AGILENT TECHNOLOGIES INC
Form 10-K/A
February 01, 2002

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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-K/A No. 1

(Mark One)

| | |
|---|---|
| þ | **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** |
| | **For the fiscal year ended October 31, 2001** |
| | **or** |
| o | **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** |
| | **For the transition period from to** |

**Commission File Number: 001-15405**

# Agilent Technologies, Inc.

*(Exact name of registrant as specified in its charter)*

| | |
|---|---|
| **Delaware** | **77-0518772** |
| *State or other jurisdiction of Incorporation or organization* | *I.R.S. Employer Identification No.* |

**Address of principal executive offices: 395 Page Mill Road, Palo Alto, California 94306**

**Registrant s telephone number, including area code: (650) 752-5000**

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock par value $0.01 per share | New York Stock Exchange, Inc. |

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this

Form 10-K or any amendment to this Form 10-K. o

The aggregate market value of the registrant s common stock held by non-affiliates as of December 26, 2001 was approximately $10.54 billion. As of December 26, 2001, there were 463,695,160 outstanding shares of common stock, par value $0.01 per share. Shares of stock held by officers, directors and 5% or more shareholders have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

**DOCUMENTS INCORPORATED BY REFERENCE**

| Document Description | 10-K Part |
|---|---|
| Portions of the Proxy Statement for the Annual Meeting of Stockholders (the Proxy Statement ) to be held on February 22, 2002, and to be filed pursuant to Regulation 14A within 120 days after registrant s fiscal year ended October 31, 2001 are incorporated by reference into Part III of this Report | **III** |

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## EXPLANATORY NOTE

We are amending our Annual Report on Form 10-K for the year ended October 31, 2001 to include the last page of the Financial Statements and Supplementary Data (the second page of the Quarterly Summary, page 32 in this Amendment). This page was inadvertently omitted in the previously filed Form 10-K.

We have no further changes to the previously filed Form 10-K. All information in this Form 10-K/A is as of October 31, 2001, and does not reflect, unless otherwise noted, any subsequent information or events other than the change mentioned above.

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**Item 14.** ***Exhibits, Financial Statement Schedules, and Reports on Form 8-K***

(a) The following documents are filed as part of this report:

1. *Financial Statements and Supplementary Data*



2. *Financial Statement Schedules*

None.

3. *Exhibits*

See Index to Exhibits. The Exhibits listed in the accompanying Index to Exhibits are filed as part of this report.

(b) *Reports on Form 8-K*

(i) Form 8-K dated August 15, 2001 reporting under Item 2 Acquisition or Disposition of Assets the completion of the sale of Agilent s Healthcare Solutions Group ( HSG ) to Koninklijke Philips Electronics N.V. ( Philips ). Also reporting under Item 7 Financial Statements and Exhibits pro forma financial information, agreements and a press release relating to the sale of HSG to Philips.

(ii) Form 8-K dated August 22, 2001 reporting under Item 5 Other Events Agilent s third quarter results.

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## STATEMENT OF MANAGEMENT RESPONSIBILITY

Agilent Technologies management is responsible for the preparation, integrity and objectivity of the consolidated financial statements and other financial information presented in this report. The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and reflect the effects of certain estimates and judgments made by management.

Management maintains an effective system of internal control that is designed to provide reasonable assurance that assets are safeguarded and transactions are properly recorded and executed in accordance with management s authorization. The system is continuously monitored by direct management review and by internal auditors who conduct audits throughout the company. We select and train qualified people who are provided with and expected to adhere to Agilent Technologies standards of business conduct. These standards, which set forth strong principles of business ethics and conduct, are a key element of our control system.

Our consolidated financial statements have been audited by PricewaterhouseCoopers LLP, independent accountants. Their audits were conducted in accordance with auditing standards generally accepted in the United States of America, and included a review of financial controls and tests of accounting records and procedures as they considered necessary in the circumstances.

The Audit and Finance Committee of the Board of Directors, which consists of outside directors, meets regularly with management, the internal auditors and the independent accountants to review accounting, reporting, auditing and internal control matters. The committee has direct and private access to both the internal auditors and the independent accountants.

Edward W. Barnholt
*President and*
*Chief Executive Officer*

Adrian T. Dillon
*Executive Vice President and*
*Chief Financial Officer*

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**REPORT OF INDEPENDENT ACCOUNTANTS**

To the Stockholders and Board of Directors of Agilent Technologies, Inc.:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of earnings, cash flows and stockholders equity present fairly, in all material respects, the financial position of Agilent Technologies, Inc. and its subsidiaries at October 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the company s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in the notes to the consolidated financial statements, the company adopted Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities and changed its method of revenue recognition as of November 1, 2000.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

San Jose, California
November 15, 2001,
except for Note 19 which is as of November 27, 2001

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**AGILENT TECHNOLOGIES, INC.**

