AGILENT TECHNOLOGIES INC
Form 10-Q
September 05, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JULY 31, 2008

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 001-15405

AGILENT TECHNOLOGIES, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	**77-0518772** (IRS EMPLOYER IDENTIFICATION NO.)

5301 STEVENS CREEK BLVD.,

SANTA CLARA, CALIFORNIA	**95051**
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE: **(408) 553-2424**

(FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR, IF CHANGED SINCE LAST REPORT)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS. YES x NO o

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A LARGE ACCELERATED FILER, AN ACCELERATED FILER, A NON-ACCELERATED FILER, OR A SMALLER REPORTING COMPANY. SEE DEFINITIONS OF LARGE ACCELERATED FILER, ACCELERATED FILER, AND SMALLER REPORTING COMPANY IN RULE 12b-2 OF THE EXCHANGE ACT.

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

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED IN RULE 12b-2 OF THE EXCHANGE ACT). YES o NO x

INDICATE THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE ISSUER S CLASSES OF COMMON STOCK, AS OF THE LATEST PRACTICABLE DATE.

CLASS	**OUTSTANDING JULY 31, 2008**
COMMON STOCK, $0.01 PAR VALUE	357,541,353 SHARES

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PART I FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

AGILENT TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(in millions, except per share amounts)

(Unaudited)

	Three Months Ended July 31, 2008	Three Months Ended July 31, 2007	Nine Months Ended July 31, 2008	Nine Months Ended July 31, 2007
Net revenue:				
Products	$ 1,195	$ 1,140	$ 3,570	$ 3,300
Services and other	249	234	723	674
Total net revenue	1,444	1,374	4,293	3,974
Costs and expenses:				
Cost of products	505	484	1,518	1,408
Cost of services and other	136	132	409	387
Total costs	641	616	1,927	1,795
Research and development	170	170	534	511
Selling, general and administrative	415	420	1,289	1,274
Total costs and expenses	1,226	1,206	3,750	3,580
Income from operations	218	168	543	394
Interest income	23	42	89	136
Interest expense	(31)	(23)	(90)	(68)
Other income (expense), net	5	3	16	7
Income before taxes	215	190	558	469
Provision for income taxes	46	5	96	11
Net income	$ 169	$ 185	$ 462	$ 458
Net income per share basic:	$ 0.47	$ 0.47	$ 1.27	$ 1.15
Net income per share diluted:	$ 0.45	$ 0.45	$ 1.23	$ 1.11
Weighted average shares used in computing net income per share:				
Basic	362	392	365	400
Diluted	372	407	375	412

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

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AGILENT TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEET

(in millions, except par value and share amounts)

(Unaudited)

	July 31, 2008	October 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,640	$ 1,826
Short-term investments	29	
Accounts receivable, net	761	735
Inventory	674	643
Restricted cash and cash equivalents	1,570	
Other current assets	400	467
Total current assets	5,074	3,671
Property, plant and equipment, net	816	801
Goodwill	642	558
Other intangible assets, net	241	178
Restricted cash and cash equivalents	12	1,615
Long-term investments	251	194
Other assets	505	537
Total assets	$ 7,541	$ 7,554
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 293	$ 323
Employee compensation and benefits	359	432
Deferred revenue	310	249
Income and other taxes payable	116	522
Short-term debt	1,711	
Other accrued liabilities	105	137
Total current liabilities	2,894	1,663
Long-term debt		1,500
Senior notes	604	587
Retirement and post-retirement benefits	121	141
Other long-term liabilities	737	429
Total liabilities	4,356	4,320
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; 560 million shares at July 31, 2008 and 551 million shares at October 31, 2007 issued	6	6
Treasury stock at cost; 203 million shares at July 31, 2008 and 181 million shares at October 31, 2007	(7,219)	(6,469)
Additional paid-in-capital	7,383	7,117
Retained earnings	2,560	2,172
Accumulated other comprehensive income	455	408
Total stockholders equity	3,185	3,234
Total liabilities and stockholders equity	$ 7,541	$ 7,554

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

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AGILENT TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions)

(Unaudited)

	Nine Months Ended July 31, 2008	Nine Months Ended July 31, 2007
Cash flows from operating activities:		
Net income	$ 462	$ 458
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	157	143
Share-based compensation	67	103
Deferred taxes	43	(29)
Excess and obsolete inventory-related charges	15	13
Translation gain from liquidation of a subsidiary	(25)	
Asset impairment charges	4	8
Net loss (gain) on sale of investments	4	(2)
Net loss (gain) on sale of assets	2	(13)
Other		1
Changes in assets and liabilities:		
Accounts receivable	16	(9)
Inventory	(38)	(46)
Accounts payable	(10)	(14)
Employee compensation and benefits	(74)	(50)
Income taxes and other taxes payable	(71)	11
Other current assets and liabilities	43	23
Other long-term assets and liabilities	(97)	(26)
Net cash provided by operating activities	498	571
Cash flows from investing activities:		
Investments in property, plant and equipment	(110)	(115)
Proceeds from sale of property, plant and equipment	14	12
Purchase of investments	(256)	
Proceeds from sale of investments	133	12
Change in restricted cash and cash equivalents, net	33	1
Purchase of minority interest	(14)	
Proceeds from sale of intangibles and assets, net		14
Acquisitions of businesses and intangible assets, net of cash acquired	(171)	(311)
Net cash used in investing activities	(371)	(387)
Cash flows from financing activities:		
Issuance of common stock under employee stock plans	198	344
Proceeds from revolving credit facility	490	
Repayment of revolving credit facility	(280)	
Repayment of debt		(4)
Treasury stock repurchases	(750)	(1,313)
Net cash used in financing activities	(342)	(973)
Effect of exchange rate movements	29	13
Net decrease in cash and cash equivalents	(186)	(776)

Cash and cash equivalents at beginning of period		1,826		2,262
Cash and cash equivalents at end of period	$	1,640	$	1,486

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

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AGILENT TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. OVERVIEW

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

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reclassifications. Long-term investments as of October 31, 2007 have been reclassified from other assets to conform to the more detailed presentation used in 2008.

Basis of Presentation. We have prepared the accompanying financial data for the three and nine months ended July 31, 2008 and 2007 pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles (GAAP) in the U.S. have been condensed or omitted pursuant to such rules and regulations. The following discussion should be read in conjunction with our 2007 Annual Report on Form 10-K.

In the opinion of management, the accompanying condensed consolidated financial statements contain all normal and recurring adjustments necessary to fairly present our condensed consolidated balance sheet as of July 31, 2008 and October 31, 2007, condensed consolidated statement of operations for the three and nine months ended July 31, 2008 and 2007, and condensed consolidated statement of cash flows for the nine months ended July 31, 2008 and 2007.

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

3. NEW ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN No. 48). FIN No. 48 defines the threshold for recognizing the benefits of tax return positions in the financial statements as more-likely-than-not to be sustained by the taxing authority and provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN No. 48 is effective for fiscal years beginning after December 15, 2006, and was effective for Agilent on November 1, 2007. See Note 5, Provision for Taxes , for additional information, including the effects of adoption on our condensed consolidated financial statements.

Statement of Financial Accounting Standard No. 157, Fair Value Measurements (SFAS No. 157) is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of SFAS No. 157 on our condensed consolidated financial statements. In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 (FSP No. 157-1) and FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157 (FSP No. 157-2). FSP No. 157-1 amends SFAS No. 157 to remove certain leasing transactions from its scope. FSP No. 157-2 delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for certain items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We are currently evaluating the impact of SFAS No. 157 on our

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condensed consolidated financial statements for items within the scope of FSP No. 157-2 which will become effective for fiscal years beginning after November 15, 2008 and interim periods within those fiscal years.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133 , (SFAS No. 161), which requires additional disclosures about objectives and strategies for using derivative instruments, how the derivative instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities , and related interpretations, and how the derivative instruments and related hedged items affect our financial statements. SFAS No. 161 also requires disclosures about credit risk-related contingent features in derivative agreements. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008 and will be applied prospectively. We are currently evaluating the impact of SFAS No. 161 on our condensed consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position No. 142-3, Determination of the Useful Life of Intangible Assets (FSP No. 142-3). FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). FSP No. 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and will be applied prospectively. We are currently evaluating the impact of adopting FSP No. 142-3 on our condensed consolidated financial statements.

4. SHARE-BASED COMPENSATION

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

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2008	**2007**	**2008**	**2007**
	(in millions, except per share data)		**(in millions, except per share data)**	
Cost of products	$ 3	$ 6	$ 14	$ 27
Research and development	3	4	11	18
Selling, general and administrative	12	17	42	58
Total share-based compensation expense	$ 18	$ 27	$ 67	$ 103

Share-based compensation capitalized within inventory at July 31, 2008 and 2007 was zero. The windfall tax benefit realized from exercised stock options and similar awards was immaterial for the three and nine months ended July 31, 2008 and 2007.

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

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	Three Months Ended July 31, 2008	Three Months Ended July 31, 2007	Nine Months Ended July 31, 2008	Nine Months Ended July 31, 2007
Stock Option Plans:				
Weighted average risk-free interest rate		5.0%	3.2%	4.6%
Dividend yield		0%	0%	0%
Weighted average volatility		25%	33%	29%
Expected life		4.6 yrs	4.6 yrs	4.6 yrs
ESPP:				
Weighted average risk-free interest rate	1.7%	5.1%	2.9%	4.8%
Dividend yield	0%	0%	0%	0%
Weighted average volatility	30%	23%	31%	31%
Expected life	0.5 yrs	0.5-1.5 yrs	0.5-1 yr	0.5-2 yrs
LTPP:				
Volatility of Agilent shares		30%	27%	31%
Volatility of selected peer-company shares		15%-57%	17%-52%	15%-57%
Price-wise correlation with selected peers		29%	24%	29%

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

The expected stock price volatility assumption for employee stock option awards and our employee stock purchases made under our ESPP was determined using the implied volatility for the three and nine months ended July 31, 2008 and 2007. We estimate the stock price volatility using the implied volatility of Agilent s publicly traded, similarly priced, stock options. We have determined that implied volatility is more reflective of market conditions and a better indicator of expected volatility than using historical volatility or a combined method of determining volatility.

5. PROVISION FOR TAXES

We recorded $46 million and $96 million of income tax provision for the three and nine months ended July 31, 2008. The tax provision for the three and nine months ended July 31, 2008, includes a benefit of zero and $12 million, respectively, for effectively settled issues related to foreign audits. The tax provision for the three and nine months ended July 31, 2008, includes an expense of $7 million and $10 million, respectively, for interest and penalties. We recorded $5 million and $11 million of income tax provision for the three and nine months ended July 31, 2007. The tax provision for the three months ended July 31, 2007, includes a benefit of $30 million related to valuation allowance adjustments based on changes in other comprehensive income (OCI) items during the nine months ended July 31, 2007. The tax provision for the nine months ended July 31, 2007, includes the same valuation allowance adjustments for OCI items and a benefit of $50 million related to the reversal of a tax reserve for potential non-U.S. exposures where the statute of limitations expired. These benefits were treated as discrete events during the first and third quarters of fiscal 2007, respectively. The provision for taxes was recorded for income generated in jurisdictions other than the U.S., U.K., Puerto Rico and the Netherlands in which we have partial or full valuation allowances. We intend to maintain partial or full valuation allowances in the U.S., U.K., Puerto Rico and the Netherlands until sufficient positive evidence exists to support the reversal of the valuation allowances.

