10-Q 1 a10-q.txt FORM 10-Q 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, 2000 OR /_/ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934. For the transition period from ________________ to__________________ Commission file number: 001-15405 AGILENT TECHNOLOGIES, INC. -- (Exact name of registrant as specified in its charter) Delaware 77-0518772 ------------------------------ ------------------- (State or other jurisdiction of (IRS Employer incorporation or organization) Identification No.) 395 Page Mill Road, Palo Alto, California 94306 --- ------------ (Address of principal executive offices) (Zip Code) Registrant's telephone number, including area code (650) 752-5000 -------------- Former address: 3000 Hanover Street, Palo Alto, California 94304 -- (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 / / Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Class Outstanding at July 31, 2000 ---------------------------- ------------------------------ Common Stock, $0.01 par value 453,014,579 shares AGILENT TECHNOLOGIES, INC. AND SUBSIDIARIES INDEX

Page Number
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2 PART I. FINANCIAL INFORMATION Item 1. Financial Statements Agilent Technologies, Inc. and Subsidiaries Condensed Consolidated Balance Sheets (Unaudited) (in millions, except par value and share amounts)

July 31, Oct. 31, 2000 1999 ---- ----
ASSETS Current assets: Cash and cash equivalents.. $703 $ - Accounts receivable.. 2,167 1,635 Inventory... 1,762 1,499 Other current assets... 712 404 ------ ------ Total current assets... 5,344 3,538 Property, plant and equipment, net................................. 1,581 1,387 Other assets.. 902 519 ------ ------ Total assets.. $7,827 $5,444 ====== ======
LIABILITIES AND STOCKHOLDERS' EQUITY Current liabilities: Notes payable and short-term borrowings.......................... $ 129 $ - Accounts payable.. 783 510 Employee compensation and benefits............................... 600 550 Deferred revenue.. 361 241 Accrued income taxes.. 238 - Other accrued liabilities....................................... 399 380 ------ ------ Total current liabilities..................................... 2,510 1,681 Other liabilities.. 415 381 Commitments and contingencies
Stockholders' equity: Preferred stock; $.01 par value; 125,000,000 shares authorized; none issued and outstanding...................... - - Common stock; $.01 par value; 2,000,000,000 shares authorized; 453,014,579 shares at July 31, 2000 and 380,000,000 shares at October 31, 1999 issued and outstanding. 5 4 Additional paid-in capital...................................... 4,451 3,378 Retained earnings... 452 - Other comprehensive losses...................................... (6) - ------ ------ Total stockholders' equity................................... 4,902 3,382 ------ ------ Total liabilities and stockholders' equity......................... $7,827 $5,444 ====== ======

The accompanying notes are an integral part of these financial statements. 3 Agilent Technologies, Inc. and Subsidiaries Condensed Consolidated Statements of Earnings (Unaudited) (in millions, except per share amounts)

Three Months Ended Nine Months Ended July 31, July 31, 2000 1999 2000 1999 ------ ------ ------ ------

~~Net revenue:~~
~~Products.. $2,331 $1,788 $6,426 $5,005~~
~~Services and other.................................... 339 299 975 878 ------ ------ ------ ------~~
~~Total net revenue.................................. 2,670 2,087 7,401 5,883 ------ ------ ------ ------~~
~~Costs and expenses: Cost of products...................................... 1,186 926 3,214 2,581~~
~~Cost of services and other............................ 183 177 576 515~~
~~Research and development.............................. 318 242 904 705~~
~~Selling, general and administrative................... 773 547 2,112 1,546 ------ ------ ------ ------~~
~~Total costs and expenses........................... 2,460 1,892 6,806 5,347 ------ ------ ------ ------~~
~~Earnings from operations................................ 210 195 595 536~~
~~Other income (expense), net.............................. 28 12 101 27 ------ ------ ------ ------~~
~~Earnings before taxes.................................... 238 207 696 563~~
~~Provision for taxes....................................... 83 72 244 197 ------ ------ ------ ------~~
~~Net earnings.. $ 155 $ 135 $ 452 $ 366 ====== ====== ====== ======~~
~~Basic net earnings per share............................. $ .34 $ .36 $1.01 $ .96~~
~~Diluted net earnings per share........................... $ .34 $ .36 $1.00 $ .96~~
~~Average shares used in computing net earnings per share:~~
~~Basic... 453 380 448 380~~
~~Diluted... 461 380 452 380~~
~~Pro forma net earnings per share:~~
~~Basic... $ .34 $1.00~~
~~Diluted... $ .33 $ .97~~
~~Average shares used in computing pro forma net earnings per share:~~
~~Basic... 453 452~~
~~Diluted... 464 464~~

The accompanying notes are an integral part of these financial statements. 4 Agilent Technologies, Inc. and Subsidiaries Condensed Consolidated Statements of Cash Flows (Unaudited) (in millions)

Nine Months Ended July 31, 2000 1999 ----- ---

~~-- Cash flows from operating activities: Net~~
~~earnings..~~
~~$ 452 $ 366 Adjustments to reconcile net earnings~~
~~to net cash provided by operating activities:~~
~~Depreciation and~~
~~amortization... 345 365~~
~~Gain on sale of equity~~
~~investments...................................... (29) -~~
~~Deferred taxes on~~
~~earnings... (19) 49~~
~~Non-cash asset impairment~~
~~charge.. - 51 Changes in~~
~~assets and liabilities: Accounts~~
~~receivable..~~
~~(514) (84)~~
~~Inventory..~~
~~(254) (113) Accounts~~
~~payable... 282~~
~~(9) Accrued income~~
~~taxes... 238 -~~
~~Other current assets and~~
~~liabilities.................................. (52) (147) Other,~~
~~net... (34)~~
~~(52) ----- ----- Net cash provided by operating~~
~~activities..................................... 415 426 ----- -~~
~~---- Cash flows from investing activities:~~
~~Investments in property, plant and~~
~~equipment................................ (448) (336)~~
~~Dispositions of property, plant and~~
~~equipment.............................. 101 71 Sales of~~
~~equity investments..~~
~~60 - Purchases of equity~~
~~investments... (22) -~~
~~Acquisitions, net of cash~~
~~acquired... (667) (28)~~
~~Cash proceeds of~~
~~divestitures.. - 39~~
~~Other,~~
~~net... 10~~
~~(4) ----- ----- Net cash used in investing~~
~~activities.. (966) (258) -~~
~~---- ----- Cash flows from financing activities:~~
~~Initial public offering~~
~~proceeds.. 2,068 -~~
~~Initial public offering proceeds distributed to~~
~~Hewlett-Packard............ (2,068) - Issuance of~~
~~common stock under employee stock~~
~~plans........................ 44 - Change in notes~~
~~payable and short-term~~
~~borrowings.......................... 129 - Net funding~~
~~from (to) Hewlett-~~
~~Packard..................................... 1,081 (168) --~~
~~--- ----- Net cash provided by (used in) financing~~
~~activities........................... 1,254 (168) ----- ----~~
~~- Change in cash and cash~~
~~equivalents... 703 -~~
~~Cash and cash equivalents at beginning of~~
~~period.............................. - - ----- ----- Cash~~
~~and cash equivalents at end of~~
~~period................................... $ 703 $ - =====~~
~~=====~~

The accompanying notes are an integral part of these financial statements. 5 Agilent Technologies, Inc. and Subsidiaries Notes to Condensed Consolidated Financial Statements (Unaudited) 1. Overview and Basis of Presentation On March 2, 1999, Hewlett-Packard Company (HP) announced a plan to create a separate company, subsequently named Agilent Technologies, Inc. (Agilent), comprised of HP's test and measurement, semiconductor products, healthcare solutions and chemical analysis businesses, related portions of Hewlett-Packard Laboratories and associated infrastructure. Agilent was incorporated in Delaware in May 1999 as a wholly-owned subsidiary of HP with 125,000,000 shares of $.01 par value preferred stock and 2,000,000,000 shares of $.01 par value common stock authorized and 10,000,000 shares of common stock issued to HP. Effective October 21, 1999, Agilent's Board of Directors declared a 38-for-one stock split in the form of a stock dividend. As a result of the stock split, common stock issued and outstanding increased to 380,000,000 shares. On November 18, 1999, Agilent launched its initial public offering of 72,000,000 shares of common stock at $30 per share. The net proceeds of the offering of $2.1 billion were paid to HP as a dividend on November 23, 1999. On April 7, 2000, HP announced that its board of directors had declared a stock dividend of all of HP's shares in Agilent. The dividend was distributed on June 2, 2000 (the distribution date), to HP shareholders of record as of 5 p.m. Eastern Daylight Time on May 2, 2000. The distribution was on the basis of 0.3814 of an Agilent share for each HP common share outstanding. The condensed consolidated 1999 financial information has been prepared using HP's historical bases in the assets and liabilities and the historical results of operations of Agilent. Agilent began accumulating retained earnings on November 1, 1999. The condensed consolidated 1999 financial information includes allocations of certain HP corporate expenses, including centralized research and development, legal, accounting, employee benefits, real estate, insurance services, information technology services, treasury and other HP corporate and infrastructure costs. The expense allocations were determined on bases that HP and Agilent considered to be a reasonable reflection of the utilization of services provided or the benefit received by Agilent. However, the 1999 financial information included herein may not reflect the consolidated financial position, operating results, and cash flows of Agilent in the future or what they would have been had Agilent operated as a separate, stand-alone entity during 1999. In fiscal 2000, Agilent entered into interim service level agreements with HP covering the provision of various services, including information technology, financial, accounting, building, legal and other services (Note 9). Effective November 1, 1999, Agilent began operating as a stand-alone company. In November 1999, HP transferred to Agilent a majority of the assets and liabilities relating to its businesses and also provided Agilent with cash funding of approximately $1.1 billion. HP retained some of Agilent's assets and liabilities, including some of its accounts receivable and accounts payable, accrued payroll and related items and taxes payable, except deferred taxes, and transferred to 6 Agilent some of the assets and liabilities related to its business, including some of the accounts receivable, accounts payable and other liabilities of Agilent Technologies Japan, Ltd. (formerly called Hewlett-Packard Japan, Ltd.). In addition, HP transferred to Agilent $521 million to fund its acquisition of Yokogawa Electric Corporation's 25% minority equity ownership of Agilent Technologies Japan, Ltd. (Note 4). In December 1999, HP provided Agilent with additional cash funding of approximately $200 million based on its and HP's balance sheets as of October 31, 1999. Of the total $1.8 billion of funding received from HP in the nine months ended July 31, 2000, $1.1 billion was classified as net cash provided by financing activities and $0.7 billion was classified among several categories as net cash provided by operating activities in the condensed consolidated statement of cash flows for the nine months ended July 31, 2000. 2. Summary of Significant Accounting Policies In the opinion of Agilent's management, the accompanying condensed consolidated financial statements contain all adjustments (which comprise only normal and recurring accruals) necessary to present fairly its consolidated financial position as of July 31, 2000 and its consolidated results of operations and cash flows for the three and nine months ended July 31, 2000 and 1999. Certain amounts in the condensed consolidated statements of operations for the three and nine months ended July 31, 1999 have been reclassified to conform to the current period's presentation. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for the three and nine months ended July 31, 2000 are not necessarily indicative of the results to be expected for the full year. The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations as well as the consolidated financial statements and notes thereto included in Agilent's 1999 Annual Report on Form 10-K. 3. Accounting Pronouncements In accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," Agilent recorded $6 million of accumulated other comprehensive losses to stockholders' equity in the nine months ended July 31, 2000. Prior period financial statements were not materially impacted by the statement. In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments and requires recognition of all derivatives as assets or liabilities in the balance sheet and measurement of those instruments at fair value. The statement is effective for years beginning after June 15, 2000. Agilent will adopt the standard no later than the first 7 quarter of its fiscal year 2001 and is in the process of determining the impact that adoption will have on its consolidated financial statements. In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." In June 2000, the SEC delayed the implementation date of this Staff Accounting Bulletin. This Staff Accounting Bulletin is effective no later than the fourth quarter of Agilent's fiscal year 2001. Agilent is in the process of determining the impact that adoption will have on its consolidated financial statements. 4. Acquisitions In July 2000, Agilent acquired all of the outstanding stock of SAFCO Technologies, Inc. for approximately $120 million in cash. During fiscal 2000, Agilent acquired several additional companies for approximately $140 million. All of these acquisitions were accounted for under the purchase method. Under the purchase method, the results of operations of the acquired companies were included prospectively from the date of acquisition and the acquisition cost was allocated to the acquired tangible and identifiable intangible assets and liabilities based on fair market values at the date of acquisition. Residual amounts were recorded as goodwill. Goodwill is amortized on a straight-line basis over its estimated economic life, generally three to five years. The net book value of goodwill associated with all of these acquisitions was approximately $224 million as of July 31, 2000. On July 6, 1999, HP entered into an agreement with Yokogawa Electric Corporation (Yokogawa) of Japan to acquire Yokogawa's 25% minority equity ownership of Agilent Technologies Japan, Ltd. for approximately $521 million. Under the terms of the agreement which were assigned to Agilent, Agilent will acquire Yokogawa's shares through a series of purchase transactions. In the initial step, which occurred in January 2000, Agilent purchased approximately 10.4% of Agilent Technologies Japan, Ltd. shares from Yokogawa for approximately $206 million. In the second step, which occurred in April 2000, Agilent purchased approximately 10.4% of additional Agilent Technologies Japan, Ltd. shares from Yokogawa for approximately $216 million. Agilent will purchase the remaining 4.2% of Agilent Technologies Japan, Ltd. shares owned by