**CONSOLIDATED STATEMENT OF EARNINGS**

| | Years Ended October 31, | | |
|---|---|---|---|
| | **2001** | **2000** | **1999** |
| | (In millions, except per share amounts) | | |
| Net revenue: | | | |
| Products | $7,485 | $8,299 | $5,895 |
| Services and other | 911 | 1,062 | 935 |
| Total net revenue | 8,396 | 9,361 | 6,830 |
| Costs and expenses: | | | |
| Cost of products | 4,664 | 4,143 | 3,098 |
| Cost of services and other | 502 | 592 | 529 |
| Total costs | 5,166 | 4,735 | 3,627 |
| Research and development | 1,349 | 1,129 | 879 |
| Selling, general and administrative | 2,659 | 2,573 | 1,902 |
| Total costs and expenses | 9,174 | 8,437 | 6,408 |
| (Loss) earnings from operations | (778) | 924 | 422 |
| Other income (expense), net | 301 | 94 | 41 |
| (Loss) earnings from continuing operations before taxes | (477) | 1,018 | 463 |
| (Benefit) provision for taxes | (71) | 346 | 157 |
| (Loss) earnings from continuing operations | (406) | 672 | 306 |
| Net earnings from discontinued operations (net of taxes of $15 million, $61 million and $118 million in 2001, 2000 and 1999, respectively) | 6 | 85 | 206 |
| Gain from sale of discontinued operations (net of taxes of $422 million) | 646 | | |
| Earnings before cumulative effect of changes in accounting principles | 246 | 757 | 512 |
| Cumulative effect of adopting SFAS No. 133 (net of tax benefit of $16 million) | (25) | | |
| Cumulative effect of adopting SAB 101 (net of tax benefit of $27 million) | (47) | | |
| Net earnings | $ 174 | $ 757 | $ 512 |
| Net earnings per share Basic: | | | |
| (Loss) earnings from continuing operations | $ (0.89) | $ 1.49 | $ 0.81 |
| Net earnings from discontinued operations | 0.01 | 0.19 | 0.54 |
| Gain from sale of discontinued operations | 1.41 | | |
| Cumulative effect of adopting SFAS No. 133 | (0.05) | | |
| Cumulative effect of adopting SAB 101 | (0.10) | | |
| Net earnings | $ 0.38 | $ 1.68 | $ 1.35 |

| | | | |
|---|---|---|---|
| Net earnings per share Diluted: | | | |
| (Loss) earnings from continuing operations | $ (0.89) | $ 1.48 | $ 0.81 |
| Net earnings from discontinued operations | 0.01 | 0.18 | 0.54 |
| Gain from sale of discontinued operations | 1.41 | | |
| Cumulative effect of adopting SFAS No. 133 | (0.05) | | |
| Cumulative effect of adopting SAB 101 | (0.10) | | |
| Net earnings | $ 0.38 | $ 1.66 | $ 1.35 |
| Average shares used in computing net earnings per share: | | | |
| Basic | 458 | 449 | 380 |
| Diluted | 458 | 455 | 380 |

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

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**AGILENT TECHNOLOGIES, INC.**

**CONSOLIDATED BALANCE SHEET**

| | October 31, 2001 | October 31, 2000 |
|---|---|---|
| | (In millions, except par value and share data) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,170 | $ 996 |
| Accounts receivable, net | 977 | 1,938 |
| Inventory | 1,491 | 1,610 |
| Net investment in lease receivable | 237 | |
| Other current assets | 924 | 595 |
| Total current assets | 4,799 | 5,139 |
| Property, plant and equipment, net | 1,848 | 1,685 |
| Goodwill and other intangible assets, net | 1,070 | 467 |
| Other assets | 269 | 442 |
| Net investment in discontinued operations | | 597 |
| Total assets | $ 7,986 | $ 8,330 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 386 | $ 857 |
| Notes payable and short-term borrowings | 6 | 110 |
| Employee compensation and benefits | 576 | 679 |
| Deferred revenue | 279 | 322 |
| Other accrued liabilities | 755 | 695 |
| Total current liabilities | 2,002 | 2,663 |
| Other liabilities | 325 | 402 |
| Commitments and contingencies | | |
| Stockholders equity: | | |
| Preferred stock; $.01 par value; 125 million shares authorized; none issued and outstanding | | |
| Common stock; $.01 par value; 2 billion shares authorized; 461 million shares at October 31, 2001 and 454 million shares at October 31, 2000 issued and outstanding | 5 | 5 |
| Additional paid-in capital | 4,723 | 4,508 |
| Retained earnings | 931 | 757 |
| Accumulated comprehensive loss | | (5) |
| Total stockholders equity | 5,659 | 5,265 |
| Total liabilities and stockholders equity | $ 7,986 | $ 8,330 |