Effective at the beginning of the first quarter of 2008, we adopted FIN No. 48. FIN No. 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109, Accounting for Income Taxes. The first step is to evaluate each uncertain tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50 percent likely of being realized upon ultimate settlement.

As a result of the implementation of FIN No. 48, we increased the liability for net unrecognized tax benefits by $74 million, and accounted for the increase as a cumulative effect of a change in accounting principle that resulted in a decrease to retained earnings of $74 million. The total amount of gross unrecognized tax benefits as of the date of adoption was $909

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million. We historically classified unrecognized tax benefits in current taxes payable, or as reductions to tax receivables or net deferred tax assets. As a result of adopting FIN No. 48, approximately $355 million of unrecognized tax benefits and related interest and penalties were reclassified to long-term income taxes payable from current taxes payable. Most of these gross unrecognized tax benefits would affect the effective tax rate, if realized.

We continue to include interest and penalties related to unrecognized tax benefits within the provision for income taxes on the condensed consolidated statement of operations. As of the date of adoption of FIN No. 48, we had accrued $35 million for the payment of interest and penalties relating to unrecognized tax benefits.

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

Our U.S. federal income tax returns for 2000 through 2002 have been under audit by the Internal Revenue Service (IRS). In August 2007, we received a Revenue Agent s Report (RAR). In the RAR, the IRS proposes to assess a net tax deficiency, after applying available net operating losses from the years under audit and undisputed tax credits, for those years of approximately $405 million, plus penalties of approximately $160 million and interest. If the IRS were to fully prevail, our net operating loss and tax credits generated in recent years would be utilized earlier than they otherwise would have been, and our annual effective tax rate will have increased as a result. The RAR addresses several issues. One issue, however, relating to the use of Agilent s brand name by our foreign affiliates, accounts for a majority of the claimed tax deficiency. We believe that the claimed IRS adjustment for this issue in particular is inconsistent with applicable tax laws and that we have meritorious defenses to this claim. Therefore, we have not included any tax for this item in our tax provision for 2007 or for the first three quarters of 2008. We have filed a formal protest and expect to meet with the Appeals Office of the IRS. In the protest, we have vigorously opposed the claim associated with Agilent s brand name, and most of the other claimed adjustments proposed in the RAR. In April of 2008, we received a rebuttal to our formal protest, and after reviewing the IRS s arguments, our assessment of the risks remains the same. The final resolution of the proposed adjustments is uncertain and may take several years. Based on current information, it is our opinion that the ultimate disposition of these matters is unlikely to have a material adverse effect on our consolidated financial position, results of operations or liquidity.

We are subject to ongoing tax examinations of our tax returns by the IRS and other tax authorities in various jurisdictions. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. These assessments can require considerable judgments. 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 accrual 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.

6. NET INCOME PER SHARE

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2008	2007	2008	2007
	(in millions)			
Numerator:				
Net income	$ 169	$ 185	$ 462	$ 458
Denominator:				
Basic weighted-average shares	362	392	365	400
Potentially dilutive common stock equivalents	10	15	10	12
Diluted weighted-average shares	372	407	375	412

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 required by SFAS No. 123 (R).

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2008	**2007**	**2008**	**2007**
Options to purchase shares of common stock (in millions)	6	4	6	5
Weighted-average exercise price	$ 45	$ 50	$ 45	$ 47
Average common stock price	$ 36	$ 38	$ 34	$ 35

7. SHORT-TERM DEBT AND SHORT-TERM RESTRICTED CASH & CASH EQUIVALENTS

The following table summarizes the company s short-term debt as of July 31, 2008:

	July 31, 2008 (in millions)
World Trade debt	$ 1,500
Credit facility	210
Other debt	1
Total short-term debt	$ 1,711

World Trade Debt

In January 2006, Agilent Technologies World Trade, Inc., a consolidated wholly owned subsidiary of Agilent (World Trade), entered into a five-year Master Repurchase Agreement and related Confirmation (together, the Repurchase Agreement) with a counterparty pursuant to which World Trade sold 15,000 Class A preferred shares of one of its wholly owned subsidiaries to the counterparty, having an aggregate liquidation preference of $1.5 billion. (the Purchased Securities). Subsequent to an amendment signed in December 2007, the $1.5 billion obligation of World Trade to repurchase the preferred shares has been classified as short-term debt on our condensed consolidated balance sheet. In March 2008, World Trade received a notice of acceleration to obligate World Trade to repurchase the Purchased Securities on July 16, 2008. In June 2008, World Trade entered into an amendment to the Repurchase Agreement to extend the obligation of World Trade to repurchase the Purchased Securities from July 16, 2008 to November 17, 2008.

On August 7, 2008 World Trade entered into a further amendment to provide World Trade the right to accelerate the date of repurchase of all or any portion of the Purchased Securities from November 17, 2008 to October 20, 2008, provided that World Trade gives notice by September 15, 2008. World Trade is obligated to make quarterly payments to the counterparty at a rate per annum, reset quarterly, equal to the three-month London inter-bank offered rate (LIBOR) plus 52 basis points for the period through July 16, 2008 and 235 basis points for the period from July 17, 2008 through November 17, 2008. The amortization of debt issuance costs was $16 million for the nine months ended July 31, 2008.

Credit Facility

On May 11, 2007, we entered into a five-year credit agreement, which provides for a $300 million unsecured credit facility that will expire on May 11, 2012. As of July 31, 2008, we had an outstanding balance of $210 million on the credit facility and it has been classified as short-term debt in our condensed consolidated balance sheet.

On June 13, 2008, we entered into a Second Amendment to our five-year credit agreement. Pursuant to the Second Amendment, the existence of the accelerated obligation of World Trade to repurchase the Purchased Securities by November 17, 2008 will constitute an event of default, unless Agilent shall have satisfied the obligation or entered into definitive principal documentation with one or more counterparties regarding a transaction which would satisfy the World Trade repurchase obligation on or prior to that date that is at least three business days prior to the date upon which the World Trade repurchase obligation is due. If a default were to occur under the credit agreement, the lenders could require Agilent to immediately repay any outstanding debt under the credit facility.

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Short-Term Restricted Cash & Cash Equivalents

As of July 31, 2008, $1,570 million was reported as short-term restricted cash and cash equivalents on our condensed consolidated balance sheet. This amount consists of short-term restricted commercial paper maintained in connection with our World Trade debt obligations per the Repurchase Agreement mentioned above.

8. INVENTORY

	July 31, 2008	October 31, 2007
	(in millions)	
Finished goods	$ 330	$ 313
Work in progress	44	44
Raw materials	300	286
Total inventory	$ 674	$ 643

9. 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, 2008:

	Electronic Measurement	Bio-analytical Measurement	Total
		(in millions)	
Goodwill as of October 31, 2007	$ 317	$ 241	$ 558
Foreign currency translation impact	16	1	17
Goodwill arising from acquisitions	8	59	67
Goodwill as of July 31, 2008	$ 341	$ 301	$ 642

The components of other intangibles as of July 31, 2008 and October 31, 2007 are shown in the table below:

	Purchased Other Intangible Assets		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
		(in millions)	
As of October 31, 2007:			
Purchased technology	$ 280	$ 173	$ 107
Trademark/tradename	31	1	30

Customer relationships	82	41	41
Total	$ 393	$ 215	$ 178
As of July 31, 2008:			
Purchased technology	$ 364	$ 199	$ 165
Trademark/tradename	32	3	29
Customer relationships	100	53	47
Total	$ 496	$ 255	$ 241

We recorded $67 million of goodwill and $103 million of other intangibles during the nine months ended July 31, 2008, related primarily to seven acquisitions and a purchase of the remaining unowned portion of a joint venture. The larger acquisition is described below. Pro forma disclosures are not presented for these acquisitions, as they are not required.

On December 18, 2007, we completed the acquisition of Velocity11, a designer, manufacturer, and marketer of robotic solutions. The aggregate purchase price was approximately $111 million in cash used to purchase 100 percent of Velocity11 s outstanding common shares and vested common stock options that Velocity11 employees held on the close date.

Amortization of intangible assets was $14 million and $40 million for the three and nine months ended July 31, 2008 and $13 million and $29 million for the same periods in the prior year. Future amortization expense related to existing purchased intangible assets is estimated to be $13 million for the remainder of 2008, $48 million for 2009, $43 million for 2010, $39 million for 2011, $31 million for 2012, $20 million for 2013 and $47 million thereafter.

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10. INVESTMENTS

The following table summarizes the company s investments as of July 31, 2008 and October 31, 2007:

	July 31, 2008	October 31, 2007
	(in millions)	
Short-Term		
Available-for-sale investments	$ 29	$
Long-Term		
Cost method investments	$ 20	$ 24
Trading securities	62	72
Available-for-sale investments	169	98
Total	$ 251	$ 194

Cost method investments consist of non-marketable equity securities and are accounted for at historical cost. Trading securities are reported at fair value, with gains or losses resulting from changes in fair value recognized currently in earnings. Investments designated as available-for-sale are reported at fair value, with unrealized gains and losses, net of tax, included in stockholders equity.

Available-for-sale investments at estimated fair value were as follows as of July 31, 2008 and October 31, 2007:

	July 31, 2008				October 31, 2007			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
				(in millions)				
Debt securities	$ 120	$	$ (3)	$ 117	$	$	$	$
Equity securities	4	10		14	4	22		26
Other	61	6		67	55	17		72
	$ 185	$ 16	$ (3)	$ 198	$ 59	$ 39	$	$ 98

Other represents shares we own in two special funds that target underlying investments of approximately 40 percent in debt securities and 60 percent in equity securities. These funds are held for employee benefits in Germany.

In February 2008, Agilent traded an externally managed short-term investment for the underlying securities of the investment and now manages those investments internally. The securities received were fixed income debt securities and are held as available-for-sale. Agilent estimated the fair values based on quoted market prices or pricing models using current market rates. These estimated fair values may not be representative of actual values that could have been realized as of July 31, 2008 or that will be realized in the future.

Contractual maturities of available-for-sale debt securities were as follows at July 31, 2008:

	Cost	Estimated Fair Value
	(in millions)	
Due in less than 1 year	$ 29	$ 29
Due in 1-5 years	53	52
Due after 5 years	38	36
	$ 120	$ 117

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All of our investments, excluding trading securities, are subject to periodic impairment review. The impairment analysis requires significant judgment to identify events or circumstances that would likely have a significant adverse effect on the future value of the investment.