Yokogawa prior to March 31, 2003. HP has provided the funding for all steps of this transaction. An independent valuation has been performed to determine the portion of the Yokogawa purchase price attributable to Agilent's business and the remaining HP business and to allocate the purchase price to identifiable assets and liabilities. Of the total purchase price, $391 million is attributable to Agilent's business, of which approximately $278 million will be recorded as goodwill and amortized over 10 years. The net book value of goodwill associated with the two payments for the purchase of approximately 20.8% of HPJ shares from Yokogawa was approximately $226 million at July 31, 2000. The remainder of the purchase price was allocated to tangible assets. 8 5. Earnings Per Share Basic net earnings per share is computed by dividing net earnings (numerator) by the weighted average number of common shares outstanding (denominator) during the period excluding the dilutive effect of stock options and other employee stock plans. Diluted net earnings per share gives effect to all potentially dilutive common shares outstanding during the period. In computing diluted net earnings per share, the average stock price for the period is used in determining the number of shares assumed to be purchased from the proceeds of stock option exercises. Pro forma basic net earnings per share has been computed by dividing net earnings by the weighted average shares outstanding for the period including the 72,000,000 shares issued in Agilent's initial public offering and assuming they were outstanding for the entire period, as the proceeds of the offering were distributed to HP. Pro forma diluted net earnings per share has been computed by dividing net earnings by the weighted average shares outstanding for the period including the 72,000,000 shares issued in Agilent's initial public offering and assuming they were outstanding for the entire period plus the dilutive impact of outstanding stock options and other employee stock plans. It also assumes that HP stock and options converted to Agilent stock and options on the distribution date were outstanding for the entire period. The following is a reconciliation of the numerators and denominators of the basic and diluted net earnings per share computations for the periods presented below.

Three Months Ended Nine Months Ended July 31, July 31, 2000 1999 2000 1999 ---- ---- ---- ---- (in millions, except per share data)

~~Numerators: Net earnings .... $ 155 $ 135 $ 452 $ 366 Denominators: Basic weighted average shares .... 453 380 448 380 Potentially dilutive common shares - stock options and other employee stock plans.................................. 8 -- 4 -- ----- ----- ----- ----- Diluted weighted average shares .... 461 380 452 380 Net earnings per share: Basic .... $0.34 $0.36 $1.01 $0.96 Diluted .... $0.34 $0.36 $1.00 $0.96 Pro forma denominators: Basic pro forma shares .... 453 452 Potentially dilutive pro forma common shares - stock options and other employee stock plans .... 11 12 ----- ----- Diluted pro forma shares .... 464 464 Pro forma net earnings per share: Basic .... $0.34 $1.00 Diluted .... $0.33 $0.97~~

6. Inventory

July 31, Oct. 31, 2000 1999 --- ----- -------- (in millions)
~~Finished goods .... $ 521 $ 639 Purchased parts and fabricated assemblies .... 1,241 860 ------ ------ $1,762 $1,499 ====== ======~~

9 7. Comprehensive Earnings For the three months ended July 31, 2000, Agilent recorded an unrealized loss, net of tax, of $2 million relating to investments in equity securities, which was subtracted from net earnings of $155 million to compute comprehensive earnings of $153 million. For the nine months ended July 31, 2000, Agilent recorded an unrealized loss, net of tax, of $6 million relating to investments in equity securities, which was subtracted from net earnings of $452 million to compute comprehensive earnings of $446 million. Prior to November 1, 1999, Agilent had no material components of comprehensive earnings or losses. 8. Supplemental Cash Flow Information The condensed consolidated statement of cash flows for the nine months ended July 31, 2000 excludes a net asset transfer of $14 million to Agilent from HP. This non-cash event was accounted for as a change in paid-in capital. Agilent paid approximately $67 million in cash to Hewlett-Packard in July 2000 concerning Agilent's estimated tax liability from November 1, 1999 through June 2, 2000. 9. Related Party Transactions On June 2, 2000, all Agilent shares owned by Hewlett-Packard were distributed as a stock dividend to HP shareholders of record as of 5 p.m. Eastern Daylight time on May 2, 2000. As a result of this action, HP is no longer a related party to Agilent as of June 2, 2000. Agilent's net revenue from sales of products to HP was $44 million and $341 million for the periods from May 1, 2000 through June 2, 2000 and November 1, 1999 through June 2, 2000, respectively. Agilent's net revenue from sales of products to HP was $212 million and $590 million for the three and nine months ended July 31, 1999. In 1999 and 2000, Agilent purchased certain products from HP. These products were purchased for inclusion in Agilent products sold to third parties and for internal use. In 2000, Agilent purchased products from HP at prices that management believes approximate the prices an unrelated party would pay. These purchases from HP amount to approximately $18 million and $122 million in the period from May 1, 2000 through June 2, 2000 and November 1, 1999 through June 2, 2000, respectively. In 1999, Agilent purchased products from HP for the amount of $47 million and $108 million in the three and nine months ended July 31, 1999. Purchases from HP at cost for internal use totaled $29 million and $63 million in the three and nine months ended July 31, 1999. Agilent's costs and expenses during the three and nine months ended July 31, 1999 included allocations from HP for centralized research and development, legal, accounting, employee benefits, real estate, insurance services, information technology services, treasury and other HP corporate and infrastructure costs. These allocations were determined on bases that HP and Agilent considered to be a reasonable reflection of the utilization of services provided or the benefit received by Agilent. The allocation methods included relative sales, headcount, square footage, transaction processing costs, adjusted operating expenses and others. Allocated costs included in the accompanying condensed consolidated statements of earnings for the three and nine months ended July 31, 1999 follow.

Three Months Nine Months Ended July 31, Ended July 31, 1999 1999 ------------- ------------- (in millions)
~~Costs of products and services............ $ 52 $ 147 Research and development.................. 37 108 Selling, general and administrative........ 112 324~~

Agilent has entered into interim service level agreements with HP covering the provision of various services, including information technology, financial, accounting, building, legal and other services by HP to Agilent or, in some circumstances, vice versa. These services are generally being provided for fees equal to the actual direct and indirect costs of providing the services plus 5%. The interim service level agreements generally have a term of two years or less from the date of separation from HP. However, some interim service level agreements, including those for building services and information technology services, may be extended beyond the initial two-year period. If these agreements are extended, their terms will change so that the lessor will receive fair market rental value for the rental component of the building services and the cost plus 10% for information technology and other services and non-rental components of building services. The total cost of services Agilent received from HP was approximately $41 million and 10 $267 million in the periods from May 1, 2000 through June 2, 2000 and November 1, 1999 through June 2, 2000, respectively. The total cost of services HP received from Agilent was approximately $9 million and $95 million in the same periods, respectively. For purposes of governing certain of the ongoing relationships between Agilent and HP at and after November 1, 1999 (the separation date) and to provide for an orderly transition, Agilent and HP have entered into various agreements. A brief description of each of the agreements follows. Each of these agreements were filed as exhibits to Agilent's Registration Statement on Form S-1. MASTER SEPARATION AND DISTRIBUTION AGREEMENT. The separation agreement contains the key provisions relating to the separation, Agilent's initial funding, initial public offering and the distribution. The agreement lists the documents and items that the parties had to deliver in order to accomplish the transfer of assets and liabilities from HP to Agilent, effective on the separation date. The agreement also contains conditions that had to occur prior to the initial public offering and the distribution. The parties also entered into ongoing covenants that survive the transactions, including covenants to establish interim service level agreements, exchange information, notify each other of changes in accounting principles and resolve disputes in particular ways. GENERAL ASSIGNMENT AND ASSUMPTION AGREEMENT. The