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

**AGILENT TECHNOLOGIES, INC.**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

| | Years Ended October 31, | | |
|---|---|---|---|
| | **2001** | **2000** | **1999** |
| | | (In millions) | |
| Cash flows from operating activities: | | | |
| Net (loss) earnings from continuing operations | $ (478) | $ 672 | $ 306 |
| Adjustments to reconcile net (loss) earnings from continuing operations to net cash (used in) provided by operating activities: | | | |
| Depreciation and amortization | 734 | 460 | 440 |
| Inventory-related charges | 459 | 70 | 105 |
| Deferred taxes | (94) | (59) | (12) |
| Non-cash restructuring and asset impairment charges | 161 | 8 | 51 |
| Gain on sale of assets | (315) | (29) | |
| Gain on divestitures | (132) | (123) | (50) |
| Adoption of SFAS No. 133 | 41 | | |
| Changes in assets and liabilities: | | | |
| Accounts receivable | 933 | (697) | (297) |
| Inventory | (373) | (431) | (151) |
| Accounts payable | (480) | 356 | 75 |
| Accrued compensation and benefits | (145) | 149 | (22) |
| Income taxes payable | (472) | 235 | |
| Other current assets and liabilities | (8) | 4 | (41) |
| Other long-term assets and liabilities | 55 | (79) | (63) |
| Net cash (used in) provided by operating activities | (114) | 536 | 341 |
| Cash flows from investing activities: | | | |
| Investments in property, plant and equipment | (881) | (803) | (429) |
| Dispositions of property, plant and equipment | | | |
| Land sale | 287 | | |
| Equipment lease portfolio sale | 287 | 234 | |
| Other | 59 | 99 | 71 |
| Net investment in lease | (289) | | |
| Sale of equity investments | 74 | 60 | |
| Purchase of equity investments | (27) | (32) | |
| Acquisitions, net of cash acquired | (904) | (634) | (55) |
| Proceeds from dispositions | 13 | | 71 |
| Other, net | 16 | 14 | 6 |
| Net cash used in investing activities | (1,365) | (1,062) | (336) |
| Cash flows from financing activities: | | | |
| IPO proceeds | | 2,068 | |
| IPO proceeds transferred to Hewlett-Packard | | (2,068) | |
| Issuance of common stock under employee stock plans | 150 | 84 | |
| Net (payments) proceeds from notes payable and short-term borrowings | (113) | 110 | |
| Financing from (transfer to) Hewlett-Packard | | 1,081 | (152) |
| Net cash provided by (used in) financing activities | 37 | 1,275 | (152) |

| | | | |
|---|---|---|---|
| Net proceeds and cash provided by discontinued operations | 1,616 | 247 | 147 |
| Change in cash and cash equivalents | 174 | 996 | |
| Cash and cash equivalents at beginning of year | 996 | | |
| Cash and cash equivalents at end of year | $ 1,170 | $ 996 | $ |

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

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**AGILENT TECHNOLOGIES, INC.**

**CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**

| | Common Stock | | | | | | |
|---|---|---|---|---|---|---|---|
| | Number of Shares | Par Value | Additional Paid-in Capital | Stockholder s Net Investment | Retained Earnings | Other Comprehensive Loss | Total |
| | (In millions, except number of shares in thousands) | | | | | | |
| Balance as of October 31, 1998 | | $ | $ | $ 3,022 | $ | $ | $ 3,022 |
| Net earnings | | | | 512 | | | 512 |
| Net cash transfers to Hewlett-Packard Company | | | | (152) | | | (152) |
| Transfer to common stock and additional paid-in capital | 380,000 | 4 | 3,378 | (3,382) | | | |
| Balance as of October 31, 1999 | 380,000 | 4 | 3,378 | | | | 3,382 |
| Components of comprehensive income: | | | | | | | |
| Net earnings | | | | | 757 | | 757 |
| Unrealized loss on investment, net of tax | | | | | | (5) | (5) |
| Total comprehensive income | | | | | | | 752 |
| Shares issued in the IPO | 72,000 | 1 | 2,067 | | | | 2,068 |
| Proceeds from IPO transferred to Hewlett-Packard | | (1) | (2,067) | | | | (2,068) |
| Shares issued for employee benefit plans and other | 1,976 | 1 | 109 | | | | 110 |
| Cash funding from Hewlett-Packard | | | 1,858 | | | | 1,858 |
| Transfer of net assets to Hewlett-Packard | | | (853) | | | | (853) |
| Tax benefit associated with stock option exercises | | | 16 | | | | 16 |
| Balance as of October 31, 2000 | 453,976 | 5 | 4,508 | | 757 | (5) | 5,265 |
| Components of comprehensive income: | | | | | | | |
| Net earnings | | | | | 174 | | 174 |
| Reclassification adjustment relating to warrants | | | | | | 22 | 22 |
| Reclassification adjustment relating to derivatives | | | | | | (6) | (6) |
| SFAS No. 133 cumulative transition adjustment | | | | | | 6 | 6 |
| Change in unrealized loss on investment, net of tax | | | | | | (24) | (24) |
| Unrealized gain on derivatives, net of tax | | | | | | 7 | 7 |
| Total comprehensive income | | | | | | | 179 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Shares issued for employee benefit plans and other | 5,594 | | 150 | | | | 150 |
| Issuance of common shares and options for acquisitions | 1,461 | | 70 | | | | 70 |
| Other additional paid in capital | | | (5) | | | | (5) |
| Balance as of October 31, 2001 | 461,031 | $ 5 | $ 4,723 | $ | $ 931 | $ | $ 5,659 |

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

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**AGILENT TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## 1. Overview and Basis of Presentation

Agilent Technologies, Inc. (Agilent), incorporated in Delaware in May 1999, is a global technology leader in communications, electronics and life sciences. Prior to Agilent s initial public offering of 15.9 percent of its stock in November 1999, Agilent was a wholly-owned subsidiary of Hewlett-Packard Company ( HP ). HP distributed the remaining 84.1 percent of Agilent s stock to its stockholders on June 2, 2000 in the form of a stock dividend.

On August 1, 2001 Agilent completed the sale of its healthcare solutions business to Koninklijke Philips Electronics, N.V. The results of the healthcare solutions business are presented as discontinued operations for all periods in the consolidated financial statements included herein. See Note 3 Discontinued Operations .

Agilent s fiscal year end is October 31. Unless otherwise stated, all years and dates refer to Agilent s fiscal year.

The consolidated 1999 financial information was 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.