Charges related to other than temporary impairments were zero and $5 million for the three months ended July 31, 2008 and 2007, respectively. For the nine months ended July 31, 2008 and 2007, charges related to other than temporary impairments were $2 million and $7 million, respectively. These impairment charges were recorded in other income (expense), net in the condensed consolidated statement of operations.

Unrealized gains and losses on our trading securities portfolio were $2 million unrealized losses and $4 million unrealized gains for the three months ended July 31, 2008 and 2007, respectively. For the nine months ended July 31, 2008 and 2007, unrealized gains and losses on our trading securities were unrealized losses of $10 million and unrealized gains of $8 million, respectively. These amounts have been included in other income (expense), net in the condensed consolidated statement of operations.

Realized gains and losses from the sale of available-for-sale securities were zero for both the three months ended July 31, 2008 and 2007. Realized gains and losses from the sale of available-for-sale securities were $4 million of realized losses and $2 million of realized gains for the nine months ended July 31, 2008 and 2007, respectively. Realized gains and losses from the sale of cost method securities were immaterial for the three and nine months ended July 31, 2008 and 2007, respectively. These amounts have been included in other income (expense), net in the condensed consolidated statement of operations.

11. RETIREMENT PLANS AND POST RETIREMENT PENSION PLANS

Components of net periodic costs. For the three and nine months ended July 31, 2008 and 2007, our net pension and post retirement benefit costs were comprised of the following:

	Pensions					
	U.S. Plans		Non-U.S. Plans		U.S. Post Retirement Benefit Plans	
	Three Months Ended July 31,					
	2008	2007	2008	2007	2008	2007
	(in millions)					
Service cost benefits earned during the period	$ 9	$ 10	$ 10	$ 9	$ 1	$ 1
Interest cost on benefit obligation	10	10	19	16	7	6
Expected return on plan assets	(14)	(14)	(28)	(23)	(8)	(7)
Amortization and deferrals:						
Actuarial (gain) loss	(3)	(1)	5	8		1
Prior service cost					(3)	(2)
Total net plan (income) costs	$ 2	$ 5	$ 6	$ 10	$ (3)	$ (1)

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	Pensions					
	U.S. Plans		Non-U.S. Plans		U.S. Post Retirement Benefit Plans	
	Nine Months Ended July 31,					
	2008	2007	2008	2007	2008	2007
	(in millions)					
Service cost benefits earned during the period	$ 27	$ 30	$ 29	$ 27	$ 3	$ 3
Interest cost on benefit obligation	29	30	57	48	21	20
Expected return on plan assets	(42)	(42)	(83)	(69)	(24)	(21)
Amortization and deferrals:						
Actuarial (gain) loss	(9)	(3)	15	24		1
Prior service cost					(9)	(6)
Net plan costs (income)	5	15	18	30	(9)	(3)
Curtailments and settlements		(1)				
Total net plan (income) costs	$ 5	$ 14	$ 18	$ 30	$ (9)	$ (3)

For the U.S. plans, because of lump sum payouts during the nine months ended July 31, 2007, we recorded a $1 million settlement gain in accordance with SFAS No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits.

We contributed approximately zero and $2 million to our U.S. defined benefit plans during the three and nine months ended July 31, 2008 and zero and $8 million respectively, for the same periods in 2007. We contributed approximately $16 million and $35 million to our non-U.S. defined benefit plans during the three and nine months ended July 31, 2008 and $10 million and $26 million, respectively, for the same periods in 2007. We expect to contribute approximately $5 million to our non-U.S. defined benefit plans during the remainder of fiscal 2008.

12. WARRANTIES

We accrue for warranty costs in accordance with SFAS No. 5, Accounting for Contingencies , based on historical trends in warranty charges as a percentage of gross 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. Our warranty terms typically extend for one year from the date of delivery.

	FY 2008	FY 2007
	(in millions)	
Beginning balance as of November 1,	$ 29	$ 29
Accruals for warranties issued during the period	38	42
Changes in estimates		(1)
Settlements made during the period	(38)	(41)

Ending balance as of July 31,	$	29	$	29

13. RESTRUCTURING

Our FY2005 Plan, announced in the fourth quarter of 2005, is complete. The remaining obligations under this and previous plans relate primarily to lease obligations that are expected to be satisfied over approximately the next four years.

A summary of restructuring activity for the nine months ended July 31, 2008 is shown in the table below:

	Workforce Reduction	Consolidation of Excess Facilities (in millions)	Total
Ending balance as of October 31, 2007	$ 1	$ 31	$ 32
Income statement expense		(4)	(4)
Cash payments	(1)	(15)	(16)
Ending balance as of July 31, 2008	$	$ 12	$ 12

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The restructuring accrual for all plans, which totaled $12 million as of July 31, 2008 and $32 million as of October 31, 2007, is recorded in other accrued liabilities and other long-term liabilities on the condensed consolidated balance sheet and represents estimated future cash outlays.

In the first quarter of 2008, we reduced our estimated liability relating to the consolidation of excess facilities by $4 million due to changes in the underlying property markets. There were no charges in the condensed consolidated statement of operations for both the three months ended July 31, 2008 and the three months ended July 31, 2007 from all restructuring plans.

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

	Nine Months Ended July 31,	
	2008	**2007**
	(in millions)	
Cost of products	$	$ 6
Research and development		1
Selling, general and administrative	(4)	9
Total restructuring and asset impairment charges	$ (4)	$ 16

14. SENIOR NOTES

In October 2007, the company issued an aggregate principal amount of $600 million in senior notes. The senior notes were issued at 99.60% of their principal amount. The notes will mature on November 1, 2017, bear interest at a fixed rate of 6.50% per annum, payable semi-annually on May 1st and November 1st of each year, commencing on May 1, 2008. The senior notes are unsecured and will rank equally in right of payment with all of Agilent s other senior unsecured indebtedness. The company incurred issuance costs of $5 million in connection with the senior notes which have been included in Other assets in the condensed consolidated balance sheet. These debt issuance costs are being amortized to interest expense over the term of the senior notes.

Upon the closing of the offering of the senior notes, we entered into interest rate swaps with an aggregate notional amount of $600 million. Under the interest rate swaps, we will receive fixed-rate interest payments and will make payments based on the six month US dollar LIBOR. The economic effect of these swaps will be to convert the fixed-rate interest expense on the senior notes to a variable LIBOR-based interest rate. The swaps are accounted for as a fair value hedge of the interest rate risk inherent in the senior notes and therefore the fair value of the swap will be recorded on our condensed consolidated balance sheet at each period end until maturity in 2017. In addition, as a result of the fair value hedge, the senior notes are reflected on our condensed consolidated balance sheet at fair value, reflecting the change in their value attributable to interest rate risk. The hedging relationship qualifies for the shortcut method of assessing hedge effectiveness, and consequently we do not expect any ineffectiveness during the life of the swap and any movement in the value of the swap would be reflected in the movement in fair value of the senior notes. At July 31, 2008, the fair value of the swap was an asset of $6 million. As a result, the carrying value of the senior notes now reflects the $6 million to reflect the increase in fair value attributable to interest rate risk.

15. COMPREHENSIVE INCOME

The following table presents the components of comprehensive income:

	Three Months Ended July 31, 2008	2007
	(in millions)	
Net income	$ 169	$ 185
Other comprehensive income:		
Change in unrealized gain (loss) on investments	(5)	22
Change in unrealized loss on derivative instruments	(6)	(8)
Foreign currency translation	(11)	17
Change in deferred net pension cost	(2)	
Deferred taxes	2	(28)
Comprehensive income	$ 147	$ 188

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	Nine Months Ended July 31, 2008	2007
	(in millions)	
Net income	$ 462	$ 458
Other comprehensive income:		
Change in unrealized gain (loss) on investments	(26)	23
Change in unrealized gain (loss) on derivative instruments	2	(6)
Translation gain reclassified into earnings related to liquidation of a subsidiary	(25)	
Foreign currency translation	103	62
Change in deferred net pension cost	(5)	
Deferred taxes	(2)	(31)
Comprehensive income	$ 509	$ 506

16. STOCK REPURCHASE PROGRAM

On November 14, 2007 the Audit and Finance Committee of the Board of Directors approved a share-repurchase program of up to $2 billion of Agilent s common stock over a two year period. The following repurchases under the above program were completed in the periods presented below:

Three months ended	Number of Common Stock Repurchased	Amount of Common Stock Repurchased
	(in millions)	
January 31, 2008	6.6	$ 237
April 30, 2008	8.3	263
July 31, 2008	7.0	250
Program to date as of July 31, 2008	21.9	$ 750

All such shares and related costs are held as treasury stock and accounted for using the cost method. The remaining amount that is authorized under the plan is $1.25 billion.

17. SEGMENT INFORMATION

We are a measurement company, providing core bio-analytical and electronic measurement solutions to the communications, electronics, life sciences and chemical analysis industries. Agilent has two primary businesses bio-analytical measurement and electronic measurement each of which comprises a reportable segment. The segments were determined based primarily on how the chief operating decision maker views and evaluates our operations. Other factors, including customer base, homogeneity of products, technology and delivery channels, were also considered in determining our reportable segments.

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 considered to be a reasonable reflection of the utilization of services provided to or benefits received by the segments.

Upon the adoption of SFAS No. 123 (R) in the first quarter of 2006, we included share-based compensation expense in our GAAP results but did not include such expense in our segment reporting. In the third quarter of 2008, we included share-based compensation expense in our segment results. All segment numbers have been reclassified to conform to the current period presentation.

The following tables reflect the results of our reportable segments under our management reporting system. These results are not necessarily in conformity with generally accepted accounting principles in the U.S. 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.

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

	Electronic Measurement	Bio-analytical Measurement (in millions)	Total
Three months ended July 31, 2008:			
Total net revenue	$ 878	$ 566	$ 1,444
Segment income from operations	$ 135	$ 101	$ 236
Three months ended July 31, 2007:			
Total net revenue	$ 874	$ 500	$ 1,374
Segment income from operations	$ 116	$ 82	$ 198

	Electronic Measurement	Bio-analytical Measurement (in millions)	Total
Nine months ended July 31, 2008:			
Total net revenue	$ 2,614	$ 1,679	$ 4,293
Segment income from operations	$ 340	$ 276	$ 616
Nine months ended July 31, 2007:			
Total net revenue	$ 2,527	$ 1,447	$ 3,974
Segment income from operations	$ 279	$ 223	$ 502

The following table reconciles reportable segment results to Agilent s total enterprise results from operations before taxes:

	Three Months Ended July 31, 2008	Three Months Ended July 31, 2007	Nine Months Ended July 31, 2008	Nine Months Ended July 31, 2007
	(in millions)			
Total reportable segments income from operations	$ 236	$ 198	$ 616	$ 502
Restructuring and asset impairment	(5)	(11)	(23)	(30)
Donation to Agilent Foundation				(20)
Net translation gain from liquidation of a subsidiary			11	
Acceleration of debt issuance costs	(8)		(13)	
Interest income	23	42	89	136
Interest expense	(23)	(23)	(77)	(68)
Other income (expense), net	5	3	5	7
Amortization of intangibles and other	(13)	(19)	(50)	(58)
Income from operations before taxes, as reported	$ 215	$ 190	$ 558	$ 469

In the three months ended April 30, 2008 we liquidated a subsidiary and recorded a net translation gain of $11 million which consists of $25 million cumulative translation gain offset by a $14 million loss on a net investment hedge.