General Assignment and Assumption Agreement identifies the assets that HP transferred to Agilent and the liabilities that Agilent assumed from HP in the separation. In general, the assets that were transferred and the liabilities that were assumed are those that appear on the condensed consolidated balance sheet at October 31, 1999, after adjustment for certain assets and liabilities that were retained by HP. INDEMNIFICATION AND INSURANCE MATTERS AGREEMENT. Effective as of the separation date, Agilent and HP each released the other from any liabilities arising from events occurring on or before the separation date. The agreement also contains provisions governing indemnification. In general, Agilent and HP will each indemnify the other from all liabilities arising from its business, any of its liabilities, any of its contracts or a breach of the 11 separation agreement. In addition, HP and Agilent will each indemnify the other against liability for specified environmental matters. Agilent reimbursed HP for the cost of any insurance coverage from the separation date to the distribution date. EMPLOYEE MATTERS AGREEMENT. The Employee Matters Agreement allocates responsibility for, and liability related to, the employment of those employees of HP who have become Agilent employees. The agreement also contains provisions describing Agilent's benefit and equity plans. Agilent established employee benefit plans comparable to those of HP for its active, inactive and former employees. However, in certain cases, certain of its employees will continue to participate in the HP benefit plans. The transfer to Agilent of employees at certain of HP's international operations, and of certain pension and employee benefit plans, may not take place until Agilent receives consents or approvals or has satisfied other applicable requirements. TAX SHARING AGREEMENT. The tax sharing agreement provides for HP's and Agilent's obligations concerning various tax liabilities. The tax sharing agreement provides that HP generally will pay, and indemnify Agilent if necessary, for all federal, state, local and foreign taxes relating to Agilent's business for any taxable period ending prior to November 1, 1999. In addition, the tax sharing agreement provides that HP and Agilent will make payments between them such that the amount of taxes to be paid by HP and Agilent will be determined, subject to specified adjustments, as if HP and Agilent and each of their subsidiaries included in HP's consolidated tax returns had filed their own consolidated, combined or unitary tax return for that period. For U.S. federal income tax purposes, such consolidated return period is November 1, 1999 through June 2, 2000. The tax sharing agreement allocates responsibility for various taxes arising from restructurings related to the spinoff between HP and Agilent. In addition, Agilent will bear 18% of unanticipated taxes related to the distribution where neither party is at fault. In addition, the tax sharing agreement provides that Agilent will indemnify HP for any taxes arising out of the failure of the distribution or certain of the transactions related to it to qualify as tax free as a result of actions taken, or the failure to take required actions, by Agilent. Specifically, Agilent is required under the tax sharing agreement to comply with the representations made to the Internal Revenue Service, or the IRS, in connection with the private letter ruling that has been issued to HP from the IRS regarding the tax-free nature of the distribution of Agilent's stock by HP to HP's stockholders. The tax sharing agreement further provides for cooperation with respect to certain tax matters, the exchange of information and the retention of records which may affect the income tax liability of either party. REAL ESTATE MATTERS AGREEMENT. The Real Estate Matters Agreement addresses real estate matters relating to the HP leased and owned properties that HP transferred to or shares with Agilent. The agreement describes the manner in which HP transferred to or shares with Agilent various leased and owned properties. The Real Estate Matters Agreement also provided that all costs required to effect the transfers, including landlord consent fees, landlord attorneys' fees, title insurance fees and transfer taxes, were paid by HP. 12 MASTER IT SERVICE LEVEL AGREEMENT. The Master IT Service Level Agreement governs the provision of information technology services by HP and Agilent to each other, on an interim basis, until November 1, 2001, unless extended for specific services or otherwise indicated in the agreement. The services include data processing and telecommunications services, such as voice telecommunications and data transmission. Specified charges for such services are generally intended to allow the providing company to recover the direct and indirect costs of providing the services, plus 5% until November 1, 2001, and such costs plus 10% thereafter. The Master IT Service Level Agreement also covers the provision of certain additional information technology services identified from time to time after the separation date that were inadvertently or unintentionally omitted from the specified services, or that are essential to effectuate an orderly transition under the separation agreement, so long as the provision of such services would not significantly disrupt the providing company's operations or significantly increase the scope of the agreement. In addition, the Master IT Service Level Agreement provides for the replication of some computer systems, including hardware, software, data storage or maintenance and support components. Generally, the party needing the replicated system bears the costs and expenses of replication. Generally, the party purchasing new hardware or licensing new software bears the costs and expenses of purchasing the new hardware or obtaining the new software licenses. INTELLECTUAL PROPERTY AGREEMENTS. The Master Technology Ownership and License Agreement, the Master Patent Ownership and License Agreement, the Master Trademark Ownership and License Agreement and the ICBD Technology Ownership and License Agreement together are referred to as the Intellectual Property Agreements. Under the Intellectual Property Agreements, HP transferred to Agilent its rights in specified patents, specified trademarks and other intellectual property related to Agilent's current business and research and development efforts. HP and Agilent each are licensed under the other's patents issued on patent applications with effective filing dates before November 1, 2004, subject to field of use restrictions. HP and Agilent are also licensed to use technology that has been disclosed to such licensed company or that is in the licensed company's possession as of the separation date, with certain limitations. The agreements include certain rights to sublicense for both parties. Agilent is licensed to use some HP trademarks, and this license is royalty-bearing after five years. ENVIRONMENTAL MATTERS AGREEMENT. HP has agreed to retain and indemnify Agilent for liabilities associated with properties transferred to Agilent which are undergoing environmental investigation and remediation and for which HP has accrued a reserve as of the separation date. The purpose of the Environmental Matters Agreement is to address, in a general way, HP's and Agilent's rights and obligations with respect to that investigation and remediation. 10. Restructuring, Asset Impairment and Other Charges Subsequent to July 31, 2000, Agilent announced a reorganization of its healthcare solutions business. The reorganization will involve a workforce reduction of approximately 650 employees (including approximately 450 regular and 200 temporary employees) located in the United States, Asia Pacific 13 and Europe. During the three months ended July 31, 1999, Agilent recognized an impairment loss of $51 million related to a building that was under construction for the intended purpose of housing manufacturing operations for eight-inch CMOS semiconductor wafers. Agilent has an active plan to sell the building. During 1998, management committed to transfer the production of eight-inch semiconductor wafers to a third-party contractor. The restructuring costs included $85 million related to non-cash asset impairments primarily for equipment. Of the equipment impairment charge, $39 million was attributable to equipment abandoned at the time of the charge and written down to its net realizable value. An additional $46 million was attributable to equipment that remained in service for a transition period. Agilent has sold all of this equipment as of July 31, 2000. 11. Segment Information The following tables reflect the results of Agilent's reportable segments under the Agilent management system. These results are not necessarily a depiction that is in conformity with generally accepted accounting principles. The performance of each segment is measured based on several metrics, including earnings from operations. These results are used, in part, by management, in evaluating the performance of, and in allocating resources to, each of the segments.

Test and
Semiconductor
Healthcare
Chemical Total
Measurement
Products
Solutions
Analysis
Segments ----
------- -------
- --------- ---
----- --------
(in millions)
~~Three months ended July 31, 2000: External revenue .... $1,514 $591 $319 $246 $2,670 Internal revenue .... -- 13 -- -- 13 ------ ---- ---- ---- ------- Total net revenue .... $1,514 $604 $319 $246 $2,683 ====== ==== ==== ==== ====== Earnings(loss) from operations .. $ 162 $ 99 ($40) ($ 8) $ 213 ====== ==== ==== ==== ====== Three months ended July 31, 1999: External revenue .... $1,003 $457 $372 $255 $2,087 Internal revenue .... 1 14 1 -- 16 ------ ---- ---- ---- ------- Total~~

~~net revenue~~
~~..............~~
~~$1,004 $471~~
~~$373 $255~~
~~$2,103~~
~~=======~~
~~===== =====~~
~~=====~~
~~=======~~
~~Earnings from operations~~
~~........ $ 122 $ 16 $ 41 $ 36 $ 215~~
~~=======~~
~~===== =====~~
~~=====~~
~~=======~~

THE FOLLOWING TABLE RECONCILES THE SEGMENT INFORMATION ABOVE TO AGILENT, AS REPORTED

Three Months Ended July 31, 2000 1999 -------- (in millions) ~~Net revenue: Total reportable segments' net revenue.. $2,683 $2,103 Elimination of internal revenue.. (13) (16) ------ ------ Total net revenue, as reported... $2,670 $2,087 ======= ======= Earnings before taxes: Total reportable segments' earnings from operations............................ $213 $215 Corporate and unallocated... (3) (20) Other income (expense), net... 28 12 ------ ------ Total earnings before taxes, as reported..................................... $238 $207 ======= =======~~

Test and Semiconductor Healthcare Chemical Total Measurement Products Solutions Analysis Segments ----------- -------- --------- -------- -------- (in millions) ~~Nine months ended July 31, 2000: External revenue ....~~
~~$4,060 $1,535 $1,057 $749 $7,401~~
~~Internal~~

~~revenue .... -- 33 -- -- 33 --- --- ------ ---- -- ---- ------~~

~~Total net revenue .... $4,060 $1,568 $1,057 $749 $7,434 ======= ======= ======= ===== =======~~

~~Earnings(loss) from operations . $ 479 $ 188 $ (53) $ 6 $ 620 ======= ======= ======= ===== =======~~

~~Nine months ended July 31, 1999:~~

~~External revenue .... $2,856 $1,230 $1,043 $754 $5,883~~

~~Internal revenue .... 4 26 1 -- 31 --- --- ------ ---- -- ---- ------~~

~~Total net revenue .... $2,860 $1,256 $1,044 $754 $5,914 ======= ======= ======= ===== =======~~

~~Earnings from operations .... $ 273 $ 81 $86 $ 99 $ 539 ======= ======= =======~~

THE FOLLOWING TABLE RECONCILES THE SEGMENT INFORMATION ABOVE TO AGILENT, AS REPORTED

	Nine Months Ended July 31, 2000	1999
	(in millions)	
Net revenue:		
Total reportable segments' net revenue	$7,434	$5,914
Elimination of internal revenue	(33)	(31)
Total net revenue, as reported	$7,401	$5,883
Earnings before taxes:		
Total reportable segments' earnings from operations	$620	$539
Corporate and unallocated	(25)	(3)
Other income (expense), net	101	27
Total earnings before taxes, as reported	$696	$563

