or for other business reasons. In addition, competitors might avoid infringement by designing around our intellectual property rights or by developing non-infringing competing technologies. Intellectual property rights and our ability to enforce them may be unavailable or limited in some countries which could make it easier for competitors to capture market share and could result in lost revenues. Furthermore, some of our intellectual property is licensed to others which allow them to compete with us using that intellectual property.

We are subject to ongoing tax examinations of our tax returns by the Internal Revenue Service and other tax authorities. An adverse outcome of any such audit or examination by the IRS or other tax authority could have a material adverse effect on our results of operations, financial condition and liquidity.

We are subject to ongoing tax examinations of our tax returns by the U.S. Internal Revenue Service and other tax authorities in various jurisdictions. We regularly assess the likelihood of adverse outcomes resulting from ongoing tax examinations to determine the adequacy of our provision for income taxes. These assessments can require considerable estimates and judgments. Intercompany transactions associated with the sale of inventory, services, intellectual property and cost share arrangements are complex and affect our tax liabilities. The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in multiple jurisdictions. There can be no assurance that the outcomes from ongoing tax examinations will not have an adverse effect on our operating results and financial condition. A difference in the ultimate resolution of tax uncertainties from what is currently estimated could have an adverse effect on our operating results and financial condition.

If tax incentives change or cease to be in effect, our income taxes could increase significantly.

Agilent benefits from tax incentives extended to its foreign subsidiaries to encourage investment or employment. Several jurisdictions have granted Agilent tax incentives which require renewal at various times in the future. The incentives are conditioned on achieving various thresholds of investments and employment, or specific types of income. Agilent's taxes could increase if the incentives are not renewed upon expiration. If Agilent cannot or does not wish to satisfy all or parts of the tax incentive conditions, we may lose the related tax incentive and could be required to refund tax incentives previously realized. As a result, our effective tax rate could be higher than it would have been had we maintained the benefits of the tax incentives.

We have substantial cash requirements in the United States while most of our cash is generated outside of the United States. The failure to maintain a level of cash sufficient to address our cash requirements in the United States could adversely affect our financial condition and results of operations.

Although the cash generated in the United States from our operations covers our normal operating requirements and debt service requirements, a substantial amount of additional cash is required for special purposes such as the maturity of our debt obligations, our stock repurchase program, our declared dividends and acquisitions of third parties. Our business operating results, financial condition, and strategic initiatives could be adversely impacted if we were unable to address our U.S. cash requirements through (1) the efficient and timely repatriations of overseas cash or (2) other sources of cash obtained at an acceptable cost.

We have outstanding debt and may incur other debt in the future, which could adversely affect our financial condition, liquidity and results of operations.

We currently have outstanding an aggregate principal amount of \$2.6 billion in senior unsecured notes and a \$45 million secured mortgage. We also are a party to a five-year senior unsecured revolving credit facility which expires in October, 2016 and under which we may borrow up to \$400 million and a Danish Krone denominated credit facility

equivalent to \$9 million. We may borrow additional amounts in the future and use the proceeds from any future borrowing for general corporate purposes, other future acquisitions, expansion of our business or repurchases of our outstanding shares of common stock.

Our incurrence of this debt, and increases in our aggregate levels of debt, may adversely affect our operating results and financial condition by, among other things:

• increasing our vulnerability to downturns in our business, to competitive pressures and to adverse economic and industry conditions;

• requiring the dedication of an increased portion of our expected cash from operations to service our indebtedness, thereby reducing the amount of expected cash flow available for other purposes, including capital expenditures, acquisitions and stock repurchases; and

• limiting our flexibility in planning for, or reacting to, changes in our business and our industry.

Table of Contents

Our current revolving credit facility imposes restrictions on us, including restrictions on our ability to create liens on our assets and the ability of our subsidiaries to incur indebtedness, and requires us to maintain compliance with specified financial ratios. Our ability to comply with these ratios may be affected by events beyond our control. In addition, the indenture governing our senior notes contains covenants that may adversely affect our ability to incur certain liens or engage in certain types of sale and leaseback transactions. If we breach any of the covenants and do not obtain a waiver from the lenders, then, subject to applicable cure periods, our outstanding indebtedness could be declared immediately due and payable.

If we suffer a loss to our factories, facilities or distribution system due to catastrophe, our operations could be seriously harmed.