## 2. Summary of Significant Accounting Policies

*Basis of presentation.* The accompanying financial data has been prepared by Agilent pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ( SEC ). Certain amounts in the consolidated balance sheet, statement of earnings and statement of cash flows for 2000 and 1999 have been reclassified to conform to the presentation in 2001.

*Principles of consolidation.* The consolidated financial statements include the accounts of Agilent and its wholly- and majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

*Use of estimates.* The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in Agilent s consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

*Revenue recognition.* Revenue from product sales, net of trade discounts and allowances, is recognized once delivery has occurred provided that persuasive evidence of an arrangement exists, the price is fixed or determinable, and collectibility is reasonably assured. Delivery is considered to have occurred when title and risk of loss have transferred to the customer. For sales that include customer-specified acceptance criteria, revenue is recognized after the acceptance criteria have been met. For products that include installation, revenue for the entire arrangement is recognized once the installation is complete, unless the installation is considered to be a separate element, in which case the revenue relating to installation is deferred. Provisions are established for estimated costs that may be incurred for product warranties. Revenue from services, including operating leases, is recognized over the contractual period or as services are rendered and accepted by the customer.

*Shipping and handling costs.* Agilent s shipping and handling costs charged to its customers are included in net revenue and the associated expense is recorded in total costs for all periods presented.

*Goodwill and purchased intangible assets.* Goodwill and purchased intangible assets are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the economic lives of the respective assets, generally three to ten years. Goodwill

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**AGILENT TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

resulting from acquisitions completed after June 30, 2001 has not been amortized in accordance with the requirements of Statement of Financial Accounting Standards ( SFAS ) No. 142, Goodwill and Other Intangible Assets .

*Advertising.* Advertising costs are expensed as incurred and amounted to $115 million in 2001, $178 million in 2000, and $117 million in 1999.

*Taxes on earnings.* Income tax expense is based on earnings before taxes. Deferred tax assets and liabilities are recognized principally for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. Prior to June 3, 2000, Agilent s operating results were included in HP s consolidated U.S. and state income tax returns and in tax returns of certain HP foreign subsidiaries. The provision for taxes in Agilent s consolidated financial statements for 1999 was determined on a separate return basis.

*Net (loss) earnings per share.* Basic net (loss) earnings per share is computed by dividing net (loss) 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 (loss) earnings per share gives effect to all potentially dilutive common stock equivalents outstanding during the period. In computing diluted net (loss) 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. Diluted net loss per share for 2001 excludes the potentially dilutive effect of common stock equivalents as their effect is antidilutive.

*Cash and cash equivalents.* Agilent classifies investments as cash equivalents if their original maturity is three months or less. Cash equivalents are stated at cost, which approximates fair value.

*Fair value of financial instruments.* The carrying values of certain of the Company s financial instruments, including cash and cash equivalents, accrued compensation, and other accrued liabilities, approximate fair value because of their short maturities. The fair values of investments are determined using quoted market prices for those securities or similar financial instruments.

*Concentration of credit risk.* Agilent sells the majority of its products through its direct sales force. No single customer accounted for 10 percent or more of the combined accounts receivable balance at October 31, 2001 and 2000. Credit risk with respect to accounts receivable is generally diversified due to the large number of entities comprising Agilent s customer base and their dispersion across many different industries and geographies. Agilent performs ongoing credit evaluations of its customers financial condition, and requires collateral, such as letters of credit and bank guarantees, in certain circumstances.

*Derivative instruments.* Agilent enters into foreign exchange contracts, primarily forward contracts and purchased options, to hedge exposures to changes in foreign currency exchange rates. These contracts are designated at inception as hedges of the related foreign currency exposures, which include committed and anticipated foreign currency sales and assets and liabilities that are denominated in currencies other than the U.S. dollar. To achieve hedge accounting, contracts must reduce the foreign currency exchange rate risk otherwise inherent in the amount and duration of the hedged exposures and comply with established risk management policies; hedging contracts generally mature within three to six months. Agilent does not use derivative financial instruments for speculative or trading purposes.

When hedging sales-related exposure, foreign exchange contract expirations are set so as to occur in the same month the hedged shipments occur, allowing realized gains and losses on the contracts to be recognized in net revenue in the same periods in which the related revenues are recognized. When hedging balance sheet exposure, realized gains and losses on foreign exchange

**AGILENT TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

contracts are recognized in other income (expense), net in the same period as the realized gains and losses on remeasurement of the foreign currency denominated assets and liabilities occur. The gains and losses, which have not been material, are included in cash flows from operating activities in the consolidated statement of cash flows.

Agilent may also, from time to time, acquire warrants to purchase securities of other companies as part of strategic relationships.

*Inventory.* Inventory is valued at standard cost which approximates actual cost computed on a first-in, first-out basis, not in excess of market value.

*Property, plant and equipment.* Property, plant and equipment are stated at cost less accumulated depreciation. Additions, improvements and major renewals are capitalized; maintenance, repairs and minor renewals are expensed as incurred. When assets are retired or disposed of, the assets and related accumulated depreciation and amortization are removed from the accounts and the resulting gain or loss is reflected in operations. Depreciation is provided using accelerated methods, principally over fifteen to forty years for buildings and improvements and three to ten years for machinery and equipment, including equipment leased to customers under operating leases. Depreciation of leasehold improvements is provided using the straight-line method over the life of the asset or the term of the lease or the asset, whichever is shorter.

*Capitalized software.* Agilent capitalizes certain internal and external costs incurred to acquire or create internal use software in accordance with Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use . Capitalized software is included in property, plant, and equipment under machinery and equipment and is amortized over its useful life when development is complete.