Corporate and unallocated expenses primarily relate to employee related benefit programs. The expenses for these programs are recorded by the segments at a pre-determined rate and are adjusted at the corporate level to reflect the actual rate. This adjustment is not allocated to the segments. Corporate and unallocated expenses also include certain unallocated depreciation and goodwill amortization. 15 Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO INCLUDED ELSEWHERE IN THIS FORM 10-Q. THE FOLLOWING DISCUSSION CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. WE USE WORDS SUCH AS "ANTICIPATES," "BELIEVES," "PLANS," "EXPECTS," "FUTURE," "INTENDS," "MAY," "WILL," "SHOULD," "ESTIMATES," "PREDICTS," "PROJECTS," "POTENTIAL," "CONTINUE" AND SIMILAR EXPRESSIONS TO IDENTIFY FORWARD-LOOKING STATEMENTS. OUR ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THE RESULTS CONTEMPLATED BY THESE FORWARD-LOOKING STATEMENTS DUE TO CERTAIN FACTORS, INCLUDING THOSE DISCUSSED BELOW IN "FACTORS THAT MAY AFFECT FUTURE RESULTS" IN THIS FORM 10-Q. Overview On March 2, 1999, Hewlett-Packard announced a plan to create a separate company, subsequently named Agilent Technologies, Inc. (Agilent), that comprised Hewlett-Packard's test and measurement, semiconductor products, healthcare solutions and chemical analysis businesses, related portions of Hewlett-Packard Laboratories, and associated infrastructure. We were incorporated in Delaware in May 1999 as a wholly-owned subsidiary of Hewlett-Packard. Our businesses historically were operated as internal units of Hewlett-Packard. In November 1999, Hewlett-Packard transferred to us a majority of the assets and liabilities relating to our businesses and also provided us with cash funding of approximately $1.1 billion. Hewlett-Packard retained some of our assets and liabilities including some of our accounts receivable and accounts payable, accrued payroll and related items and taxes payable, except deferred taxes, and transferred to us some of the assets and liabilities related to its business, including some of the accounts receivable, accounts payable and other liabilities of Agilent Technologies Japan, Ltd. (formerly called Hewlett-Packard Japan, Ltd.). In addition, Hewlett-Packard transferred to us $521 million to fund our acquisition of Yokogawa Electric Corporation's 25% minority equity ownership of Agilent Technologies Japan, Ltd. In December 1999, Hewlett-Packard provided us with cash funding of approximately $200 million based on our and Hewlett-Packard's balance sheets as of October 31, 1999. After the completion of our initial public offering in November 1999, Hewlett-Packard owned approximately 84.1% of our outstanding common stock. On April 7, 2000, Hewlett-Packard announced that its board of directors had declared a stock dividend of all of Hewlett-Packard's shares in Agilent. The dividend was distributed on June 2, 2000, to Hewlett-Packard shareholders of record as of 5 p.m. Eastern Daylight Time on May 2, 2000. The distribution was on the basis of 0.3814 of an Agilent share for each Hewlett-Packard common share outstanding. Hewlett-Packard and we have entered into various agreements related to certain ongoing relationships between the companies. For a brief description of these agreements, see Note 9 of Item 1. In addition, we have entered into agreements with Hewlett-Packard under which Hewlett-Packard will provide services to us during a transition period which began November 1, 1999. The agreements relate primarily to information technology, finance, accounting, legal and building services. Under these agreements, we generally reimburse Hewlett-Packard for its cost of the 16 service plus 5%. The transition period varies depending on the agreement but is generally less than two years. Some of the agreements, including those for building services and information technology services, may be extended beyond the initial transition period. If these agreements are extended, we will reimburse Hewlett-Packard at its cost plus 10% for information technology services and most other services and at negotiated market rates for building services. The agreements do not necessarily reflect the costs of obtaining the services from unrelated third parties or of our providing the applicable services ourselves. However, we believe that purchasing these services from Hewlett-Packard provides us with an effective means of obtaining these services during the transition period. In addition, we provide some transition services to Hewlett-Packard, for which we are reimbursed at our cost plus 5%. Basis of Presentation The financial information presented in this Form 10-Q is not indicative of our consolidated financial position, results of operations or cash flows in the future nor is it necessarily indicative of what our consolidated financial position, results of operations or cash flows would have been had we been a separate, stand-alone entity for the 1999 periods presented. The 1999 financial information presented in this Form 10-Q does not reflect the many significant changes that occurred in our funding and operations as a result of our becoming a stand-alone entity and our initial public offering. Cyclical Business Several significant industries and markets into which we sell our products and services are cyclical, causing a corresponding impact on our financial results. Shifts in the semiconductor market, electronics industry and computer industry, as well as rapidly shifting global economic conditions, have had significant impacts on our businesses. Our revenue and operating results for the three and nine months ended July 31, 2000 compared to the corresponding periods in 1999 have improved as a result of an upturn in the semiconductor industry. Additionally, as a capital equipment provider, our revenue is driven by the capital expenditure budgets and spending patterns of our customers who often delay or accelerate purchases in reaction to variations in their business. For instance, increasing pressure on hospitals from the balanced-budget amendment in the United States has slowed capital purchasing of our hospital customers. We expect some portions of our businesses to remain cyclical in the future. Given that a high proportion of our costs are fixed, variability in revenue as a result of these business cycles could disproportionately affect our quarterly and annual operating results. Economic Conditions in Asia Our revenue and operating results for the three months and nine months ended July 31, 2000 compared to the corresponding periods in 1999 have improved in part as a result of the upturn in Asian economies. Impact of Foreign Currencies We sell our products in many countries and a substantial portion of our sales and a portion of our costs and expenses are denominated in foreign currencies, particularly the Japanese yen and the Euro which was introduced on January 1, 1999 to replace 11 European national currencies. In 1999, our currency exposures were hedged as part of 17 Hewlett-Packard's global hedging program, which was designed to minimize exposure to foreign currency fluctuations. We implemented a similar hedging program upon our separation from Hewlett-Packard in November 1999. Recent Accounting Pronouncements In accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," we recorded $6 million of accumulated other comprehensive losses to stockholders' equity in the nine months ended July 31, 2000. Prior period financial statements were not materially impacted by the statement. In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments and requires recognition of all derivatives as assets or liabilities in our balance sheet and measurement of those instruments at fair value. The statement is effective for years beginning after June 15, 2000. We will adopt the standard no later than the first quarter of our fiscal year 2001 and we are in the process of determining the impact that adoption will have on our consolidated financial statements. In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." In June 2000, SEC delayed the implementation date of this Staff Accounting Bulletin. This Staff Accounting Bulletin is effective no later than the fourth quarter of our fiscal year 2001. We are in the process of determining the impact that adoption will have on our consolidated financial statements. Results of Operations Our results of operations for the three and nine months ended July 31, 2000 and 1999 in dollars and as a percentage of total net revenue follow.

Three Months Ended July 31, --- ---------------------------------- ----------------- As a Percentage of Total Net Revenue Dollars ---- --------------------- 2000 1999 2000 1999 ---- ---- ---- ---- (in millions) ~~Net revenue: Products...................................... $2,331 $1,788 87.3 85.7 Services and other........................... 339 299 12.7 14.3 ------ ------ ----- ----- Total net revenue.......................... 2,670 2,087 100.0 100.0 ------ ------ ----- ----- Costs and expenses: Cost of products.............................. 1,186 926 44.4 44.4 Cost of services and other.................... 183 177 6.8 8.5 Research and development...................... 318 242 11.9 11.6 Selling, general and administrative........... 773 547 29.0 26.2 ------ ------ ----- ----- Total costs and expenses..................... 2,460 1,892 92.1 90.7 ------ ------ ----- ----- Earnings from operations........................ 210 195 7.9 9.3 Other income (expense), net..................... 28 12 1.0 0.6 ------ ------ ----- ----- Earnings before taxes........................... 238 207 8.9 9.9 Provision for taxes............................. 83 72 3.1 3.4 ------ ------ ----- ----- Net earnings.................................... $155 $135 5.8 6.5 ====== ====== ===== ===== Cost of products as a percentage of products revenue...................................... 50.9 51.8 Cost of services and other as a percentage of services and other revenue.................. 54.0 59.2~~

Nine Months Ended July 31,	Dollars		As a Percentage of Total Net Revenue	
	2000	1999	2000	1999
	(in millions)			
Net revenue:				
Products	$6,426	$5,005	86.8	85.1
Services and other	975	878	13.2	14.9
Total net revenue	7,401	5,883	100.0	100.0
Costs and expenses:				
Cost of products	3,214	2,581	43.4	43.9
Cost of services and other	576	515	7.8	8.7
Research and development	904	705	12.2	12.0
Selling, general and administrative	2,112	1,546	28.6	26.3
Total costs and expenses	6,806	5,347	92.0	90.9
Earnings from operations	595	536	8.0	9.1
Other income (expense), net	101	27	1.4	0.5
Earnings before taxes	696	563	9.4	9.6
Provision for taxes	244	197	3.3	3.4
Net earnings	$452	$366	6.1	6.2
Cost of products as a percentage of products revenue			50.0	51.6
Cost of services and other as a percentage of services and other revenue			59.1	58.7

Certain amounts in the condensed consolidated statements of earnings for the three and nine months ended July 31, 1999 have been reclassified to conform to the current period's presentation. NET REVENUE Total net revenue increased 27.9 percent to $2.7 billion and 25.8 percent to $7.4 billion in the three and nine months ended July 31, 2000, respectively, compared to $2.1 billion and $5.9 billion in the same periods in 1999. The increases were the result of a number of factors, including continued growth in revenue from the communications and electronics markets. This was especially evident with the robust demand in our test and measurement and semiconductor products businesses. In addition, increased demand in Asia continued to contribute to overall revenue growth. In the three months ended July 31, 2000, the increase was partially offset by declines in revenue in our healthcare solutions and our chemical analysis businesses. United States revenue increased 19.0 percent to $1.2 billion and 19.7 percent to $3.2 billion in the three and nine months ended July 31, 2000, respectively, compared to $1.0 billion and $2.7 billion in the same periods in 1999. International revenue increased 19 35.9 percent to $1.5 billion and 30.8 percent to $4.2 billion in the three and nine months ended July 31, 2000, respectively, compared to $1.1 billion and $3.2 billion in the same periods in 1999. The higher net revenue growth abroad was primarily attributable to increased demand in Asia, particularly Taiwan, Korea and Japan. There was minimal currency impact on net revenue growth in the three and nine months ended

July 31, 2000. In the three months ended July 31, 2000, revenue from products increased 30.4 percent while revenue from services and other increased 13.4 percent, compared to the same period in 1999. In the first nine months of 2000, revenue from products increased 28.4 percent while revenue from services and other increased 11.0 percent, compared to the same period in 1999. The higher product revenue growth was primarily due to the growing communications and electronics markets, a strengthening of the semiconductor industry and increased demand in Asia. Generally, service revenue growth follows behind product revenue as our installed base of products increases and warranty periods expire. Additionally, there is no service revenue associated with our semiconductor products business. Demand for our products and services in the communications and electronics markets has continued to be strong in the three months ended July 31, 2000. This increase in demand has continued to put pressure on our manufacturing capacity, particularly on products for the wireless and fiber optic markets. We are continuing to work on increasing capacity to meet this demand but we may experience additional capacity constraints or parts shortages in the future. EARNINGS FROM OPERATIONS Earnings from operations increased 7.7 percent to $210 million and 11.0 percent to $595 million in the three and nine months ended July 31, 2000, respectively, compared to $195 million and $536 million in the same periods in 1999. The increases were primarily due to strong results in the test and measurement and semiconductor businesses, partially offset by weak performance in our healthcare solutions and chemical analysis businesses, which included the on-going costs associated with operating on our own as well as planned investments in life sciences. Cost of products and services, as a percentage of net revenue, decreased 1.6 percentage points, to 51.3 percent, in the three months ended July 31, 2000, compared to 52.9 percent in the same period in 1999. Cost of products and services, as a percentage of net revenue, decreased 1.4 percentage points, to 51.2 percent, in the nine months ended July 31, 2000, compared to 52.6 percent in the same period in 1999. Adjusted for the 1999 impairment loss of $51 million related to a building under construction for the manufacturing of eight-inch CMOS semiconductor wafers, cost of products and services as a percentage of net revenue increased 0.9 percentage points and decreased 0.6 percentage points in the three and nine months ended July 31, 2000, respectively. When adjusted for the 1999 impairment loss, the increase in cost of products and services, as a percentage of revenue, in the three months ended July 31, 2000 resulted from higher costs as a percentage of revenue in our healthcare solutions and chemical analysis businesses partially offset by lower costs as a percentage of revenue in our semiconductor products business. When adjusted for the 1999 impairment loss, the decrease in the nine months 20 ended July 31, 2000 was primarily attributable to higher volumes in the test and measurement and semiconductor products businesses as well as a more profitable product mix within the semiconductor products business. Operating expenses as a percentage of net revenue increased 3.1 percentage points to 40.9 percent and 2.5 percentage points to 40.8 percent in the three and nine months ended July 31, 2000, respectively, compared to 37.8 percent and 38.3 percent in the same periods in 1999. The increases were primarily due to higher infrastructure costs related to operating on our own as well as higher marketing costs, including branding expenses. These increases were partially offset in the three months ended July 31, 2000 by reduced costs associated with stock appreciation rights. Research and development expenses increased 31.4 percent and 28.2 percent in the three and nine months ended July 31, 2000, respectively, compared to the same periods in 1999. The increases reflect ongoing investments in developing new products and new technologies in the areas of wireless, networking and the life sciences. Selling, general and administrative expenses increased 41.3 percent and 36.6 percent in the three and nine months ended July 31, 2000, respectively, compared to the same periods in 1999. The increases were primarily due to higher infrastructure costs related to operating on our own as well as higher marketing costs, including branding expenses. These increases were partially offset by reduced costs associated with stock appreciation rights. Costs related to our operating as a separate, stand-alone entity include significant incremental expenditures. We expect operating expenses for the remainder of 2000 compared to 1999, primarily infrastructure costs and branding expenses, to be higher as a result of our stand-alone operations. OTHER INCOME (EXPENSE), NET Other income (expense), net increased $16 million to income of $28 million and increased $74 million to income of $101 million in the three and nine months ended July 31, 2000, respectively. The increases were primarily due to approximately $4 million and $29 million of gains on sales of equity investments that no longer supported our business strategies for the three and nine months ended July 31, 2000, respectively, and interest income earned on the initial cash funding received from Hewlett-Packard. PROVISION FOR TAXES Our effective tax rate was 35.0 percent in the three and nine months ended July 31, 2000 and 1999. The rate is based on estimates of our earnings before taxes in the various jurisdictions in which we operate throughout the world and the amount of acquisition-related charges. While changes in our mix of earnings before taxes in these tax jurisdictions and balances of acquisition-related charges can cause our effective tax rate to fluctuate, we currently expect our effective tax rate to remain at 35.0 percent throughout the remainder of 2000. 21