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.

	Electronic Measurement		Bio-analytical Measurement (in millions)		Total	
Assets:						
As of July 31, 2008	$	2,090	$	1,549	$	3,639
As of October 31, 2007	$	2,025	$	1,307	$	3,332

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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 condensed 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, cyclicality and growth in 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, 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, our stock repurchase program, our transition to lower-cost regions, the existence or length of an economic recovery that involve risks and uncertainties, and the impact of an Internal Revenue Service (IRS) Revenue Agent s Report (RAR) on our operations and financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to various factors, including those discussed below in Risks, Uncertainties and Other Factors That May Affect Future Results and elsewhere in this Form 10-Q.

Basis of Presentation

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

Executive Summary

Agilent Technologies, Inc. (we , Agilent or the company) is the world s premier measurement company, providing core bio-analytical and electronic measurement solutions to the communications, electronics, life sciences and chemical analysis industries. Agilent has two primary businesses focused on the electronic measurement market and the bio-analytical measurement market.

For the three and nine months ended July 31, 2008, total orders were $1.39 billion and $4.31 billion, respectively, an increase of 6 percent and 9 percent in comparison to the same periods last year. Excluding the acquisitions of Stratagene and Velocity 11, which closed in June 2007 and December 2007, respectively, order growth was 4 percent and 7 percent for the three and nine months ended July 31, 2008, respectively, when compared to the same periods last year.

Net revenue of $1.44 billion and $4.29 billion for the three and nine months ended July 31, 2008 was up 5 percent and 8 percent, respectively, when compared to the same periods last year. Excluding the acquisitions of Stratagene and Velocity11, revenue growth was 4 percent and 6 percent for the three and nine months ended July 31, 2008, respectively, when compared to 2007. The movement in currency accounted for approximately 4 percentage points of the revenue growth in both the three and nine months ended July 31, 2008 when compared to the same periods last year.

Net income for the three and nine months ended July 31, 2008 was $169 million and $462 million, respectively, and $185 million and $458 million for the corresponding periods last year. For the three and nine months ended July 31, 2008, net interest income decreased $27 million and $69 million, respectively. The decrease in interest income is due to the decrease in interest rates and the increase in interest expense is due to the increase in debt compared to last year. For the three months ended July 31, 2007, the provision for income taxes includes a $30 million discrete tax benefit related to valuation allowance adjustments based on changes in other comprehensive income items. For the nine months ended July 31, 2007, the provision for income taxes also includes a benefit of $50 million related to the reversal of a tax reserve for potential non-U.S. exposures where the statute of limitations expired. The effect of currency movement had no net impact in the year-over-year comparison of net income in the three and nine months ended July 31, 2008.

In the nine months ended July 31, 2008, we generated $498 million of cash from operations compared with $571 million generated in the nine months of the prior year. The decrease in year-over-year operating cash was mainly driven by higher tax cash payments related to the transfer of intellectual property between affiliated entities and by lower interest income receipts and higher interest payments.

Looking forward, our continued focus will be to grow revenue at a faster rate than the electronic measurement and bio-analytical markets, primarily through increasing market share, expanding our served market size with new products and

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channels and by complementary acquisitions. Our primary strategy is to pursue profitable growth by expanding our leadership in core/adjacent markets and seeking revenue growth opportunities.

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, investment impairments, share-based compensation, retirement and post-retirement benefit plan assumptions, valuation of long-lived assets and accounting for income taxes. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management s best knowledge of current events and actions that may impact the company in the future, actual results may be different from the estimates.

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

Share-based compensation. The expected stock price volatility assumption was determined using the implied volatility for our stock awards. We estimate the stock price volatility using the implied volatility of Agilent s publicly traded, similarly priced, stock options. We have determined that implied volatility is more reflective of market conditions and a better indicator of expected volatility than using historical volatility or a combined method of determining volatility. In reaching this conclusion, we have considered many factors including the extent to which our options are traded and our ability to find traded options with similar terms and prices to the options we are valuing. A 10 percent point increase in our estimated volatility from 31 percent to 41 percent would generally increase the value of an award and the associated compensation cost by approximately 23 percent if no other factors were changed.

Goodwill and purchased intangible assets. No events occurred or circumstances changed during the nine months ended July 31, 2008 that required us to test goodwill or purchased intangibles for impairment.

Accounting for income taxes. Effective at the beginning of the first quarter of 2008, we adopted FIN No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN No. 48). As a result of the implementation, we recognize liabilities for uncertain tax positions based on the two-step approach prescribed in the interpretation. The first step is to evaluate each uncertain tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50 percent likely of being realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as this requires us to determine the probability of various possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision in the period. See Note 5, Provision for Taxes , for additional information, including the effects of adoption on our condensed consolidated financial statements.

Other critical accounting policies were unchanged in the three and nine months ended July 31, 2008.

Adoption of New Pronouncements

See Note 3, New Accounting Pronouncements, to the condensed consolidated financial statements for a description of new accounting pronouncements.

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Foreign Currency

Our revenues, costs and expenses, and monetary assets and liabilities are exposed to changes in foreign currency exchange rates as a result of our global operating and financing activities. We hedge revenues, expenses and balance sheet exposures that are not denominated in the functional currencies of our subsidiaries on a short term and anticipated basis. We do experience some fluctuations within individual lines of the condensed consolidated statement of operations and balance sheet because our hedging program is not designed to offset the currency movements in each category of revenues, expenses, monetary assets and liabilities. Our hedging program is designed to hedge currency movements on a relatively short-term basis (rolling twelve month period). Therefore, we are exposed to currency fluctuations over the longer term.

Results from Operations

Orders and Net Revenue

	Three Months Ended July 31, 2008	Three Months Ended July 31, 2007	Nine Months Ended July 31, 2008	Nine Months Ended July 31, 2007	Year over Year Change Three Months	Year over Year Change Nine Months
	(in millions)					
Orders	$ 1,387	$ 1,308	$ 4,312	$ 3,958	6%	9%
Net revenue:						
Products	$ 1,195	$ 1,140	$ 3,570	$ 3,300	5%	8%
Services and other	249	234	723	674	6%	7%
Total net revenue	$ 1,444	$ 1,374	$ 4,293	$ 3,974	5%	8%

Agilent orders increased 6 percent and 9 percent for the three and nine months ended July 31, 2008, respectively, compared to the same periods in 2007. The bio-analytical measurement business continued to deliver consistent order growth of 19 percent and 20 percent for the three and nine month periods ended July 31, 2008, respectively. Excluding Stratagene and Velocity11, orders grew 15 percent and 14 percent in the three and nine months ended July 31, 2008, respectively, when compared to the prior year. Electronic measurement orders decreased 2 percent and increased 2 percent, respectively, for the three and nine months ended July 31, 2008.

Agilent net revenue increased 5 percent and 8 percent for the three and nine months ended July 31, 2008, respectively, compared to the same periods last year. The bio-analytical measurement business achieved revenue growth of 13 percent and 16 percent for the three and nine months ended July 31, 2008, respectively, showing strong performance in both our chemical analysis and life sciences businesses. Excluding Stratagene and Velocity11, revenues increased 10 percent and 11 percent for the three and nine months ended July 31, 2008, respectively, when compared to the prior year. The impact of currency movement accounted for an increase of 5 percentage points of revenue growth in both the three and nine months ended July 31, 2008, when compared to the prior year. Electronic measurement business revenues were flat and increased by 3 percent for the three and nine months ended July 31, 2008, respectively, compared with the same periods in the prior year. Currency movement contributed 3 percentage points of revenue growth for both the three and nine months ended July 31, 2008 when compared to the prior year. Our communications test business grew 9 percent in the three months ended July 31, 2008 with strength in R&D markets and the continuing recovery of handset manufacturing test. General purpose test revenues decreased 5 percent in the three months ended July 31, 2008, with weakness in the computer and semi-conductor test market and aerospace and defense was flat.

Services and other revenue include revenue generated from servicing our installed base of products, warranty extensions and consulting. Services and other revenue for the three and nine months ended July 31, 2008 increased 6 percent and 7 percent, respectively, as compared to the same periods last year.

Operating Results

	Three Months Ended July 31,		Nine Months Ended July 31,		Year over Year Change	
	2008	2007	2008	2007	Three Months	Nine Months
Total gross margin	55.6%	55.2%	55.1%	54.8%		
Operating margin	15.1%	12.2%	12.6%	9.9%	3ppts	3ppts
(in millions)						
Research and development	$ 170	$ 170	$ 534	$ 511		5%
Selling, general and administrative	$ 415	$ 420	$ 1,289	$ 1,274	(1)%	1%

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Total gross margins for the three and nine months ended July 31, 2008 were flat when compared to the same periods last year. Excluding the impact of currency, gross margins increased by approximately 1 percentage point for both the three and nine months ended July 31, 2008 when compared to the same periods in 2007. Operating margins increased by 3 percentage points for both the three and nine months ended July 31, 2008 when compared with the same periods last year.

Research and development expenses were flat and increased 5 percent for the three and nine months ended July 31, 2008, respectively, compared to the same periods last year. The increase in expense due to currency movement was offset by cost savings in the three months ended July 31, 2008. We remain committed to bringing new products to the market, and have focused our development efforts on key strategic opportunities in order to align our business with available markets and position ourselves to capture market share.

Selling, general and administrative expenses decreased 1 percent and increased 1 percent for the three and nine months ended July 31, 2008, respectively, compared to the same period last year. Excluding the impact of currency, selling, general and administrative expenses decreased 5 percent and 3 percent for the three and nine months ended July 31, 2008, respectively, when compared to the same period last year.

At July 31, 2008, our headcount was approximately 19,560 as compared to approximately 19,390 at July 31, 2007. The increase in workforce is largely due to acquisitions.

General Infrastructure and Shared Services

Our global infrastructure organization (GIO) remains a key component of our operating model and has proactively taken action to fully prepare for potential economic disruptions. GIO, which includes finance, IT and workplace services has aggressively focused on ways to reduce expenses and leverage our infrastructure while continuing to develop the infrastructure to support our Asian business presence and integrate our recent acquisitions.