*Impairment of long-lived assets.* Agilent continually monitors events and changes in circumstances that could indicate carrying amounts of long-lived assets, including intangible assets, may not be recoverable. When such events or changes in circumstances are present, Agilent assesses the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the future cash flows is less than the carrying amount of those assets, Agilent recognizes an impairment loss based on the excess of the carrying amount over the fair value of the assets.

*Foreign currency translation.* Agilent uses the U.S. dollar as its functional currency. Foreign currency assets and liabilities are remeasured into U.S. dollars at current exchange rates except for inventory, property, plant and equipment, other assets and deferred revenue which are remeasured at historical exchange rates. Revenue and expenses are generally translated at average exchange rates in effect during each period, except for those expenses related to balance sheet amounts that are remeasured at historical exchange rates. Gains or losses from foreign currency remeasurement are included in consolidated net earnings. The effect of foreign currency exchange rate fluctuations on Agilent s cash and cash equivalents denominated in foreign currencies was not material.

*Recent accounting pronouncements.* In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combination and SFAS No. 142, Goodwill and Other Intangible Assets . As a result of SFAS No. 141, all acquisitions completed after June 30, 2001 are accounted for using the purchase method of accounting. The adoption of SFAS No. 141 had no material impact on Agilent s consolidated financial statements. Agilent plans to adopt SFAS No. 142 in the first quarter of 2003. SFAS No. 142 requires that goodwill resulting from acquisitions completed after June 30, 2001 not be amortized. Until Agilent adopts the new standard, Agilent will continue to amortize goodwill existing at June 30, 2001 and to test all goodwill for impairment using the current method, that uses an undiscounted cash flow test. After adoption, Agilent will stop amortizing all goodwill

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**AGILENT TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

and will begin to test goodwill for impairment pursuant to SFAS No. 142, that applies a fair-value-based test. Agilent is assessing the further impacts of SFAS No. 142 on its consolidated financial position and results of operations.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, Accounting for the Impairment or Disposal of Long Lived Assets which addresses financial accounting and reporting for the impairment and disposal of long-lived assets. Agilent will be required to adopt SFAS No. 144 no later than fiscal year 2003. Agilent is currently assessing the impact of SFAS No. 144 and does not believe that it will have a material impact on its consolidated financial position, results of operations or cash flows.

### 3. Discontinued Operations

On August 1, 2001, Agilent completed the sale of its healthcare solutions business to Koninklijke Philips Electronics, N.V. ( Philips ) pursuant to an Asset Purchase Agreement for a total purchase price of $1.7 billion. Philips paid initial proceeds of $1.6 billion to Agilent on August 1, 2001, with further payments to follow pursuant to the terms of the Asset Purchase Agreement dated as of November 17, 2000, as amended and supplemented by the Amendment and Supplemental Agreement, dated as of August 1, 2001 (collectively, the Asset Purchase Agreement ). The total purchase price is subject to adjustment based on the determination of the final purchased net assets and Agilent s performance of certain services for Philips. Since August 1, 2001 Agilent has received approximately $80 million of the $100 million purchase price holdback in additional proceeds from Philips. Agilent expects to receive the remaining proceeds in 2002.

Agilent s consolidated financial statements reflect its healthcare solutions business as discontinued operations in accordance with Accounting Principles Board Opinion No. 30 Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions ( APB 30 ). The financial position, results of operations and cash flows of Agilent s healthcare solutions business have been classified as discontinued, and prior periods have been restated, including the reallocation of general overhead charges to Agilent s three remaining reporting segments. Agilent recorded an after-tax gain of $646 million as a result of this transaction. Agilent does not expect material adjustments to the gain when the determination of the final purchased net assets and the performance of certain services are complete.

The following table shows the results of operations of Agilent s healthcare solutions business.

| | Years Ended October 31, | | |
|---|---|---|---|
| | **2001(a)** | **2000** | **1999** |
| | | **(In millions)** | |
| Net revenue | $765 | $1,412 | $1,501 |
| Costs and expenses | 747 | 1,283 | 1,182 |
| Earnings from discontinued operations | 18 | 129 | 319 |
| Other income (expense), net | 3 | 17 | 5 |
| Earnings from discontinued operations before taxes | 21 | 146 | 324 |
| Provision for taxes | 15 | 61 | 118 |
| Net earnings from discontinued operations | $ 6 | $ 85 | $ 206 |

(a) Includes operations from November 1, 2000 to May 31, 2001, the measurement date.

**AGILENT TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table shows the components of the gain on sale of discontinued operations.

| | 2001 |
|---|---|
| | (In millions) |
| Proceeds not subject to contingency | $ 1,771 |
| Book value of assets and liabilities sold | (495) |
| Book value of assets and liabilities written off | (98) |
| Net loss from operations post-measurement date | (58) |
| Costs of disposition | (52) |
| Gain on sale before taxes | 1,068 |
| Taxes | (422) |
| Gain from sale of discontinued operations, net of taxes | $ 646 |

The following table shows the component assets and liabilities of Agilent s net investment in discontinued operations.

| | October 31, 2000 |
|---|---|
| | (In millions) |
| Current assets | $ 516 |
| Property, plant and equipment, net | 56 |
| Goodwill and other intangible assets, net | 90 |
| Other assets | 30 |
| Current liabilities | (95) |
| Net investment in discontinued operations | $ 597 |

Certain notes to these consolidated financial statements have been restated to reflect Agilent s presentation of discontinued operations. Generally, information in the notes has been restated where amounts were included in net earnings from, or net investment in, discontinued operations.