TEST AND MEASUREMENT

THREE MONTHS ENDED JULY 31,	2000	1999
(dollars in millions)		
Net revenue	$1,514	$1,003
Earnings from operations	162	122
As a percentage of net revenue	10.7%	12.2%

NINE MONTHS ENDED JULY 31,	2000	1999
(dollars in millions)		
Net revenue	$4,060	$2,856
Earnings from operations	479	273
As a percentage of net revenue	11.8%	9.6%

NET REVENUE Net revenue from our test and measurement business increased 50.9 percent to $1.5 billion and 42.2 percent to $4.1 billion in the three and nine months ended July 31, 2000, respectively, compared to $1.0 billion and $2.9 billion in the same periods in 1999. The increases were attributable to very strong growth in the markets served by our fast-growing optical, wireless and data-networking products. Revenue growth was extremely strong in our semiconductor test system business as well as for our products that test printed circuit board assemblies as contract manufacturing customers added capacity to meet demand and new technologies and capabilities were introduced. The growth rate for the nine months ended July 31, 2000 was affected in part by a comparison with the comparable year-ago period that was negatively impacted by weakness in the semiconductor industry and the decreased demand in Asia. In the three months ended July 31, 2000, our net revenue from products increased 56.7 percent while our net revenue from services increased 22.9 percent, compared to the same period in 1999. In the nine months ended July 31, 2000, our net revenue from products increased 47.6 percent while our net revenue from services increased 16.2 percent, compared to the same period in 1999. The higher product revenue growth was primarily due to the growing communications market and the increased demand in Asia. Generally, service revenue growth follows product revenue as our installed base of products increases and warranty periods expire. EARNINGS FROM OPERATIONS Earnings from operations from our test and measurement business increased 32.8 percent to $162 million and 75.5 percent to $479 million in the three and nine months ended July 31, 2000, respectively, compared to $122 million and $273 million in the same periods in 1999. The increase for the three months ended July 31, 2000 resulted from increased revenue, partially offset by higher cost of products and services as a percentage of revenue. The increase for the nine months ended July 31, 2000 resulted from higher revenue and lower operating expenses as a percentage of revenue. Cost of products and services as a percentage of net revenue increased 1.6 percentage points and decreased 0.7 percentage points in the three and nine months ended July 31, 2000, respectively, as compared to the same periods in 1999. The increase in the three months ended July 31, 2000 was substantially attributable to manufacturing inefficiencies incurred in our efforts to meet customer demands, including the use of other equipment manufacturers' products as well as premium prices for scarce components. The slight decrease for the nine months ended July 31, 2000 is primarily due to higher revenue. Operating expenses as a percentage of net revenue decreased 0.2 percentage points and 1.5 percentage points in the three and nine months 22 ended July 31, 2000, respectively, compared to the same periods of 1999. The decreases were due to higher net revenue partially offset by higher expenses. Research and development expense increased 34.8 percent and 26.5 percent in the three and nine months ended July 31, 2000, respectively, compared to the same periods in 1999. The increases reflect our continuing investments in new product development. Selling, general and administrative expense increased 57.1 percent and 42.2 percent in the three and nine months ended July 31, 2000, respectively, compared to the same periods in 1999. The increases were primarily due to higher infrastructure costs related to operating on our own as well as higher selling and marketing costs including branding expenses. SEMICONDUCTOR PRODUCTS

THREE MONTHS ENDED JULY 31, (dollars in millions)	2000	1999
Net revenue..	$591	$457
Earnings from operations..............................	99	16
As a percentage of net revenue....................	16.8%	3.5%

NINE MONTHS ENDED JULY 31, (dollars in millions)	2000	1999
Net revenue..	$1,535	$1,230
Earnings from operations..............................	188	81
As a percentage of net revenue....................	12.2%	6.6%

NET REVENUE Net revenue from our semiconductor products business increased 29.3 percent to $591 million and 24.8 percent to $1.5 billion in the three and nine months ended July 31, 2000, respectively, compared to $457 million and $1.2 billion in the same periods in 1999. In the three months ended January 31, 2000 net revenue growth was driven by strong growth in all semiconductor products except ASICs, where growth was affected by the planned phaseout of microprocessor sales and temporary supply chain adjustments by Hewlett-Packard. Wireless and networking components achieved excellent growth in the three months ended July 31, 2000. Networking component growth was driven by fiber-optic transceivers and high-speed integrated circuits tailored for Metro Area Network (MAN) and Gigabit Ethernet Local Area Network (LAN) applications. Imaging products for digital cameras and optical mice also achieved particularly strong growth in the three months ended July 31, 2000. Similarly, wireless, networking and imaging components led the strong net revenue growth for the nine months ended July 31, 2000. As a percentage of net revenue for the semiconductor products business, revenue from sales to Hewlett- Packard, consisting primarily of ASICs and motion control products, was 24.5 percent and 27.3 percent for the three and nine months ended July 31, 2000, respectively, compared to 37.4 percent and 37.1 percent for the same periods in 1999. In the nine months ended July 31, 2000, we expanded our existing joint venture relationship with Royal Philips Electronics, N.V. and transferred a portion of our light-emitting diode (LED) business into the joint venture. LEDs are used for various lighting and display purposes. Since we do not have a majority ownership interest in the 23 joint venture, the revenue, costs and expenses of the business transferred to the joint venture are no longer consolidated in our results. Instead, we record our portion of the joint venture's net earnings or loss in other income (expense), net, which in the first nine months of 2000, was minimal. Adjusting the 1999 base for revenues relating to the LED business, net revenue growth would be 36.2 percent and 30.5 percent for the three and nine months ended July 31, 2000, respectively. EARNINGS FROM OPERATIONS Earnings from operations from our semiconductor products business, adjusted for the 1999 impairment loss of $51 million, increased 47.8 percent to $99 million and 42.4 percent to $188 million in the three and nine months ended July 31, 2000, respectively. The increases resulted from higher net revenue and lower cost of products as a percentage of net revenue, partially offset by higher operating expenses. Cost of products as a percentage of net revenue, adjusted for the 1999 impairment loss of $51 million, decreased 6.7 percentage points and 5.2 percentage points in the three and nine months ended July 31, 2000, respectively. The decreases were primarily driven by increased volumes and a more favorable product mix. In addition, the transfer of a portion of our LED business to the joint venture contributed to the decrease. Operating expenses as a percentage of net revenue increased 4.6 percentage points and 3.8 percentage points in the three and nine months ended July 31, 2000, respectively, compared to the same periods in 1999. The increases were primarily due to infrastructure costs related to operating on our own and increased research and development investments. Research and development expense increased 51.0 percent and 37.4 percent in the three and nine months ended July 31, 2000, respectively, compared to the same periods in 1999. The increases reflect increased investments in the fast-growing fiber optics, high-speed networking, and the imaging businesses. Selling, general and administrative expenses increased 62.0 percent and 50.7 percent in the three and nine months ended July 31, 2000, respectively, compared to the same periods in 1999. The increases were primarily due to higher infrastructure costs related to operating on our own as well as higher selling and marketing costs, including branding expenses. HEALTHCARE SOLUTIONS

THREE MONTHS ENDED JULY 31, (DOLLARS IN MILLIONS)	2000	1999
Net revenue	$319	$372
Earnings (loss) from operations	(40)	41
As a percentage of net revenue	(12.5)%	11.0%

NINE MONTHS ENDED JULY 31, (dollars in millions)	2000	1999
Net revenue	$1,057	$1,043
Earnings (loss) from operations	(53)	86
As a percentage of net revenue	(5.0)%	8.2%

NET REVENUE Net revenue from our healthcare solutions business decreased 14.2 percent to $319 million and increased 1.3 percent to $1.1 billion in the three and nine months ended July 31, 2000, respectively, compared to $372 million and $1.0 billion in the same periods in 1999. The decrease in net revenue in the three months ended July 31, 2000 was primarily due to a slow-down in capital expenditure by U.S. hospitals, as hospitals felt continued financial pressure to control costs. In addition, customers had pulled purchases into 1999 and into the three months ended January 31, 2000 to avoid potential Year 2000 issues. In the three months ended July 31, 2000, our net revenue from products decreased 18.0 percent while our net revenue from services increased 3.0 percent compared to the same period in 1999. In the nine months ended July 31, 2000, our net revenue from products decreased 0.5 percent while our net revenue from services increased 9.1 percent, compared to the same period in 1999. Service revenue growth generally follows product revenue based on our installed base of products. The service revenue increases are due to the strong product installations through the first quarter of 2000. EARNINGS (LOSS) FROM OPERATIONS The loss from operations from our healthcare solutions business was $40 million and $53 million in the three and nine months ended July 31, 2000, respectively, compared to earnings from operations of $41 million and $86 million in the same periods in 1999. The decline in earnings from operations in the three months ended July 31, 2000 was due to disappointing net revenue as well as higher costs and expenses. The decline in earnings from operations in the nine months ended July 31, 2000 was primarily due to higher costs and expenses. Cost of products and services as a percentage of net revenue increased by 9.5 percentage points and 5.5 percentage points in the three and nine months ended July 31, 2000, respectively, compared to the same periods in 1999. The increase in the three months ended July 31, 2000 was primarily attributable to lower net revenue resulting from lower volumes and higher discounts. The increase in the nine months ended July 31, 2000 was primarily due to an unfavorable product mix and higher discounts. Operating expenses as a percentage of net revenue increased 14.1 percentage points and 7.8 percentage points in the three and nine months ended July 31, 2000, respectively, compared to the same periods in 1999. The increases were primarily due to lower revenues and higher infrastructure costs and branding expenses related to operating on our own. Research and development expense decreased 8.1 percent and increased 10.7 percent in the three and nine months ended July 31, 2000, respectively, compared to the same periods in 1999. The decrease in the three months ended July 31, 2000 is due to recently completed product introductions and an emphasis on reducing discretionary costs. The increase for the nine months ended July 31, 2000 is largely a result of our on-going development projects including the new automatic external defibrillator, ultrasound imaging, and web-enabled wireless patient monitoring devices. Selling, general and administrative expenses increased 27.2 percent and 25.6 percent in the three and nine months ended July 31, 2000, respectively, compared to the same periods in 1999. The increases were primarily due to higher infrastructure costs and branding expenses related to operating on our own. Subsequent to July 31, 2000, Agilent announced a reorganization of its healthcare solutions business. The reorganization will involve a regular workforce reduction of approximately 650 employees (including approximately 450 regular and 200 temporary employees) located in the United States, Asia Pacific and Europe. Agilent expects to incur a one-time charge of approximately $25 million in the fourth quarter of 2000. Agilent expects its workforce reduction and other programs to result in annual savings of approximately $80 million starting in 2001. Based on the current market environment and the anticipated restructuring, we anticipate an operating loss for our healthcare solutions business for the remainder of 2000. CHEMICAL ANALYSIS

THREE MONTHS ENDED JULY 31, ------------------------- -- 2000 1999 ---- ---- (DOLLARS IN MILLIONS) Net revenue.. $246 $255 Earnings (loss) from operations..................... (8) 36 As a percentage of net revenue.................... (3.3)% 14.1%