Provision for Income Taxes

For the three and nine months ended July 31, 2008, we recorded an income tax provision of $46 million and $96 million, respectively, compared to an income tax provision of $5 million and $11 million for the same periods last year. The tax provision for the three and nine months ended July 31, 2008, includes a benefit of zero and $12 million, respectively, for effectively settled issues related to foreign audits. The tax provision for the three and nine months ended July 31, 2008, includes an expense of $7 million and $10 million, respectively, for interest and penalties. The tax provision for the three months ended July 31, 2007, includes a benefit of $30 million related to valuation allowance adjustments based on changes in other comprehensive income (OCI) items during the nine months ended July 31, 2007. The tax provision for the nine months ended July 31, 2007, includes the same valuation allowance adjustments for OCI items and a benefit of $50 million related to the reversal of a tax reserve for potential non-U.S. exposures where the statute of limitations expired. These benefits were treated as discrete events during the first and third quarters of fiscal 2007. The provision for taxes was recorded for income generated in jurisdictions other than the U.S., U.K., Puerto Rico and the Netherlands in which we have partial or full valuation allowances. We intend to maintain partial or full valuation allowances in the U.S., U.K., Puerto Rico and the Netherlands until sufficient positive evidence exists to support the reversal of the valuation allowances.

For 2008, our current expectation of the annual effective tax rate is 17.5 percent. The income tax rate was 17 percent for the nine months ended July 31, 2008. Excluding the impact of quarterly discrete tax adjustments, we anticipate the full-year 2008 effective tax rate to be approximately 16.5 percent. The overall tax rate reflects taxes in all jurisdictions except the U.S. and foreign jurisdictions in which income tax expense or benefit continues to be offset by adjustments to the valuation allowances. This tax rate may change over time as the amount or mix of income and taxes changes. Our effective tax rate is calculated using our projected annual pre-tax income or loss from continuing operations and is affected by research tax credits, the expected level of other tax benefits, the effects of business acquisitions and dispositions, the impact of changes to valuation allowances, changes in other comprehensive income, as well as changes in the mix of income and losses in the jurisdictions in which we operate that have varying statutory rates.

Effective at the beginning of the first quarter of 2008, we adopted FIN No. 48. FIN No. 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109, Accounting for Income Taxes. The first step is to evaluate each uncertain tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50 percent likely of being realized upon ultimate settlement.

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As a result of the implementation of FIN No. 48, we increased the liability for net unrecognized tax benefits by $74 million, and accounted for the increase as a cumulative effect of a change in accounting principle that resulted in a decrease to retained earnings of $74 million. The total amount of gross unrecognized tax benefits as of the date of adoption was $909 million. We historically classified unrecognized tax benefits in current taxes payable, or as reductions to tax receivables or net deferred tax assets. As a result of adopting FIN No. 48, approximately $355 million of unrecognized tax benefits and related interest and penalties were reclassified to long-term income taxes payable from current taxes payable. Most of these gross unrecognized tax benefits would affect the effective tax rate, if realized.

We continue to include interest and penalties related to unrecognized tax benefits within the provision for income taxes on the condensed consolidated statement of operations. As of the date of adoption of FIN No. 48, we had accrued $35 million for the payment of interest and penalties relating to unrecognized tax benefits.

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

Our U.S. federal income tax returns for 2000 through 2002 have been under audit by the IRS. In August 2007, we received a RAR. In the RAR, the IRS proposes to assess a net tax deficiency, after applying available net operating losses from the years under audit and undisputed tax credits, for those years of approximately $405 million, plus penalties of approximately $160 million and interest. If the IRS were to fully prevail, our net operating loss and tax credits generated in recent years would be utilized earlier than they otherwise would have been, and our annual effective tax rate will have increased as a result. The RAR addresses several issues. One issue, however, relating to the use of Agilent s brand name by our foreign affiliates, accounts for a majority of the claimed tax deficiency. We believe that the claimed IRS adjustment for this issue in particular is inconsistent with applicable tax laws and that we have meritorious defenses to this claim. Therefore, we have not included any tax for this item in our tax provision for 2007 or for the first three quarters of 2008. We have filed a formal protest and expect to meet with the Appeals Office of the IRS. In the protest, we have vigorously opposed the claim associated with Agilent s brand name, and most of the other claimed adjustments proposed in the RAR. In April of 2008, we received a rebuttal to our formal protest, and after reviewing the IRS s arguments, our assessment of the risks remains the same. The final resolution of the proposed adjustments is uncertain and may take several years. Based on current information, it is our opinion that the ultimate disposition of these matters is unlikely to have a material adverse effect on our consolidated financial position, results of operations or liquidity.

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. 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 accrual 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.

Segment Overview

Agilent is the world s premier measurement company providing core bio-analytical and electronic measurement solutions to the communications, electronics, life sciences and chemical analysis industries. Agilent has two primary businesses focused on the electronic measurement market and the bio-analytical measurement market.

Electronic Measurement

Our electronic measurement business provides standard and customized solutions that are used in the design, development, manufacture, installation, deployment and operation of electronic equipment and systems and communications networks and services. Our key product categories include: communications one-box testers, electronic design and simulation tools, digital and photonic test instruments, electronic manufacturing test solutions, internet protocol performance test solutions, logic and protocol analyzers, low-cost general purpose instruments, network analyzers, network assurance solutions, network protocol test solutions, oscilloscopes, semiconductor test solutions, signal sources, spectrum/signal analyzers, surveillance and aerospace defense solutions, and system components products.

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Orders and Net Revenue

	Three Months Ended July 31, 2008	Three Months Ended July 31, 2007	Nine Months Ended July 31, 2008	Nine Months Ended July 31, 2007	Year over Year Change Three Months	Year over Year Change Nine Months
	(in millions)					
Orders	$ 793	$ 810	$ 2,564	$ 2,503	(2)%	2%
Net revenue	$ 878	$ 874	$ 2,614	$ 2,527		3%

Orders for the three and nine months ended July 31, 2008, declined 2 percent and increased 2 percent, respectively, when compared to the same periods last year. Our communications test business was driven by strength in wireless manufacturing and broadband R&D and manufacturing markets, while our general purpose test business declined due to weakness in semiconductor-related parametric test markets and the cancellation of an aerospace and defense order of $24 million.

Revenue for the three and nine months ended July 31, 2008, was flat and increased 3 percent, respectively, when compared to the same periods last year, as strength in the communications test market was offset by a decline in general purpose test. Regionally, for the three months ended July 31, 2008, revenue from the Americas was flat, Europe grew 15 percent and Asia declined 5 percent from one year ago due to weakness in Japan.

General purpose test revenue of $495 million and $1,528 million for the three and nine months ended July 31, 2008, declined 5 percent and was flat, respectively, compared to the same periods last year. Within general purpose test, aerospace and defense and other general purpose test markets were flat from one year ago, offset by a decline in the computer and semiconductor test market. Intelligence, surveillance and reconnaissance markets remained strong. The computer and semiconductor test markets were down compared to last year due to a sharp decline in the parametric test market, while digital test improved. Other general test markets were flat with particular caution in electronic manufacturing test markets.

Communications test revenues of $383 million and $1,086 million for the three and nine months ended July 31, 2008, increased 9 percent and 8 percent, respectively, compared to the same periods last year. Growth for the three months ended July 31, 2008, was driven by the wireless manufacturing test market, as well as broadband R&D and manufacturing test. Weakness in the communications test market was isolated to the network monitoring and installation and maintenance markets. Investment in the wireless R&D test market continues to focus on high-speed applications, as well as pre-conformance and interoperability test solutions. A pause in demand for WiMax test solutions was offset by on-going demand for next generation cellular technologies test, such as long-term evolution (LTE). Strength in the broadband R&D and manufacturing test market continues to be driven by the convergence of an all internet protocol-based network for service delivery including video, voice, data, and mobile services.

Looking forward, we project modest growth in our electronic measurement business. This growth is expected to be driven by our customers expansion of wireless 3G coverage and services (high data rate, multi-media services supported by multi-functional handsets), emerging cellular technologies, and continued opportunities in broadband access, voice-over-internet-protocol and fiber-to-the-home, all fueled by consumer demand for video, voice, data converged services. We believe the aerospace and defense market s overall long-term trend of spending growth in areas of signal intelligence, communications, surveillance and information warfare bodes well for long-term growth in test and measurement sales into this market. This growth potential could be mitigated by potential slowdowns in spending on new communications technologies, governmental budgetary shifts, continued contraction in the semiconductor test market and the current overall macro economic uncertainty in the U.S.

Operating Results

	Three Months Ended July 31, 2008	Three Months Ended July 31, 2007	Nine Months Ended July 31, 2008	Nine Months Ended July 31, 2007	Year over Year Change Three Months	Year over Year Change Nine Months
Gross margin	57.3%	57.5%	57.3%	57.1%		
Operating margin	15.3%	13.3%	13.0%	11.0%	2ppts	2ppts
(in millions)						
Research and development	$ 118	$ 124	$ 375	$ 377	(5)%	(1)%
Selling, general and administrative	$ 251	$ 262	$ 784	$ 787	(4)%	

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Gross margins were flat for the three and nine months ended July 31, 2008, compared to the same periods last year, as improvements in product mix and overhead costs were largely offset by the impact of foreign currency movements and competitive pressures.

Research and development expenses for the three and nine months ended July 31, 2008 declined 5 percent and 1 percent, respectively, compared to the same periods last year. This decline was driven largely by operational and discretionary spending reductions that exceeded the unfavorable year-over-year impact of currency movements.

Selling, general and administrative expenses for the three and nine months ended July 31, 2008, declined 4 percent and were flat, respectively, compared to the same periods last year. Expenses in this period declined due to significant reductions in operational and discretionary spending, reflecting the structural savings delivered through cost reduction programs and expense controls.

Income from operations for the three and nine months ended July 31, 2008 increased $19 million and $61 million, respectively, while our operating margins for both periods improved 2 percentage points. Structural savings and spending reductions compared to the same periods last year exceeded the unfavorable impact of currency movements.

Bio-analytical Measurement

Our bio-analytical measurement 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. Our key product categories include: microarrays, microfluidics, gas chromatography, liquid chromatography, mass spectrometry, laser interferometry and microscopy, software and informatics, and related consumables, reagents and services.

Orders and Net Revenue

	Three Months Ended July 31,		Nine Months Ended July 31,		Year over Year Change	
	2008	2007	2008	2007	Three Months	Nine Months
	(in millions)					
Orders	$ 594	$ 498	$ 1,748	$ 1,455	19%	20%
Net revenue	$ 566	$ 500	$ 1,679	$ 1,447	13%	16%

Our bio-analytical measurement business continues to see sustained momentum with double-digit growth in orders and revenues on a quarter- and year-to-date basis. Results were consistent with our normal seasonal patterns and reflected the strong demand across virtually all of our markets.

Orders for the three and nine months ended July 31, 2008 grew 19 percent and 20 percent, respectively, when compared to the same periods last year. The Stratagene and Velocity11 acquisitions contributed 4 percentage points and 6 percentage points of the order growth for the three and nine months ended July 31, 2008, respectively, when compared to the same periods last year. Foreign currency movements for the three and nine months ended July 31, 2008 accounted for 5 percentage points and 6 percentage points, respectively, of the growth in orders when compared to the same periods last year. In our chemical analysis business, we continue to see strength from petrochemical and food safety markets. In life sciences, we saw sustained demand from academic and government markets, offsetting a slowdown in pharmaceutical and biotechnology markets.