**4. Acquisitions and Dispositions**

On January 5, 2001, Agilent acquired Objective Systems Integrators, Inc. ( OSI ) for approximately $716 million. Of this total, $690 million was cash and the remainder represents the fair value of options granted. Using the purchase method of accounting, the purchase price was allocated to tangible and intangible assets including goodwill. The original goodwill balance of $593 million is being amortized over 3 years. The net book value of goodwill associated with this acquisition at October 31, 2001 was $432 million. OSI is a leading provider of next-generation operations-support-system software for communications service providers and has become part of Agilent s test and measurement business.

In July 1999, HP entered into an agreement with Yokogawa Electric Corporation ( Yokogawa ) to acquire Yokogawa s 25 percent equity interest in Agilent Technologies Japan, Ltd. for approximately $521 million. In the initial step, which occurred in January 2000, Agilent purchased approximately 10.4 percent 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 percent of additional Agilent Technologies Japan, Ltd. shares from

Yokogawa for approximately $216 million. In January 2001, Agilent completed its acquisition of Yokogawa s 25 percent equity interest in Agilent Technologies Japan, Ltd. by purchasing the remaining 4.2 percent interest for approximately

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**AGILENT TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

$99 million. Of the total purchase price, $243 million was allocated to tangible assets and $278 million was attributed to goodwill which is being amortized over 10 years. The remaining net book value of goodwill associated with this acquisition was $240 million at October 31, 2001.

In addition to the OSI and Yokogawa acquisitions, Agilent acquired several other companies during 2001, 2000, and 1999 which were not significant to its consolidated financial position, results of operations or cash flows. These acquisitions were accounted for under the purchase method of accounting. 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 values at the date of acquisition. Residual amounts were recorded as goodwill. In-process research and development write-offs have not been significant. Goodwill is amortized on a straight-line basis over its estimated economic life, generally three to five years except as noted above.

The net book value of goodwill and other intangible assets was $1.1 billion at October 31, 2001 and $467 million at October 31, 2000.

Unaudited pro forma statement of earnings information has not been presented because the effects of these acquisitions were not material on either an individual or an aggregated basis.

*Dispositions.* In the fourth quarter of 2000, Agilent entered into an asset purchase agreement with Tyco Capital Corporation ( Tyco Capital ) pursuant to which Agilent has sold them substantially all of its leasing portfolio ( Tyco Capital sale ) over the course of the last five quarters. The impact on Agilent s consolidated cash flows and results of operations of the lease portfolio sale is shown below.

| | Year Ended October 31, 2001 | Year Ended October 31, 2000 |
|---|---|---|
| Net proceeds from Tyco Capital sale | $287 | $234 |
| Product revenue | $254 | $197 |
| Cost of products | $131 | $ 83 |

Agilent also entered into a vendor financing arrangement with Tyco Capital whereby Tyco Capital will provide equipment financing and leasing services to Agilent s customers on a global basis. This agreement has been in place since the fourth quarter of 2000.

In addition to the Tyco Capital sale and the sale of the healthcare solutions business, Agilent sold assets related to portions of its businesses to third parties during 2001, 2000, and 1999. Gross proceeds from these dispositions were $13 million in 2001, immaterial in 2000, and $71 million in 1999. Gains from the dispositions, included in other income (expense), net, in the consolidated statement of earnings, were $9 million in 2001, immaterial in 2000, and $50 million in 1999.

**5. Adoption of SAB 101**

In December 1999, the U.S. Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements ( SAB 101 ). During the fourth quarter of 2001, Agilent adopted SAB 101 retroactive to the beginning of the fiscal year. The cumulative effect of the adoption resulted in a charge to fiscal 2001 net earnings of $47 million (net of income taxes of $27 million) or $0.10 per basic and diluted share. As a result of adopting SAB 101, delivery is considered to have occurred when title and risk of loss have transferred to the customer. For the fiscal year ended October 31, 2001, the net impact on 2001 revenues including amounts deferred at October 31, 2001 was an increase of $67 million of revenue and $29 million of cost of

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**AGILENT TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

products which were included in the cumulative effect adjustment. The results for the first three quarters of 2001 have been restated in accordance with SAB 101. Pro forma amounts for the periods beginning before November 1, 2000 have not been presented, as the effect of the change could not reasonably be determined.

## 6. Financial Instruments

Effective November 1, 2000, Agilent adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities . SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, and requires that all derivatives be recognized as either assets or liabilities on the balance sheet and carried at fair value. Changes in the fair value of the derivative instruments are recognized in earnings or stockholders equity, depending on the intended use of the instrument.

If derivative instruments are designated and qualify as a fair value hedge, changes in value of the derivative are recognized in earnings in the current period, along with the offsetting gain or loss on the hedged item attributable to the hedged risk. If derivative instruments are designated and qualify as a cash flow hedge, changes in the value of the effective portion of the derivative instrument are recognized in other comprehensive income, a component of stockholders equity. These amounts are reclassified and recognized in earnings when either the forecasted transaction occurs or it becomes probable the forecasted transaction will not occur. Changes in the fair value of the ineffective portion of derivative instruments are recognized in earnings in the current period. Ineffectiveness in 2001 was not significant.