NINE MONTHS ENDED JULY 31, ------------------------- 2000 1999 ---- ---- (DOLLARS IN MILLIONS) Net revenue.. $749 $754 Earnings from operations............................ 6 99 As a percentage of net revenue.................... 0.8% 13.1%

NET REVENUE Net revenue from our chemical analysis business decreased 3.5 percent to $246 million and decreased 0.7 percent to $749 million in the three and nine months ended July 31, 2000, respectively, compared to $255 million and $754 million in the same periods in 1999. The decreases in net revenue were due to decreased sales in the chemical, environmental and petrochemical markets partially offset by increased sales in bioscience products. Service revenue decreased 4 percent and 1 percent in the three and nine months ended July 31, 2000, compared to the same periods in 1999. EARNINGS (LOSS) FROM OPERATIONS Our chemical analysis business generated a loss from operations of $8 million in the three months ended July 31, 2000 compared to earnings from operations of $36 million in the same period in 1999. Earnings from operations decreased to $6 million in the nine months ended July 31, 2000 compared to $99 million in the same period in 1999. The decreases were primarily due to lower revenue, higher infrastructure costs and branding expenses related to the costs of operating on our own as well as planned investments in life sciences to launch new products. Cost of products and services as a percentage of net revenue increased by 5.5 percentage points and 1.9 percentage points for the three and nine months ended July 31, 2000, respectively, compared to the same periods in 1999. The increases 26 were primarily due to lower volumes and start-up investments for bioscience products. Operating expenses as a percentage of net revenue increased 11.9 percentage points and 10.4 percentage points in the three and nine months ended July 31, 2000, respectively, compared to the same periods of 1999. The increases resulted primarily from increased life science investments and higher infrastructure costs and branding expenses related to operating on our own. Research and development expense increased 31.8 percent and 34.9 percent in the three and nine months ended July 31, 2000, respectively, compared to the same periods in 1999. The increases reflect increased new product development programs in life science products. Selling, general and administrative expense increased 27.9 percent and 26.9 percent in the three and nine months ended July 31, 2000, respectively, compared to the same periods in 1999. The increases were primarily due to higher infrastructure costs and branding expenses related to operating on our own. FINANCIAL CONDITION LIQUIDITY AND CAPITAL RESOURCES We believe that the Company's financial position remains strong, with cash and cash equivalents and short-term investments of $703 million at July 31, 2000. Prior to November 1, 1999, cash receipts associated with our businesses were transferred to Hewlett-Packard on a daily basis and Hewlett-Packard provided funds to cover our disbursements. Accordingly, we reported no cash or cash equivalents at October 31, 1999. In accordance with our separation agreement with Hewlett-Packard, as of November 1, 1999, Hewlett-Packard retained some of our assets and liabilities and Hewlett-Packard transferred to us some of the assets and liabilities related to its business. In November and December 1999, Hewlett-Packard made cash payments to us totaling $1.3 billion to fund our working capital and other needs of our operations as a separate, stand-alone entity. In addition, Hewlett-Packard transferred approximately $0.5 billion to fund our acquisition of Yokogawa Electric Corporation's 25% minority equity ownership of Agilent Technologies Japan, Ltd. The net proceeds of our initial public offering of $2.1 billion were received in November 1999 and immediately distributed to Hewlett-Packard as a dividend. Of the total $1.8 billion received from Hewlett-Packard, $1.1 billion was classified as net cash provided by financing activities and $0.7 billion was classified among several categories as net cash provided by operating activities in the condensed consolidated statement of cash flows for the nine months ended July 31, 2000. We generated cash flows from operations of $415 million during the nine months ended July 31, 2000, compared to $426 million for the corresponding period of 1999. The decrease in cash flows from operating activities in the nine months ended July 31, 2000 was mainly attributed to an increase in accounts receivable and inventory balances offset by increases in net earnings, accounts payable and accrued tax balances. 27 Net cash used for investing activities in the nine months ended July 31, 2000 was $966 million, compared to $258 million for the corresponding period of 1999. The increase in investing activity was primarily due to our first and second payments for the acquisition of Yokogawa's 25% minority equity ownership of Agilent Technologies Japan, Ltd., our acquisition of SAFCO Technologies, Inc. and an increase in investments in property, plant and equipment to expand our manufacturing capacity to meet customer demands. Our liquidity is affected by many factors, some of which are based on the normal ongoing operations of our businesses and some of which arise from uncertainties related to global economies. We believe that the cash funding we received from Hewlett-Packard together with cash generated from operations and our unused lines of credit will be sufficient to satisfy our working capital, capital expenditure and research and development requirements for the foreseeable future. However, we may require or choose to obtain additional debt or equity financing in the future. We cannot be assured that additional financing, if needed, will be available on favorable terms. FACTORS THAT MAY AFFECT FUTURE RESULTS IF WE DO NOT INTRODUCE NEW PRODUCTS AND SERVICES IN A TIMELY MANNER, OUR PRODUCTS AND SERVICES WILL BECOME OBSOLETE, AND OUR OPERATING RESULTS WILL SUFFER. We sell our products in several industries that are characterized by rapid technological changes, frequent new product and service introductions and evolving industry standards. Without the timely introduction of new products, services and enhancements, our products and services will likely become technologically obsolete over time, in which case our revenue and operating results would suffer. The success of our new product and service offerings will depend on several factors, including our ability to: - properly identify customer needs; - price our products competitively; - innovate and develop new technologies and applications; - successfully commercialize new technologies in a timely manner; - manufacture and deliver our products in sufficient volumes on time; and - differentiate our offerings from our competitors' offerings. Many of our products are used by our customers to develop, test and manufacture their new products. We therefore must anticipate industry trends and develop products in advance of the commercialization of our customers' products.

~~Development of new products generally requires a substantial investment before we can determine the commercial viability of these innovations. Our other businesses will encounter similar challenges. In our healthcare business, new technologies that we develop may not be quickly accepted because of industry-specific factors such as the need for 28 regulatory clearance, entrenched patterns of clinical practice, uncertainty over third-party reimbursement and clinicians' fears of malpractice suits. We would suffer competitive harm if we dedicate a significant amount of resources to the development of products and technologies that do not achieve broad market acceptance. IF DEMAND FOR OUR PRODUCTS EXCEEDS OUR MANUFACTURING CAPACITY, OUR REVENUES AND EARNINGS MAY SUFFER. Demand for our products has put increased pressure on our manufacturing capacity, especially in the wireless and fiber optic areas. If we are not able to increase our manufacturing capacity in the time necessary to meet demand, or if demand exceeds our expectations, we may experience insufficient manufacturing capacity. If our manufacturing capacity does not keep pace with product demand, we will not be able to fulfill orders in a timely manner which in turn may have a negative effect on our revenues and earnings and overall business. FAILURE OF SUPPLIERS TO DELIVER SUFFICIENT QUANTITIES OF PARTS IN A TIMELY MANNER COULD ADVERSELY IMPACT OUR OPERATIONS. Certain parts may be available only from a single supplier or a limited number of suppliers. In addition, suppliers may cease manufacturing certain components that are difficult to replace without significant reengineering of our products. Suppliers may also extend lead times, limit supplies or increase prices due to capacity constraints or other factors. Our results may be materially and adversely impacted if we do not receive sufficient parts to meet our requirements in a timely manner. ECONOMIC, POLITICAL AND OTHER RISKS ASSOCIATED WITH INTERNATIONAL SALES AND OPERATIONS, PARTICULARLY IN KOREA AND JAPAN, COULD ADVERSELY AFFECT OUR SALES. Since we sell our products worldwide, our businesses are subject to risks associated with doing business internationally. We anticipate that revenue from international operations will continue to represent a substantial portion of our total revenue. In addition, many of our manufacturing facilities and suppliers are located outside the United States. Accordingly, our future results could be harmed by a variety of factors, including: - changes in foreign currency exchange rates; - changes in a specific country's or region's political or economic conditions, particularly in emerging markets; - trade protection measures and import or export licensing requirements; - potentially negative consequences from changes in tax laws; - difficulty in staffing and managing widespread operations; - differing labor regulations; - differing protection of intellectual property; and - unexpected changes in regulatory requirements. We do a substantial portion of our businesses in Korea and Japan, which have been subject to increased economic instability in recent years. Our businesses declined in 1998 when Korea and Japan experienced economic difficulties. The recurrence of weakness in these economies or weakness in other international economies could have a significant negative effect on our future operating results. 29 FLUCTUATIONS IN OUR QUARTERLY OPERATING RESULTS MAY CAUSE OUR STOCK PRICE TO DECLINE. Given the nature of the markets in which we participate, we cannot reliably predict future revenue and profitability, and unexpected changes may cause us to adjust our operations. A high proportion of our costs are fixed, due in part to our significant sales, research and development and manufacturing costs. Thus, relatively small declines in revenue could disproportionately affect our operating results in a quarter. For example, when our revenue declined in the second half of 1998 as a result of the financial crisis in Asia, it caused significant negative fluctuations in our operating results. Other factors that could affect our quarterly operating results include: - demand for and market acceptance of our products; - competitive pressures resulting in lower selling prices; - adverse changes in the level of economic activity in the United States and other major regions in which we do business; - adverse changes in industries, such as semiconductors and electronics, on which we are particularly dependent; - changes in the relative portion of our revenue represented by our various products and customers; - unanticipated delays or problems in the introduction of new products; - our competitors' announcements of new products, services or technological innovations; - increased costs of raw materials or supplies; - changes in the timing of product orders; and - our inability to forecast revenue in a given quarter from large system sales. THE CURRENT TECHNOLOGY LABOR MARKET IS VERY COMPETITIVE, AND OUR BUSINESSES WILL SUFFER IF WE ARE NOT ABLE TO HIRE AND RETAIN SUFFICIENT 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 and expand our businesses. Competition for qualified personnel in the technology area is intense, and we operate in several geographic locations where labor markets are particularly competitive, including the Silicon Valley region of Northern California where our headquarters and central research and development laboratories are located. Although we believe we offer competitive salaries and benefits, certain of our businesses have had to increase spending in order to retain personnel. We also believe we have benefited from Hewlett-Packard's name and reputation as an employer in the past. To the extent we do not obtain similar popular recognition, our ability to attract and retain personnel could be harmed. 30 OUR OPERATING RESULTS COULD BE HARMED IF THE INDUSTRIES INTO WHICH WE SELL OUR PRODUCTS ARE IN DOWNWARD CYCLES. Several significant industries and markets into which we sell our products are cyclical. For example, in 1998 the operating results of our test and measurement and semiconductor products businesses were harmed by downturns in the semiconductor market. From time to time, the electronics industry has also experienced significant downturns, often in connection with, or in anticipation of, maturing product cycles and declines in general economic conditions. In addition, the computer industry is subject to seasonal and cyclical fluctuations in demand for its products. These industry downturns have been characterized by diminished product demand, excess manufacturing capacity and the subsequent accelerated erosion of average selling prices. In addition, the healthcare industry has experienced a significant increase in cost pressures resulting from hospital consolidation and the trend by insurance companies to reduce payments to healthcare providers. Any significant downturn in our customers' markets or in general economic conditions would likely result in a reduction in demand for our products and services and could harm our businesses. OUR SEMICONDUCTOR TECHNOLOGY LICENSING AND SUPPLY ARRANGEMENTS WITH HEWLETT-PACKARD LIMIT OUR ABILITY TO SELL TO OTHER COMPANIES AND COULD RESTRICT OUR ABILITY TO EXPAND OUR BUSINESSES. We do not have a license under Hewlett-Packard's patents, patent applications and invention disclosures for, with some exceptions, inkjet products, printer products (including printer supplies, accessories and components), document scanners and computing products. In addition, our ICBD Technology Ownership and License Agreement, which generally covers integrated circuit technology that is used in integrated circuits for Hewlett-Packard's printers, scanners and computers, provides that for a period of three years in some cases and 10 years in other cases we are prohibited, with some exceptions, from using this integrated circuit technology for the development and sale of integrated circuits for use in inkjet products, printer products (including printer supplies, accessories and components), document scanners and computing products to third parties other than Hewlett-Packard. Although we have entered into a supply agreement for the sale to Hewlett-Packard of these kinds of integrated circuits, the supply agreement does not require Hewlett-Packard to purchase a minimum amount of product from us. In the~~