Revenues for the three and nine months ended July 31, 2008 grew 13 percent and 16 percent, respectively, compared to the same periods last year with solid results seen across both life sciences and chemical analysis end markets. The Stratagene and Velocity11 acquisitions contributed 3 percentage points and 5 percentage points of the revenue growth for the three and nine months ended July 31, 2008, respectively, when compared to the same periods last year. Foreign currency movements for the three and nine months ended July 31, 2008 accounted for 5 percentage points of the revenue growth in both periods when compared to last year. Geographically, revenues were up 15 percent in the Americas, 5 percent in Europe, and 23 percent in Asia for the three months ended July 31, 2008 compared to the same periods last year.

Chemical analysis revenue of $319 million and $932 million for the three and nine months ended July 31, 2008, respectively, grew 10 percent in both periods compared to the same periods last year. Chemical analysis continues to see strength from petrochemical and food safety market, and flat growth in environmental testing solutions. High petrochemical profits continue to drive capital investments in both instrument replacements and upgrades. Food testing also posted strong

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revenue growth in the three and nine months ended July 31, 2008. Growth in this sector was driven by recent food safety issues in the U.S. causing updated regulations in China, Malaysia and India and by overall increases made to regulatory standards worldwide. Environmental was relatively flat and forensics saw modest growth in the three months ended July 31, 2008. Material science is experiencing a decrease in sales into the semiconductor-related capital equipment market driven by weakness in the dynamic random access memory (DRAM) market.

Life sciences revenue of $247 million and $747 million for the three and nine months ended July 31, 2008, respectively, grew 18 percent and 25 percent compared to the same periods last year. The Stratagene and Velocity11 acquisitions accounted for 8 percentage points and 13 percentage points of the growth for the three and nine months ended July 31, 2008, when compared to the same periods last year. For the three and nine months ended July 31, 2008, we saw a slowdown in the pharmaceutical and biotech markets, while our academic and government markets grew at strong rates. Our acquisition of Stratagene is bolstering our coverage in academia and government customer accounts. Academic research is moving toward the use of high-end mass spectrometry instrumentation to answer complex biological questions and enhance research on proteins, peptides, and small molecules. The market continues to see more partnerships and collaborations between not-for-profit organizations, big pharma and biotech. In Asia Pacific, governments are investing in the modernization of their healthcare systems and improving the quality of pharmaceuticals they produce.

Looking forward, we expect our chemical analysis market growth to be driven by investments in food safety on a global basis and in environmental testing in China, India and selected Eastern European countries. Our LC/MS and GC/MS systems are well positioned to address these market needs. In life sciences we are uniquely positioned with our recent acquisitions to expand the range of our technology offering along the life sciences workflow. Workflow solutions can span from sample delivery and preparation through sample measurement to data analysis and management. In addition, our ongoing expansion of the liquid chromatography/mass spectroscopy (LC/MS) portfolio, augmented with focused R&D programs will enable Agilent to address the high-growth proteomics and metabolomics market needs.

Operating Results

	Three Months Ended July 31,		Nine Months Ended July 31,		Year over Year Change	
	2008	**2007**	**2008**	**2007**	**Three Months**	**Nine Months**
Gross margin	54.6%	53.8%	53.8%	53.1%	1ppt	1ppt
Operating margin	17.8%	16.5%	16.4%	15.4%	1ppt	1ppt
(in millions)						
Research and development	$ 52	$ 42	$ 153	$ 125	23%	22%
Selling, general and administrative	$ 156	$ 144	$ 475	$ 419	8%	13%

Gross margins improved by 1 percentage point for both the three and nine months ended July 31, 2008, compared to the same periods last year, as improvements in product mix and overhead costs were offset by the impact of foreign currency movements and competitive pressures.

Research and development expenses increased 23 percent and 22 percent, respectively, for the three and nine months ended July 31, 2008, compared to the same periods last year. The Stratagene and Velocity11 acquisitions accounted for 10 percentage points and 12 percentage points of this increase in the three and nine months ended July 31, 2008, respectively, compared to the same periods last year. Excluding Stratagene and Velocity11, the increase was driven by our investments in research and development facilities in life sciences and the impact of foreign currency movement.

Selling, general and administrative expenses increased 8 percent and 13 percent, respectively, for the three and nine months ended July 31, 2008 compared to the same periods last year. The Stratagene and Velocity11 acquisitions accounted for 6 percentage points and 8 percentage points of this growth in the three and nine months ended July 31, 2008 compared with the same periods last year. Modest growth in spending in the three and nine months ended July 31, 2008 was due to significant reductions in operational and discretionary spending, reflecting the structural savings delivered through cost reduction programs and expense controls.

Income from operations for the three and nine months ended July 31, 2008 increased $19 million and $53 million, respectively, while our operating margins for both periods improved 1 percentage point. Structural savings and spending reductions compared to the same periods last year exceeded the unfavorable impact of currency movements.

FINANCIAL CONDITION

Liquidity and Capital Resources

Our cash balances are held in numerous locations throughout the world, including substantial amounts held outside of the United States. Most of the amounts held outside of the United States could be repatriated to the United States but, under current law, would be subject to United States federal income taxes, less applicable foreign tax credits. Repatriation of some foreign balances is restricted by local laws. Agilent has accrued for the United States federal tax liability on the earnings of its foreign subsidiaries except when the earnings are considered indefinitely reinvested outside of the United States. Repatriation could result in additional United States federal income tax payments in future years. Where local restrictions prevent an efficient intercompany transfer of funds, our intent is that cash balances would remain outside of the United States and we would meet United States liquidity needs through ongoing cash flows, external borrowings, or both. We utilize a variety of financing strategies in an effort to ensure that our worldwide cash is available in the locations in which it is needed.

Our financial position as of July 31, 2008 consisted of cash and cash equivalents of $1,640 million as compared to $1,826 million as of October 31, 2007.

Net Cash Provided by Operating Activities

Net cash provided by operating activities was $498 million in the nine months ended July 31, 2008 compared to $571 million provided in the same period in 2007. We paid approximately $181 million in taxes in the nine months ended July 31, 2008 as compared to $63 million in the same period in 2007. Higher tax payments in the nine months ended July 31, 2008 were primarily due to one-time taxes related to the transfer of intellectual property between affiliated entities. In addition, our net interest income decreased by $69 million in the nine months ended July 31, 2008 compared to the same period last year. The decrease in interest income is due to the decrease in interest rates and the increase in interest expense is due to the increase in debt compared to the same period last year. Looking forward to the remainder of the year, we expect to generate sufficient cash from operations to fund our operating needs and investments in property, plant and equipment.

In the nine months ended July 31, 2008, accounts receivable provided cash of $16 million as compared to $9 million cash used in the same period in 2007. Agilent revenues increased by approximately 8 percent in the nine months ended July 31, 2008 as compared to the same period in 2007. Days sales outstanding decreased to 47 days as of July 31, 2008 from 48 days a year ago reflecting the continued improvement in receivables management. Accounts payable used cash of $10 million in the nine months ended July 31, 2008 compared to cash used of $14 million in the same period in 2007. Cash used for inventory was $38 million in the nine months ended July 31, 2008 compared to cash used of $46 million in the same period in 2007. Inventory days on-hand decreased to 95 days as of July 31, 2008 compared to 98 days as of the end of the same period last year reflecting the continued improvement in inventory management.

We contributed approximately $2 million to our U.S. defined benefit plans in the first nine months of 2008, compared to $8 million in the same period in 2007. We contributed approximately $35 million to our non-U.S. defined benefit plans in the first nine months of 2008 compared to $26 million in the same period of 2007. Our non-U.S. defined benefit plans are generally funded ratably throughout the year. Total contributions in the nine months ended July 31, 2008 were approximately $37 million or approximately 9 percent more than in the same period in 2007. 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 $5 million to our non-U.S. defined benefit plans during the remainder of fiscal 2008. We do not expect to contribute to our U.S. defined plans during the remainder of fiscal 2008.

Net Cash Used in Investing Activities

Net cash used in investing activities in the nine months ended July 31, 2008 was $371 million compared to $387 million used in the same period of 2007. Investments in property, plant and equipment were $110 million in the nine months ended July 31, 2008 as compared to investments of $115 million in the same period in 2007. We expect that total capital expenditures for the current year will be $161 million compared to last year expenditures of $154 million. Proceeds from sale of property, plant and equipment were $14 million in the nine months ended July 31, 2008 as compared to $12 million in the same period of 2007. In the nine months ended July 31, 2008 we invested $171 million in acquisitions and intangible assets, net of cash acquired, primarily related to our acquisitions of Velocity11 and several other smaller acquisitions, compared to $311 million during the same period of 2007. Agilent also purchased the remaining minority interest in a joint venture for

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$14 million in the second quarter of 2008. In the nine months ended July 31, 2008, restricted cash and cash equivalents decreased by approximately $33 million compared to a decrease of $1 million in 2007.

In December 2007, the company reclassified a $255 million investment from cash equivalents to short-term investments. In February 2008, Agilent traded this externally managed short-term investment for the underlying securities of the investment and now manages those investments internally. During the nine months ended July 31, 2008, Agilent liquidated $131 million of these investments and realized net losses of $4 million. We also recognized an additional $3 million unrealized mark-to-market loss in stockholders equity. As of July 31, 2008, Agilent held approximately $117 million of these investments classified as short-term investments of $29 million and long-term investments of $88 million.

Net Cash Used in Financing Activities

Net cash used in financing activities for the nine months ended July 31, 2008 was $342 million compared to $973 million used in the same period of 2007.

In the first quarter of 2008, our board of directors authorized a new stock repurchase program of up to $2 billion. We repurchased approximately 22 million shares for $750 million during the first nine months of 2008, based on settlement date, as compared to approximately 37 million shares for approximately $1.3 billion during the same period in 2007 under a different program. We may borrow funds or enter into other financing transactions in order to complete the remainder of our share repurchases in this fiscal year and the next. Proceeds from the issuance of common stock under employee stock plans were $198 million in the first nine months of 2008 compared to $344 million during the same period in 2007.

In 2008, we reclassified our $1.5 billion debt from long-term to short-term in our condensed consolidated balance sheet and also reclassified our restricted cash. In January 2006, Agilent Technologies World Trade, Inc., a consolidated wholly owned subsidiary of Agilent (World Trade), entered into a five-year Master Repurchase Agreement and related Confirmation (together, the Repurchase Agreement) with a counterparty pursuant to which World Trade sold 15,000 Class A preferred shares of one of its wholly owned subsidiaries to the counterparty, having an aggregate liquidation preference of $1.5 billion. (the Purchased Securities). Subsequent to an amendment signed in December 2007, the $1.5 billion obligation of our subsidiary to repurchase the preferred shares has been classified as short term debt on our condensed consolidated balance sheet. In March 2008, World Trade received a notice of acceleration to obligate World Trade to repurchase the Purchased Securities on July 16, 2008. In June 2008, World Trade entered into an amendment to the Repurchase Agreement to extend the obligation of World Trade to repurchase the Purchased Securities from July 16, 2008 to November 17, 2008.