Agilent enters into certain foreign exchange contracts, primarily forwards and options, to hedge exposures to changes in foreign currency exchange rates. Agilent does not use derivative financial instruments for speculative or trading purposes.

Agilent may also, from time to time, invest in warrants to purchase securities of other companies as strategic investments.

The adoption of SFAS No. 133 on November 1, 2000 resulted in a cumulative pre-tax reduction to income of $41 million ($25 million after tax) and a pre-tax increase in other comprehensive income of $10 million. During the year ended October 31, 2001, pre-tax gains of $6 million were recorded in other income from continuing operations related to the value of derivative transactions. Pre-tax gains of $1 million were recorded in other comprehensive income during 2001 related to derivative instruments. Discontinued operation results for the year ended October 31, 2001 include pre-tax losses of $1 million related to the value of derivative transactions. Net deferred gains and losses of $7 million related to hedging activities reported in accumulated comprehensive loss at October 31, 2001 are expected to be reclassified to earnings within 12 months.

**AGILENT TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

## 7. (Loss) Earnings Per Share

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.

| | For the Years Ended October 31, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| | (In millions, except per share data) | | |
| Numerator: | | | |
| (Loss) earnings from continuing operations | $(406) | $672 | $306 |
| Net earnings from discontinued operations, net of taxes | 6 | 85 | 206 |
| Gain from the sale of discontinued operations, net of taxes | 646 | | |
| Earnings before cumulative effect of changes in accounting principles | 246 | 757 | 512 |
| Cumulative effect of adopting SFAS No. 133, net of taxes | (25) | | |
| Cumulative effect of adopting SAB 101, net of taxes | (47) | | |
| Net earnings | $ 174 | $757 | $512 |
| Denominators: | | | |
| Basic weighted average shares | 458 | 449 | 380 |
| Potentially dilutive common stock equivalents stock options and other employee stock plans | | 6 | |
| Diluted weighted average shares | 458 | 455 | 380 |

Options to purchase 63.7 million shares of common stock at a weighted average exercise price of $46 per share were outstanding during 2001 but were not included in the computation of diluted net earnings per share because the options were antidilutive for 2001. The options, which expire no later than 2010, were still outstanding at the end of 2001.

See Note 19 Subsequent Events for a discussion of Agilent s senior convertible debentures, which may be dilutive in 2002.

## 8. Supplemental Cash Flow Information

Cash paid for income taxes in 2001 was $450 million and in 2000 was $546 million. No amounts were paid for income taxes in 1999 as HP made such payments on Agilent s behalf. Cash paid for interest was $28 million in 2001 and was not material in 2000 and 1999.

Non-cash transactions in 2001 primarily related to the issuance of common stock under various employee stock plans in the amount of $26 million and acquisitions in the amount of $71 million.

## 9. Inventory

| | October 31, | |
|---|---|---|
| | 2001 | 2000 |

| | (In millions) | |
|---|---|---|
| Finished goods | $ 400 | $ 356 |
| Work in progress | 239 | 340 |
| Raw materials | 852 | 914 |
| | $1,491 | $1,610 |

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**AGILENT TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Inventory-related charges of $459 million and $70 million were recorded in total cost of products in 2001 and 2000, respectively.

### 10. Property, Plant and Equipment, Net

| | October 31, 2001 | October 31, 2000 |
|---|---|---|
| | (In millions) | |
| Land | $ 148 | $ 155 |
| Buildings and leasehold improvements | 1,767 | 1,556 |
| Machinery and equipment | 2,210 | 2,109 |
| | 4,125 | 3,820 |
| Accumulated depreciation | (2,277) | (2,135) |
| | $ 1,848 | $ 1,685 |

Agilent has sold substantially all of its portfolio of operating leases to Tyco Capital. See Note 4 Acquisitions and Dispositions . Equipment under operating leases was $23 million at October 31, 2001 and $201 million at October 31, 2000 and is included in machinery and equipment. Accumulated depreciation related to equipment under operating leases was $4 million at October 31, 2001 and $49 million at October 31, 2000. At October 31, 2001, minimum future rentals on noncancelable operating leases with original terms of one year or longer were not material.

### 11. Taxes on Earnings

The (benefit) provision for income taxes is comprised of:

| | Years Ended October 31, 2001(a) | 2000 | 1999 |
|---|---|---|---|
| | (In millions) | | |
| U.S. federal taxes from continuing operations: | | | |
| Current | $ 22 | $ 77 | $ 63 |
| Deferred | (105) | (42) | (15) |
| Non-U.S. taxes from continuing operations: | | | |
| Current | (38) | 310 | 104 |
| Deferred | 20 | (18) | 3 |
| State taxes from continuing operations, net of federal benefit | (13) | 19 | 2 |
| Total from continuing operations: | $(114) | $346 | $157 |

(a) The benefit for income taxes on continuing operations in 2001 includes $71 million tax benefit from operations, $16 million tax benefit from adoption of SFAS No. 133 and $27 million tax benefit from adoption of SAB 101.