event that Hewlett-Packard reduces its purchase of our integrated circuits, we would be unable to address this reduction through sales of these kinds of integrated circuits for these types of products to other customers. 31 IF DEMAND FOR HEWLETT-PACKARD'S PRINTER, WORKSTATION AND SERVER PRODUCTS DECLINES, OR IF HEWLETT-PACKARD CHOOSES A DIFFERENT SUPPLIER, OUR SEMICONDUCTOR PRODUCTS BUSINESS REVENUE WILL DECLINE SIGNIFICANTLY. Historically, our semiconductor products business has sold products to Hewlett-Packard and has engaged in product development efforts with divisions of Hewlett-Packard. For the three and nine months ended July 31, 2000, Hewlett-Packard accounted for 5.6% and 6.0%, respectively, of our total net revenue and 24.5% and 27.3%, respectively, of our semiconductor products business' net revenue. In comparison, for the three and nine months ended July 31, 1999, Hewlett-Packard accounted for 10.2% and 10.0%, respectively, of our total net revenue and 37.4% and 37.1%, respectively, of our semiconductor products business' net revenue. OUR ABILITY TO COMPETE FOR HEWLETT-PACKARD'S BUSINESS MAY SUFFER AS A RESULT OF OUR SEPARATION DUE TO DECREASED ACCESS TO HEWLETT-PACKARD'S RESEARCH AND DEVELOPMENT STRATEGY, TECHNOLOGY PLANS, FUTURE PRODUCT FEATURES AND PRODUCT SUPPLY NEEDS. In the past, we have benefited from our access to Hewlett-Packard's research and development strategy, technology plans, future product features and product supply needs in competing for Hewlett-Packard's business. If our competitors gain better access to Hewlett-Packard as a result of our separation, our competitors may be able to develop products that better meet the future needs of Hewlett-Packard, decreasing the competitiveness of our products. In addition, we have taken advantage of collaborative relationships with some of Hewlett-Packard's businesses and we may not continue to enjoy all of the benefits of these collaborative relationships. WE MAY FACE SIGNIFICANT COSTS IN ORDER TO COMPLY WITH LAWS AND REGULATIONS IN THE MANUFACTURE, PROCESSING AND DISTRIBUTION OF CHEMICALS, AND, IF WE FAIL TO COMPLY, WE COULD BE SUBJECT TO CIVIL OR CRIMINAL PENALTIES OR BE PROHIBITED FROM DISTRIBUTING OUR PRODUCTS. Some of our chemical analysis business' products are used in conjunction with chemicals whose manufacture, processing and distribution are regulated by the United States 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 and distribution of these chemicals to these laws, and adapt to regulatory requirements in all countries as these requirements change. If we fail 32 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. IF WE FAIL TO MAINTAIN SATISFACTORY COMPLIANCE WITH THE FOOD AND DRUG ADMINISTRATION'S REGULATIONS, WE MAY BE FORCED TO RECALL PRODUCTS AND CEASE THEIR MANUFACTURE AND DISTRIBUTION, AND WE COULD BE SUBJECT TO CIVIL OR CRIMINAL PENALTIES. The medical device products produced by our healthcare solutions business are subject to regulation by the United States Food and Drug Administration (FDA) and similar international agencies. Their regulations govern a wide variety of product activities from design and development to labeling, manufacturing, promotion, sales and distribution. For example, we received a warning letter from the FDA in 1996 alleging non-compliance with the FDA's quality system regulations at one of our facilities. The FDA's quality systems regulation includes elaborate design, testing, control, documentation and other quality assurance requirements. We had to apply considerable resources to address the FDA's concerns. We believe we have resolved the issues identified in the FDA's letter and the FDA has concurred with our assessment, but we cannot assure you that the FDA will not identify other areas of noncompliance. If we fail to maintain satisfactory compliance with the FDA's quality system and other regulations, we may have to recall products and cease their manufacture and distribution. In addition, we could be subject to fines or criminal prosecution. In addition, our chemical analysis products are used in the drug design and production processes to test compliance with the Toxic Substances Control Act, the Federal Food, Drug and Cosmetic Act and similar regulations. Therefore, we must continually adapt our chemical analysis products to changing regulations. COST CONTAINMENT MEASURES IN THE HEALTHCARE INDUSTRY AND THE EFFECT OF ANY HEALTHCARE REFORM COULD HARM OUR PROFITABILITY. Our healthcare customers rely on third-party payors, such as government programs and private health insurance plans, to reimburse some or all of the cost of the procedures in which our products are used. The continuing efforts of government, insurance companies and other payors of healthcare costs to contain or reduce those costs could lead our customers to reduce or eliminate purchases of our products. Likewise, legislative proposals to reform healthcare or reduce government programs could result in lower prices for or rejection of our products. The cost containment measures that healthcare providers are instituting and the effects of any healthcare reform, both in the United States and internationally, could harm our ability to operate profitably. 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. Some of our properties are undergoing remediation by Hewlett-Packard for known subsurface contamination. Hewlett-Packard has agreed to retain the liability for all known subsurface contamination, perform the required remediation and indemnify us with respect to claims arising out of that contamination. The determination of the existence and cost of any additional contamination caused by us could involve costly and time-consuming negotiations and litigation. In addition, 33 Hewlett-Packard will have access to our properties to perform remediation. While Hewlett-Packard has agreed to minimize interference with on-site operations at those properties, remediation activities and subsurface contamination may require us to incur unreimbursed costs and could harm on-site operations and the future use and value of the properties. We cannot assure you that Hewlett-Packard will fulfill its indemnification or remediation obligations. We are indemnifying Hewlett-Packard for any liability associated with contamination from past operations at all other properties transferred from Hewlett-Packard to us other than those properties currently undergoing remediation by Hewlett-Packard. While we are not aware of any material liabilities associated with existing 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. ENVIRONMENTAL CONTAMINATION CAUSED BY ONGOING OPERATIONS COULD SUBJECT US TO SUBSTANTIAL LIABILITIES IN THE FUTURE. We are responsible for any contamination to our properties arising out of our operations following the separation. Our semiconductor and other manufacturing processes involve the use of substances regulated under various international, federal, state and local laws governing the environment. We may be subject to liabilities for environmental contamination, and these liabilities may be substantial. Although our policy is to apply strict standards for environmental protection at our sites inside and outside the United States, even if not subject to regulations imposed by foreign governments, we may not be aware of all conditions that could subject us to liability. WE ARE SUBJECT TO LAWS AND REGULATIONS GOVERNING GOVERNMENT CONTRACTS, AND OUR FAILURE TO ADDRESS THESE LAWS AND REGULATIONS OR COMPLY WITH GOVERNMENT CONTRACTS COULD HARM OUR

BUSINESSES. 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 terms of government contracts. We have received and are complying with formal requests for information by the government regarding our sales of products to some of the government agencies with which we have contracted. Based on our review to date, we have not found that there are any violations of the pertinent laws or regulations relating to these contracts. However, these requests may result in legal proceedings against us or liability. WE AND OUR CUSTOMERS ARE SUBJECT TO VARIOUS OTHER GOVERNMENTAL REGULATIONS, AND WE MAY INCUR SIGNIFICANT EXPENSES TO COMPLY WITH THESE REGULATIONS AND DEVELOP OUR PRODUCTS TO BE COMPATIBLE WITH THESE REGULATIONS. Several of our product lines are subject to other significant international, federal, state and local, health and safety, packaging, product content and labor 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 remedy past violations of these regulations. Any failure 34 by us to comply with applicable government regulations could also result in cessation of portions or all of our operations, 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 of other agencies such as the United States Federal Communications Commission. We also must comply with work safety rules. If we fail to adequately address any of these regulations, our businesses will be harmed. THIRD PARTIES MAY CLAIM WE ARE INFRINGING THEIR INTELLECTUAL PROPERTY, AND WE COULD SUFFER SIGNIFICANT LITIGATION OR LICENSING EXPENSES OR BE PREVENTED FROM SELLING PRODUCTS. Third parties may claim that we are infringing their intellectual property rights, and we may be found to infringe those intellectual property rights. While we do not believe that any of our products infringe the valid intellectual property rights of third parties, we may be unaware of intellectual property rights of others that may cover some of our technology, products and services. Moreover, in connection with future intellectual property infringement claims, we will only have the benefit of asserting counterclaims based on Hewlett-Packard's intellectual property portfolio in limited circumstances, and we will only be able to offer licenses to Hewlett-Packard's intellectual property in order to resolve claims in limited circumstances. Any litigation regarding patents or other intellectual property could be costly and time-consuming, and divert our management and key personnel from our business operations. The complexity of the technology involved and the uncertainty of intellectual property litigation increases these risks. Claims of intellectual property infringement might also require us to enter into costly royalty or license agreements. However, we may not be able to obtain royalty or license agreements on terms acceptable to us, or at all. We also may be subject to significant damages or injunctions against development and sale of certain of our products. We often rely on licenses of intellectual property useful for our businesses. We cannot assure you that these licenses will be available in the future on favorable terms or at all. In addition, our position with respect to the negotiation of licenses may change as a result of our separation from Hewlett-Packard. Our patent cross-license agreement with Hewlett-Packard gives us a conditional right to sublicense only a portion of Hewlett-Packard's intellectual property portfolio. As a result, in negotiating patent cross-license agreements with third parties, we may be unable to obtain agreements on terms as favorable as we may have been able to obtain if we could sublicense Hewlett-Packard's entire intellectual property portfolio. THIRD PARTIES MAY INFRINGE OUR INTELLECTUAL PROPERTY, AND WE MAY EXPEND SIGNIFICANT RESOURCES ENFORCING OUR RIGHTS OR SUFFER COMPETITIVE INJURY. Our success depends in large part on our proprietary technology. We rely on a combination of patents, copyrights, trademarks and trade secrets, confidentiality provisions and licensing arrangements to establish and protect our proprietary rights. If we fail to 35 successfully enforce our intellectual property rights, our competitive position could suffer, which could harm our operating results. Our pending patent and trademark registration applications may not be allowed or competitors may challenge the validity or scope of these patents or trademark registrations. In addition, our patents may not provide us a significant competitive advantage. We may be required to spend significant resources to monitor and police our intellectual property rights. We may not be able to detect infringement and may lose competitive position in the market before we do so. In addition, competitors may design around our technology or develop competing technologies. Intellectual property rights may also be unavailable or limited in some foreign countries, which could make it easier for competitors to capture market share. IF OUR FACTORIES OR FACILITIES WERE TO EXPERIENCE CATASTROPHIC LOSS DUE TO AN EARTHQUAKE, OUR OPERATIONS WOULD BE SERIOUSLY HARMED. Several of our facilities could be subject to a catastrophic loss caused by an earthquake due to their location. We have significant facilities in areas with above average seismic activity, such as our production facilities, headquarters and Agilent Laboratories in California and our production facilities in Washington and Japan. 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. Agilent self-insures against such losses and does not carry catastrophic insurance policies to cover potential losses resulting from earthquakes. OUR NEW NAME IS NOT YET WIDELY RECOGNIZED AS A BRAND IN THE MARKETPLACE, AND AS A RESULT OUR PRODUCT SALES COULD SUFFER. The loss of the "Hewlett-Packard" brand name may hinder our ability to establish new relationships. Our new brand "Agilent" is not as widely recognized, so we may not have the ability to attract some customers who would have purchased our products if they had recognized that Agilent Technologies, Inc. is the successor company to Hewlett-Packard in certain industry segments. The new name "Agilent Technologies, Inc." may also hinder our ability to recruit employees in certain countries. WE CURRENTLY STILL USE SOME OF HEWLETT-PACKARD'S INFORMATION SYSTEMS, AND WE ARE IN THE PROCESS OF DEVELOPING OUR OWN INFORMATION SYSTEMS. We currently use Hewlett-Packard's systems to support a portion of our operations, mainly customer support and networks. We have an agreement with Hewlett-Packard for Hewlett-Packard to continue to provide these information services to us for the next fourteen months. During this time period, while we are developing our own systems, we will be dependent on Hewlett-Packard for the provision of these information technology services that are critical to running our businesses. Many of the systems we currently use are proprietary to Hewlett-Packard and are very complex. We are in the process of creating our own information systems to 36 eventually replace Hewlett-Packard's systems. We may not be successful in implementing these systems and transitioning data from Hewlett-Packard's systems to ours. We are implementing new enterprise resource planning software applications to manage some of our information systems. THE TRANSITIONAL SERVICES BEING PROVIDED TO US BY HEWLETT-PACKARD MAY NOT BE SUFFICIENT TO MEET OUR NEEDS, AND WE MAY PAY INCREASED COSTS TO REPLACE THESE SERVICES AFTER OUR AGREEMENTS WITH HEWLETT-