On August 7, 2008 World Trade entered into a further amendment to provide World Trade the right to accelerate the date of repurchase of all or any portion of the Purchased Securities from November 17, 2008 to October 20, 2008, provided that World Trade gives notice by September 15, 2008. World Trade is obligated to make quarterly payments to the counterparty at a rate per annum, reset quarterly, equal to the three-month London inter-bank offered rate plus 52 basis points for the period through July 16, 2008 and 235 basis points for the period from July 17, 2008 through November 17, 2008.

As of July 31, 2008, we had approximately $1.6 billion of unrestricted cash and $1.6 billion of restricted cash that could be used to repurchase or redeem the debt mentioned above. However, most of this cash is overseas and would need to be repatriated to the United States in order to be used to satisfy the repurchase obligation. Repatriation could result in additional U.S. federal income tax payments in future years.

On May 11, 2007, we entered into a five-year credit agreement, which provides for a $300 million unsecured credit facility that will expire on May 11, 2012. As of July 31, 2008, we had an outstanding balance of $210 million on the credit facility and it has been classified as short-term debt in our condensed consolidated balance sheet. On June 13, 2008, we entered into a Second Amendment to our five-year credit agreement. Pursuant to the Second Amendment, the existence of the accelerated obligation of World Trade to repurchase the Purchased Securities by November 17, 2008 will constitute an event of default, unless Agilent shall have satisfied the obligation or entered into definitive principal documentation with one or more counterparties regarding a transaction which would satisfy the World Trade repurchase obligation on or prior to that date that is at least three business days prior to the date upon which the World Trade repurchase obligation is due. If a default were to occur under the credit agreement, the lenders could require Agilent to immediately repay any outstanding debt under the credit facility.

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Other

As a result of adopting FIN No. 48, $453 million of taxes payable are now included in other long-term liabilities as of July 31, 2008. We are unable to accurately predict when these amounts will be realized or released. There were no other substantial changes from our 2007 Annual Report of Form 10-K to our contractual commitments in the first half of fiscal year 2008. We have contractual commitments for non-cancelable operating leases. We have no other material non-cancelable guarantees or commitments.

On August 22, 2008 Fitch Ratings upgraded Agilent from BBB- to BBB . Fitch Ratings had initiated their coverage of Agilent on March 29, 2007 by assigning a rating to Agilent of BBB- .

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.

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 67 percent and 66 percent of our revenues were generated in U.S. dollars during the third quarter of 2008 and 2007, 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, 2008, the analysis indicated that these hypothetical market movements would not have a material effect on our consolidated financial position, results of operations or cash flows.

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, 2008 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

In November 2001, a securities class action, Kassin v. Agilent Technologies, Inc., et al., Civil Action No. 01-CV-10639, was filed in United States District Court for the Southern District of New York (the Court) against certain investment bank underwriters for our initial public offering (IPO), Agilent and various of our officers and directors at the time of the IPO. In 2003, the Court granted Agilent s motion to dismiss the claims against Agilent based on Section 10 of the Securities Exchange Act, but denied Agilent s motion to dismiss the claims based on Section 11 of the Securities Act. On

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June 14, 2004, papers formalizing a settlement among the plaintiffs, Agilent and more than 200 other issuer defendants and insurers were presented to the Court. Under the proposed settlement, plaintiffs claims against Agilent and its directors and officers would be released, in exchange for a contingent payment (which, if made, would be paid by Agilent s insurer) and an assignment of certain potential claims. However, class certification of plaintiffs underlying action against the underwriter defendants was a condition of the settlement. On December 5, 2006, the Court of Appeals for the Second Circuit reversed the Court s order certifying such a class in several test cases that had been selected by the underwriter defendants and plaintiffs. On January 5, 2007, plaintiffs filed a petition for rehearing to the full bench of the Second Circuit. On April 6, 2007, the Second Circuit issued an order denying rehearing but noted that plaintiffs are free to seek certification of a more modest class. On June 25, 2007, the Court entered an order terminating the proposed settlement between plaintiffs and the issuer defendants based on a stipulation among the parties. Plaintiffs have amended their allegations and filed amended complaints in six test cases (none of which involve Agilent). Defendants in these cases have moved to dismiss the amended complaints. On March 26, 2008, the Court denied the defendants motion to dismiss. Plaintiffs have also moved for class certifications in these test cases, which the defendants in these cases have opposed. No hearing dates have been set for the class-certification motion. Discovery is also proceeding in these cases. It is uncertain if or when there will be any revised or future settlement. Under our separation agreements with Hewlett-Packard Company (HP), HP agreed to indemnify us for a substantial portion of IPO-related liabilities. If the litigation against Agilent continues, Agilent believes it has meritorious defenses and intends to defend the case vigorously. We believe the likelihood that Agilent will be required to pay any material amount is remote.

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

ITEM 1A. RISK FACTORS

Risks, Uncertainties and Other Factors That May Affect Future Results

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. In addition, our revenues and earnings forecasts for future fiscal quarters are often based on the expected seasonality or cyclicality of our markets. However, the markets we serve do not always experience the seasonality or cyclicality that we expect. Any decline in our customers markets or in general economic conditions 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 decline could harm our consolidated financial position, results of operations, cash flows and stock price, and could limit our ability to sustain 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 gross margins.

The actions that we have taken in order to reduce costs could have long-term adverse effects on our business.

We have completed our program to transition our company to a reduced cost structure. These reductions and regular ongoing evaluations of our cost structure, could have the effect of reducing our talent pool and available resources and, consequently, could have long-term effects on our business by decreasing or slowing improvements in our products, affecting our ability to respond to customers, limiting our ability to increase production quickly if and when the demand for our products increases and limiting our ability to hire and retain key personnel. These circumstances could cause our income to be lower than it otherwise might be and, as a result, adversely affect our stock price.

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

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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 on time;
- differentiate our offerings from our competitors offerings;
- price our products competitively;
- anticipate our competitors development of new products, services or technological innovations; and
- control product quality in our manufacturing process.

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

As part of our efforts to streamline operations and to cut costs, we have been outsourcing aspects of our manufacturing processes and other functions and will 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. In addition, we outsource significant portions of our information technology (IT) function and other administrative functions. Since IT is critical to our operations, any failure to perform on the part of the 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.

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

Our income could be harmed if we are unable to adjust our purchases to market fluctuations, including those caused by the seasonal or cyclical nature of the markets in which we operate. The sale of our products and services are dependent, to a large degree, on customers whose industries are subject to seasonal or cyclical trends in the demand for their products. For example, the consumer electronics market is particularly volatile, making demand difficult to anticipate. During a market upturn, we may not be able to purchase sufficient supplies or components to meet increasing product demand, which could materially affect our results. In 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 market demands. Prior commitments of this type have resulted in an excess of parts when demand for our communications and electronics products has decreased. If demand for our products is less than we expect, we may experience additional excess and obsolete inventories and be forced to incur additional charges.

Our income 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

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capacity to meet product demand, we will not be able to fulfill orders in a timely manner. 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.

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 increasingly 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;
- 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. 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.

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.

The impact of consolidation of competitors in the test and measurement market is difficult to predict and may harm our business.

The test and measurement industry is intensely competitive and has been subject to increasing consolidation. For instance, in November 2007, Danaher Corporation, one of our competitors, completed the acquisition of Tektronix, Inc., another of our competitors. Consolidation in the test and measurement industry could result in existing competitors

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increasing their market share through business combinations, which could have a material adverse effect on our business, financial condition and results of operations. We may not be able to compete successfully in an increasingly consolidated industry and cannot predict with certainty how industry consolidation will affect our competitors or us.

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

In the normal course of business, we frequently engage in discussions with third parties relating to possible acquisitions, strategic alliances, joint ventures and divestitures, and generally expect to complete several transactions per year. For example, last year we completed a number of acquisitions, including the acquisition of Stratagene Corporation in our third fiscal quarter. 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 within those of the acquired company; and
- the compatibility of our existing infrastructure with that of an acquired company.

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.

Future impairment of the value of purchased assets and goodwill could have a significant negative impact on our future operating results. And, our inability to timely and effectively apply our systems of internal controls to an acquired business could harm our operating results or cause us to fail to meet our financial reporting obligations.

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.

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

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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.

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

Our businesses are subject to various significant international, federal, state and local regulations, including but not limited to health and safety, packaging, product content, labor and import/export regulations. These regulations are complex, change frequently and have tended to become more stringent over time. We may be required to incur significant expenses to comply with these regulations or to remedy violations of these regulations. Any failure by us to comply with applicable government regulations could also result in cessation of our operations or portions of our operations, product recalls or impositions of fines and restrictions on our ability to carry on or expand our operations. In addition, because many of our products are regulated or sold into regulated industries, we must comply with additional regulations in marketing our products.

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

Some of our chemical analysis products are used in conjunction with chemicals whose manufacture, processing, distribution and notification requirements are regulated by the U.S. Environmental Protection Agency under the Toxic Substances Control Act, and by regulatory bodies in other countries with laws similar to the Toxic Substances Control Act. We must conform the manufacture, processing, distribution of and notification about these chemicals to these laws and adapt to regulatory requirements in all countries as these requirements change. If we fail to comply with these requirements in the manufacture or distribution of our products, then we could be made to pay civil penalties, face criminal prosecution and, in some cases, be prohibited from distributing our products in commerce until the products or component substances are brought into compliance.

We are subject to laws and regulations, and failure to address or comply with these laws and regulations could harm our business by leading to a reduction in revenue associated with these customers.

We have agreements relating to the sale of our products to government entities and, as a result, we are subject to various statutes and regulations that apply to companies doing business with the government. The laws governing government contracts differ from the laws governing private contracts. For example, many government contracts contain pricing terms and conditions that are not applicable to private contracts. We are also subject to investigation for compliance with the regulations governing government contracts. A failure to comply with these regulations might result in suspension of these contracts, or administrative penalties.

A number of our products from our bio-analytical measurement business are subject to regulation by the United States Food and Drug Administration (FDA) and certain similar foreign regulatory agencies. If we or any of our suppliers or distributors fail to comply with FDA and other applicable regulatory requirements or are perceived to potentially have failed to comply, we may face, among other things, adverse publicity affecting both us and our customers, investigations or

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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.

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, 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. 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 intellectual property rights quickly or at all. In some circumstances, enforcement may not be available to us 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 allows them to compete with us using that intellectual property.