Our factories, facilities and distribution system are subject to catastrophic loss due to fire, flood, terrorism or other natural or man-made disasters. In particular, several of our facilities could be subject to a catastrophic loss caused by earthquake due to their locations. Our production facilities, headquarters and Agilent Technologies Laboratories in California, and our production facilities in Japan, are all located in areas with above-average seismic activity. If any of these facilities were to experience a catastrophic loss, it could disrupt our operations, delay production, shipments and revenue and result in large expenses to repair or replace the facility. If such a disruption were to occur, we could breach agreements, our reputation could be harmed, and our business and operating results could be adversely affected. In addition, since we have consolidated our manufacturing facilities, we are more likely to experience an interruption to our operations in the event of a catastrophe in any one location. Although we carry insurance for property damage and business interruption, we do not carry insurance or financial reserves for interruptions or potential losses arising from earthquakes or terrorism. Also, our third party insurance coverage will vary from time to time in both type and amount depending on availability, cost and our decisions with respect to risk retention. Economic conditions and uncertainties in global markets may adversely affect the cost and other terms upon which we are able to obtain third party insurance. If our third party insurance coverage is adversely affected, or to the extent we have elected to self-insure, we may be at a greater risk that our operations will be harmed by a catastrophic loss.

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

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

Adverse conditions in the global banking industry and credit markets may adversely impact the value of our cash investments or impair our liquidity.

As of July 31, 2013, we had cash and cash equivalents of approximately \$2.33 billion invested or held in a mix of money market funds, time deposit accounts and bank demand deposit accounts. Disruptions in the financial markets may, in some cases, result in an inability to access assets such as money market funds that traditionally have been viewed as highly liquid. Any failure of our counterparty financial institutions or funds in which we have invested may adversely impact our cash and cash equivalent positions and, in turn, our results and financial condition.





Table of Contents

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## ISSUER PURCHASES OF EQUITY SECURITIES

The table below summarizes information about the Company's purchases, based on trade date; of its equity securities registered pursuant to Section 12 of the Exchange Act during the quarterly period ended July 31, 2013.

Period	Total Number of Shares of Common Stock Purchased (1)	Weighted Average Price Paid per Share of Common Stock (2)	Total Number of Shares of Common Stock Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Approximate Dollar Value of Shares of Common Stock that May Yet Be Purchased Under the Plans or Programs (in millions)
	(a)	(b)	(c)	(d)
May. 1, 2013 through May. 31, 2013	4,344,000	\$46.16	4,344,000	\$ 581
Jun. 1, 2013 through Jun. 30, 2013	5,585,193	\$43.57	5,585,193	\$ 337
Jul. 1, 2013 through Jul. 31, 2013	5,301,337	\$44.73	5,301,337	\$ 100
Total	15,230,530	\$44.71	15,230,530	

On January 17, 2013, we announced that our board of directors approved a share repurchase program authorizing the use of up to \$500 million to repurchase shares of the Company's common stock in open market transactions, inclusive of any amounts repurchased since November 1, 2012 (the "2013 Repurchase Program"). On May 14, 2013, we announced that our board of directors authorized a \$500 million increase to the 2013 Repurchase Program, (1) bringing the cumulative authorization to \$1 billion. Unless terminated earlier by the board of directors, the 2013 Repurchase Program is designed to cover purchases from November 1, 2012 through December 31, 2013, and any unused portion may be used in calendar year 2014. The 2013 Repurchase Program does not require the Company to acquire a specific number of shares and may be suspended or discontinued at any time. As of July 31, 2013, \$100 million remained under the 2013 Repurchase Program.

(2) The weighted average price paid per share of common stock does not include the cost of commissions.

## ITEM 6. EXHIBITS

(a) Exhibits:

A list of exhibits is set forth in the Exhibit Index found on page 55 of this report.

Table of Contents

AGILENT TECHNOLOGIES, INC.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: September 6, 2013

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

Dated: September 6, 2013

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

Table of Contents

AGILENT TECHNOLOGIES, INC.

EXHIBIT INDEX

Exhibit Number	Description
11.1	See Note 5, "Net Income Per Share", to our Condensed Consolidated Financial Statements on page 12.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS XBRL	Instance Document
101.SCH XBRL	Schema Document
101.CAL XBRL	Calculation Linkbase Document
101.LAB XBRL	Labels Linkbase Document
101.PRE XBRL	Presentation Linkbase Document
101.DEF XBRL	Definition Linkbase Document