PACKARD EXPIRE. Hewlett-Packard continues to provide certain transitional services to us, including services related to: - information technology systems; - buildings and facilities; and - finance and accounting. These services may not continue to be provided at the same level as when we were part of Hewlett-Packard, and we may not be able to obtain the same benefits. We also lease and sublease certain office and manufacturing facilities from Hewlett-Packard. These transitional service and leasing arrangements generally have a term of less than two years following the separation. After the expiration of these various arrangements, we may not be able to replace the transitional services or enter into appropriate leases in a timely manner or on terms and conditions, including cost, as favorable as those we receive from Hewlett-Packard. These agreements were made in the context of a parent-subsidiary relationship and were negotiated in the overall context of our separation from Hewlett-Packard. As a result, some of these agreements may have terms and conditions that are less specific than some agreements that are negotiated at arms-length. The prices charged to us under these agreements may be different from the prices that we may be required to pay third parties for similar services or the costs of similar services if we undertake them ourselves. OUR HISTORICAL 1999 FINANCIAL INFORMATION MAY NOT BE REPRESENTATIVE OF OUR RESULTS AS A SEPARATE COMPANY. The historical 1999 financial information we have included has been carved out from Hewlett-Packard's consolidated financial statements and does not reflect what our financial position, results of operations and cash flows would have been, had we been a separate, stand-alone entity during the periods presented. Hewlett-Packard did not account for us as, and we were not operated as, a single stand-alone entity for the 1999 periods presented. In addition, the historical information is not necessarily indicative of what our 37 results of operations, financial position and cash flows will be in the future. We did not make adjustments to reflect the many significant changes that occurred in our cost structure, funding and operations as a result of our separation from Hewlett-Packard, including changes in our employee base, changes in our tax structure, increased costs associated with reduced economies of scale, increased marketing expenses related to establishing a new brand identity and increased costs associated with being a public, stand-alone company. WE MAY HAVE POTENTIAL BUSINESS CONFLICTS OF INTEREST WITH HEWLETT-PACKARD WITH RESPECT TO OUR PAST AND ONGOING RELATIONSHIPS THAT COULD HARM OUR BUSINESS OPERATIONS. Conflicts of interest may arise between Hewlett-Packard and us in a number of areas relating to our past and ongoing relationships, including: - labor, tax, employee benefit, indemnification and other matters arising from our separation from Hewlett-Packard; - intellectual property matters; - employee retention and recruiting; - major business combinations involving us; - the nature, quality and pricing of transitional services Hewlett-Packard has agreed to provide us; and - business opportunities that may be attractive to both Hewlett-Packard and us. Nothing restricts Hewlett-Packard from competing with us other than some restrictions on the use of patents licensed to Hewlett-Packard by us. 38 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 United States dollar. Prior to fiscal 2000, our exposure to exchange rate risks had been managed on an enterprise-wide basis as part of Hewlett-Packard's risk management strategy. This strategy utilized derivative financial instruments, including forwards, swaps and purchased options, 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 implemented a similar hedging program upon our separation from Hewlett-Packard in November 1999. We do not currently and do not intend to utilize derivative financial instruments for trading purposes. We performed a sensitivity analysis assuming a hypothetical 10% adverse movement in foreign exchange rates to the hedging contracts and the underlying exposures described above. As of July 31, 2000, 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. 39 PART II - OTHER INFORMATION Item 1. Legal Proceedings We are involved in lawsuits, claims, investigations and proceedings, including 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. There have been no material developments in the litigation previously reported in our Form 10-K for the period ended October 31, 1999. 40 Item 6. Exhibits and Reports on Form 8-K (a) A list of exhibits is set forth in the Exhibit Index found on page 45 of this report. (b) Reports on Form 8-K: (i) Form 8-K dated June 5, 2000 reporting under Item 5 "Other Events" the completion by Hewlett-Packard of the distribution of shares it owned in Agilent Technologies, Inc. AGILENT TECHNOLOGIES, INC. AND SUBSIDIARIES 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. AGILENT TECHNOLOGIES, INC. (Registrant) Dated: September 1, 2000 By: /s/ Robert R. Walker ---------------------------- Robert R. Walker Executive Vice President and Chief Financial Officer 41 AGILENT TECHNOLOGIES, INC. AND SUBSIDIARIES EXHIBIT INDEX Exhibit Number: Description: -------------- ----------- 1. Not applicable. 2.1 Master Separation and Distribution Agreement between Hewlett-Packard and the Company effective as of August 12, 1999. Incorporated by reference from Exhibit 2.1 of the Company's Registration Statement on Form S-1 (Registration No. 333-85249). 2.2 General Assignment and Assumption Agreement between Hewlett-Packard and the Company. Incorporated by reference from Exhibit 2.2 of the Company's Registration Statement on Form S-1 (Registration No. 333-85249). 2.3 Master Technology Ownership and License Agreement between Hewlett-Packard and the Company. Incorporated by reference from Exhibit 2.3 of the Company's Registration Statement on Form S-1 (Registration No. 333-85249). 2.4 Master Patent Ownership and License Agreement between Hewlett-Packard and the Company. Incorporated by reference from Exhibit 2.4 of the Company's Registration Statement on Form S-1 (Registration No. 333-85249). 2.5 Master Trademark Ownership and License Agreement between Hewlett-Packard and the Company. Incorporated by reference from Exhibit 2.5 of the Company's Registration Statement on Form S-1 (Registration No. 333-85249). 2.6 ICBD Technology Ownership and License Agreement between Hewlett-Packard and the Company. Incorporated by reference from Exhibit 2.6 of the Company's Registration Statement on Form S-1 (Registration No. 333-85249). 2.7 Employee Matters Agreement between Hewlett-Packard and the Company. Incorporated by reference from Exhibit 2.7 of the Company's Registration Statement on Form S-1 (Registration No. 333-85249). 2.8 Tax Sharing Agreement between Hewlett-Packard and the Company. Incorporated by reference from Exhibit 2.8 of the Company's Registration Statement on Form S-1 (Registration No. 333-85249). 2.9 Master IT Service Level Agreement between Hewlett-Packard and the Company. Incorporated by reference from Exhibit 2.9 of the Company's Registration Statement on Form S-1 (Registration No. 333-85249). 2.10 Real Estate Matters Agreement between Hewlett-Packard and the Company. Incorporated by reference from Exhibit 2.10 of the Company's Registration Statement on Form S-1 (Registration No. 333-85249). 2.11 Environmental Matters Agreement between Hewlett-Packard and the Company. Incorporated by reference from Exhibit 2.11 of the Company's Registration Statement on Form S-1 (Registration No. 333-85249). 2.12 Master Confidential Disclosure Agreement between Hewlett-Packard and the Company. Incorporated by reference from Exhibit 2.12 of the Company's Registration Statement on Form S-1

~~(Registration No. 333-85249). 2.13 Indemnification and Insurance Matters Agreement between Hewlett-Packard and the Company. Incorporated by reference from Exhibit 2.13 of the Company's Registration Statement on Form S-1 (Registration No. 333-85249). 2.14 Non U.S. Plan. Incorporated by reference from Exhibit 2.14 of the Company's Registration Statement on Form S-1 (Registration No. 333-85249). 2.15 Five Year Credit Agreement as dated November 5, 1999. Incorporated by reference from Exhibit 2.15 of the Company's Registration Statement on Form S-1 (Registration No. 333-85249). 2.16 364-Day Credit Arrangement dated as of November 5, 1999. Incorporated by reference from Exhibit 2.16 of the Company's Registration Statement on Form S-1 (Registration No. 333-85249). 3.1 Amended and Restated Certificate of Incorporation. Incorporated by reference from Exhibit 3.1 of the Company's Registration Statement on Form S-1 (Registration No. 333-85249). 3.2 Bylaws. Incorporated by reference from Exhibit 3.2 of the Company's Registration Statement on Form S-1 (Registration No. 333-85249). 4. None. 5-9. Not applicable. 10.1 Employee Stock Purchase Plan. Incorporated by reference from Exhibit 10.1 of the Company's Registration Statement on Form S-1 (Registration No. 333-85249).* 10.2 1999 Stock Plan. Incorporated by reference from Exhibit 10.2 of the Company's Registration Statement on Form S-1 (Registration No. 333-85249).* 10.3 1999 Non-Employee Director Stock Plan. Incorporated by reference from Exhibit 10.3 of the Company's Registration Statement on Form S-1 (Registration No. 333-85249).* 10.4 Yokogawa Electric Corporation and Hewlett-Packard Company Agreement for the Redemption and Sale of Shares and Termination of Joint Venture Relationship. Incorporated by reference from Exhibit 10.4 of the Company's Registration Statement on Form S-1 (Registration No. 333-85249). 10.5 Form of Indemnification Agreement entered into by the Company with each of its directors and executive officers. Incorporated by reference from Exhibit 10.5 of the Company's Registration Statement on Form S-1 (Registration No. 333-85249).* 10.6 Executive Deferred Compensation Plan. Incorporated by reference from Exhibit 10.6 of the Company's Form 10-K for the period ended October 31, 1999.* 11. See Item 4 in Notes to Condensed Consolidated Financial Statements on Page 9. 12-14. Not applicable. 15. None. 16-17. Not applicable. 18-19. None. 20-21. Not applicable. 22-24. None. 25-26. Not applicable. 27.1 Financial Data Schedule. 28. Not applicable. 99. None. -- * Indicates management contract or compensatory plan, contract or arrangement.~~