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We have received a Revenue Agent s Report from the U.S. Internal Revenue Service for fiscal years 2000 through 2002 claiming a significant increase in our U.S. taxable income. An adverse outcome of this examination or any future examinations involving similar claims could have a material adverse effect on our results of operations, financial condition and liquidity.

Our U.S. federal income tax returns for 2000 through 2002 have been under audit by the Internal Revenue Service (IRS). In August 2007, we received a Revenue Agent s Report (RAR). In the RAR, the IRS proposes to assess a net tax deficiency, after applying available net operating losses from the years under audit and undisputed tax credits, for those years of approximately $405 million, plus penalties of approximately $160 million and interest. If the IRS were to fully prevail, our net operating loss and tax credits generated in recent years would be utilized earlier than they otherwise would have been and our annual effective tax rate will have increased as a result. The RAR addresses several issues. One issue, however, relating to the use of Agilent s brand name by our foreign affiliates, accounts for a majority of the claimed tax deficiency. We believe that the claimed IRS adjustment for this issue in particular is inconsistent with applicable tax laws and that we have meritorious defenses to this claim. Therefore, we have not included any tax for this item in our tax provision for 2007 or for the first three quarters of 2008. We have filed a formal protest and expect to meet with the Appeals Office. In the protest, we opposed the claim associated with Agilent s brand name, and most of the other claimed adjustments proposed in the RAR, vigorously. In April of 2008, we received a rebuttal to our formal protest. The final resolution of the proposed adjustments is uncertain and may take several years. Based on current information, it is our opinion that the ultimate disposition of these matters is unlikely to have a material adverse effect on our consolidated financial position, results of operations or liquidity. However, if the ultimate determination of taxes owed is in excess of the tax provisions we have recorded in connection with the proposed assessment, our results of operations, financial condition and liquidity could be adversely affected.

Our $1.5 billion repurchase obligation under our World Trade financing arrangement is due on November 17, 2008. An alternative financing transaction or the use of cash currently outside of the United States to satisfy, in whole or in part, the repurchase obligation may result in higher costs to us which could have a material adverse effect.

On March 18, 2008, Agilent Technologies World Trade, Inc. (World Trade), a wholly-owned subsidiary of Agilent, received a notice from Merrill Lynch Capital Services, Inc. (Merrill) advising World Trade that it has accelerated to July 16, 2008 (the Repurchase Date) the obligation of World Trade to repurchase 15,000 Class A Preferred Shares of Agilent Technologies (Cayco) Limited, a wholly-owned subsidiary of Agilent, at a repurchase price of $1.5 billion. On June 27, 2008 and August 7, 2008, Agilent, World Trade and Merrill entered into amendments to certain of the World Trade financing agreements, pursuant to which, among other things, the Repurchase Date was extended from July 16, 2008 to November 17, 2008.

We are required to satisfy the repurchase obligation on or before November 17, 2008. As of July 31, 2008, we had approximately $1.6 billion of unrestricted cash and $1.6 billion of restricted cash that could be used to repurchase or redeem the Class A Preferred Shares. However, most of this cash is overseas and would need to be repatriated to the United States in order to be used to satisfy the repurchase obligation. We may pursue other financing transactions to satisfy the repurchase obligation. However, in light of recent volatility in the financial markets and general economic conditions, there can be no assurance that an alternative financing transaction will be available to us on acceptable terms. In any case, the costs associated with a repatriation and/or borrowing of additional funds could result in a material adverse impact to our business operating results and financial condition.

The repurchase obligation that is being accelerated relates to the Master Repurchase Agreement and related Confirmation dated March 17, 2008 between World Trade and a counterparty, which amended the original agreement dated January 27, 2006, as amended on December 7, 2007. World Trade sold the Class A Preferred Shares to the counterparty for a total price of $1.5 billion, the amount of the aggregate liquidation preference. Prior to the acceleration, World Trade was obligated to repurchase the Class A Preferred Shares from the counterparty on January 27, 2011 for 100% of their aggregate liquidation preference, subject to Merrill s right to accelerate that repurchase by written notice to us to a repurchase date to occur no earlier than 120 days from the date of any notice.

We have issued $600 million in a debt offering and entered into a credit facility and may incur other debt in the future, which could adversely affect our financial condition, liquidity and results of operations.

In October 2007, we issued $600 million in senior unsecured notes. In addition, in May 2007, we entered into a five-year senior unsecured revolving credit facility under which we may borrow up to $300 million. As of July 31, 2008, we had borrowed $210 million under the credit facility. We may borrow in the future and use the proceeds from any future borrowing for general corporate purposes, future acquisitions, repurchases of our outstanding shares of common stock or

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expansion of our business. As noted above, we may enter into an additional financing arrangement in order to satisfy our $1.5 billion repurchase obligation under our World Trade financing structure on or before November 17, 2008.

Our incurrence of this 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 a 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 and acquisitions; and

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

Our current revolving credit facility imposes restrictions on us, including restrictions on our ability to create liens on our assets and the ability of our subsidiaries to incur indebtedness, and requires us to maintain compliance with specified financial ratios. Our ability to comply with these ratios may be affected by events beyond our control. In addition, our long-term non-convertible debt includes 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 under our long-term debt or our revolving credit facility 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.

An event of default will occur under the Five-Year Credit Agreement if our $1.5 billion repurchase obligation under our World Trade financing arrangement is not satisfied three business days prior to the date the obligation is due. If an event of default occurred and we were no longer able to borrow under the Five-Year Credit Agreement, our ability to satisfy our cash requirements in the United States could be adversely affected.

On March 18, 2008, World Trade received a notice from Merrill advising World Trade that it has accelerated to July 16, 2008 the obligation of World Trade to repurchase 15,000 Class A Preferred Shares of Agilent Technologies (Cayco) Limited, a wholly-owned subsidiary of the Company, at a repurchase price of $1.5 billion. On June 27, 2008 and August 7, 2008, Agilent, World Trade and Merrill entered into amendments to certain of the World Trade financing agreements, pursuant to which, among other things, the Repurchase Date was extended from July 16, 2008 to November 17, 2008. Under the Company s Five-Year Credit Agreement, dated May 11, 2007, as amended (the Credit Agreement) by and among the Company, the lenders who are a party to the agreement, and JPMorgan Chase Bank, N.A., as administration agent, if the World Trade repurchase obligation is not satisfied by at least three business days prior to the date the World Trade repurchase obligation is due, an event of default will occur under the Credit Agreement. Also, in the event that we enter into an alternative financing arrangement to satisfy the World Trade repurchase obligation, we may be required to agree to terms in the new financing that could cause an event of default under the Credit Agreement. If a default were to occur, our lenders could require us to immediately repay any outstanding debt and refuse to lend us additional amounts until the event of default were cured.

We have substantial cash requirements in the United States while a majority 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 cash generated in the United States covers normal operating requirements, a substantial amount of additional cash is required for special purposes such as repurchases of our stock, acquisitions of third parties, and the refinancing of our $1.5 billion repurchase obligation related to our World Trade financing arrangement. 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.

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

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earthquake due to their locations. Our production facilities, headquarters and Agilent Technologies Laboratories in California, and our production facilities in Washington and Japan, are all located in areas with above-average seismic activity. If any of these facilities were to experience a catastrophic loss, it could disrupt our operations, delay production, shipments and revenue and result in large expenses to repair or replace the facility. In addition, since we have consolidated our manufacturing facilities, we are more likely to experience an interruption to our operations in the event of a catastrophe in any one location. Although we carry insurance for property damage and business interruption, we do not carry insurance or financial reserves for interruptions or potential losses arising from earthquakes or terrorism.

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, 2008.

Period	**Total Number of Shares of Common Stock Purchased (1) (a)**		**Weighted Average Price Paid per Share of Common Stock (2) (b)**	**Total Number of Shares of Common Stock Purchased as Part of Publicly Announced Plans or Programs (1) (c)**		**Maximum Approximate Dollar Value of Shares of Common Stock that May Yet Be Purchased Under the Plans or Programs (in millions) (d)**
May 1, 2008 through May 31, 2008	462,338	$	36.27	462,338	$	1,483
Jun. 1, 2008 through Jun. 30, 2008	1,145,595	$	36.84	1,145,595	$	1,441
Jul. 1, 2008 through Jul. 31, 2008	5,392,978	$	35.40	5,392,978	$	1,250
Total	7,000,911	$	35.69	7,000,911		

(1) On November 14, 2007, the Audit and Finance Committee of the Board of Directors approved a share-repurchase program of up to $2 billion of Agilent s common stock over the next two years through any one or a combination of a variety of methods, including open-market purchases, block trades, self tenders, accelerated share repurchase transactions or otherwise.

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

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ITEM 6. EXHIBITS

(a) Exhibits:

A list of exhibits is set forth in the Exhibit Index found on page 40 of this report.

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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 5, 2008	By:	/s/ Adrian T. Dillon Adrian T. Dillon Executive Vice President, Finance and Administration, Chief Financial Officer (Principal Financial Officer)
Dated: September 5, 2008	By:	/s/ Didier Hirsch Didier Hirsch Vice President, Corporate Controllership and Tax (Principal Accounting Officer)

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AGILENT TECHNOLOGIES, INC.

EXHIBIT INDEX

Exhibit Number	Description
10.1	Agilent Technologies, Inc. Employee Stock Purchase Plan (Amended and Restated, effective November 1, 2008).*
10.2	Form of Stock Option Award Agreement for grants under the Agilent Technologies, Inc. 1999 Non-Employee Director Stock Plan.*
10.3	Second Amendment to Five Year Credit Agreement, dated June 13, 2008, by and among Agilent, the lenders party thereto, and JPMorgan Chase Bank, N.A., as administration agent. Incorporated by reference to Exhibit 10.3 of the Company s Current Report on Form 8-K filed June 19, 2008.
10.4	Master Repurchase Agreement, dated as of March 17, 2008, between Agilent Technologies World Trade, Inc. and Steers Repo Pass-Thru Trust, 2008-1 and Annex I to the Master Repurchase Agreement dated June 27, 2008. Incorporated by reference to Exhibit 99.1 of the Company s Current Report on Form 8-K filed July 2, 2008.
10.5	Third Amended and Restated Guaranty of Agilent Technologies, Inc., dated as of March 17, 2008. Incorporated by reference to Exhibit 99.2 of the Company s Current Report on Form 8-K filed July 2, 2008.
10.6	Fifth Amended and Restated Related Agreement, dated as of August 7, 2008, among Merrill Lynch Capital Services, Inc., Agilent Technologies, Inc. and Agilent Technologies World Trade, Inc.
10.7	Novation Agreement (including Confirmation), dated as of March 17, 2008, among Agilent Technologies World Trade, Inc., Belmont Funding LLC and Steers Repo Pass-Thru Trust, 2008-1. Incorporated by reference to Exhibit 99.4 of the Company s Current Report on Form 8-K filed July 2, 2008.
11.1	See Note 6, Net Income Per Share , to our Condensed Consolidated Financial Statements on page 9.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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* Indicates management contract or compensatory plan, contract or arrangement.