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**AGILENT TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The significant components of deferred tax assets, for which no valuation allowance was required, and deferred tax liabilities included on the consolidated balance sheet are:

| | October 31, | | | |
|---|---|---|---|---|
| | 2001 | | 2000 | |
| | Deferred Tax Assets | Deferred Tax Liabilities | Deferred Tax Assets | Deferred Tax Liabilities |
| | (In millions) | | | |
| Inventory | $229 | $ 9 | $157 | $ 7 |
| Property, plant and equipment | 62 | 6 | 71 | 5 |
| Warranty reserves | 30 | | 34 | |
| Retiree medical benefits | 54 | | 70 | |
| Other retirement benefits | | 44 | 15 | 54 |
| Employee benefits, other than retirement | 189 | 4 | 220 | 22 |
| Unremitted earnings of foreign subsidiaries | | 203 | | 160 |
| Other | 135 | 24 | 110 | 19 |
| | $699 | $290 | $677 | $267 |

The current portion of the net deferred tax asset is $494 million at October 31, 2001 and $304 million at October 31, 2000 and is included in other current assets.

Tax benefits of $11 million in 2001 and $16 million in 2000 associated with the exercise of employee stock options were recognized in stockholders equity.

The differences between the U.S. federal statutory income tax rate and Agilent s effective tax rate are:

| | Years Ended October 31, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| U.S. federal statutory income tax rate | 35.0% | 35.0% | 35.0% |
| State income taxes, net of federal benefit | 2.2 | 2.1 | 0.7 |
| Lower rates in other jurisdictions, net | 6.1 | (4.0) | (5.6) |
| Goodwill | (19.8) | 2.0 | 0.4 |
| Other, net | (4.5) | (1.1) | 3.5 |
| | 19.0% | 34.0% | 34.0% |

The domestic and foreign components of earnings from continuing operations before taxes are:

| | Years Ended October 31, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| U.S. continuing operations | $(487) | $ 66 | $ 84 |
| Non-U.S. continuing operations | (105) | 952 | 379 |
| | $(592) | $1,018 | $463 |

As a result of certain employment and capital investment actions undertaken by Agilent, income from manufacturing activities in certain countries is subject to reduced tax rates, and in some cases is wholly exempt from taxes, for tax years through 2010. The income tax benefits attributable to the tax status of these subsidiaries are estimated to be $37 million in 2001, $41 million in 2000, and $31 million in 1999.

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**AGILENT TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Agilent has not provided for U.S. federal income and foreign withholding taxes on $871 million of non-U.S. subsidiaries undistributed earnings as of October 31, 2001 because such earnings are intended to be reinvested indefinitely. Where excess cash has accumulated in Agilent s non-U.S. subsidiaries and it is advantageous for tax or foreign exchange reasons, subsidiary earnings are remitted.

### 12. Restructuring and Asset Impairment

In 2001, Agilent has taken steps to restructure its businesses as a result of the economic downturn that has impacted many of the markets that Agilent serves. Agilent has announced measures to cut discretionary costs, to reduce the size of its workforce and to reduce the number of sites that Agilent occupies. On August 20, 2001, Agilent announced a plan to reduce its workforce by approximately 4,000, or about nine percent, by the middle of next year. The total cost of this plan is estimated to be $175 million, of which $154 million was recognized this fiscal year. Of this amount, $79 million was included in cost of products and services, $17 million was included in research and development expenses and $58 million was included in selling, general and administrative expenses. As of October 31, 2001, $65 million in severance benefits had been paid and the remainder of the restructuring liability is expected to be utilized during 2002. In the second half of 2001, Agilent reduced its workforce by approximately 3,000 employees.

In June 2001 Agilent recognized a $74 million asset impairment charge with respect to its decision to cancel the development of a software system for Agilent s customer support activities. Agilent has entered into an agreement with HP to extend its use of their legacy customer support systems in place of the one that Agilent was developing. The decision to continue the use of HP s systems enabled Agilent to reduce costs at a critical time, minimize disruption to Agilent s customers and businesses and to focus on Agilent s customers needs.

In 1999, Agilent recognized an impairment loss of $51 million related to a building that was under construction to house manufacturing operations for eight-inch CMOS semiconductor wafers. At the time construction was stopped, only the building shell was complete; Agilent concluded that the highest fair value to be realized from this building was based on selling it for use as an office or general use facility.

### 13. Stock Based Compensation

*Employee stock purchase plans.* Prior to February 2, 2000, virtually all Agilent employees were able to contribute up to ten percent of their base compensation to the quarterly purchase of HP s common stock under the Hewlett-Packard Stock Purchase Plan (the HP Plan ). Under the provisions of the HP Plan, employee contributions to purchase shares were partially matched with shares contributed by HP. These matching shares generally vested over two years. After February 2, 2000, Agilent implemented the Agilent Technologies, Inc. Employee Stock Purchase Plan (the Legacy Plan ) that was similar to the HP Plan and allowed eligible employees to contribute up to ten percent of their base compensation to the purchase of Agilent common stock. Under the provisions of the Legacy Plan, employee contributions were partially matched with shares contributed by Agilent. These matching shares also generally vested over two years. On June 2, 2000, all unvested matching shares of HP stock held by our employees were forfeited and replaced by Agilent common stock of equivalent value. Compensation expense for the matching provision for both the HP Plan and the Legacy Plan was measured using the fair value of shares on the date of purchase by HP for the HP Plan and by Agilent for the Legacy Plan and was recognized by Agilent over the two-year vesting period. Compensation expense under both plans was $28 million in 2001, $34 million in 2000 and $39 million in 1999. The amount in 1999 was allocated from HP. At October 31, 2001, 9,802,100

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**AGILENT TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

shares of Agilent common stock had been authorized for issuance under the Legacy Plan and 3,344,371 of these shares had been issued.

Effective October 31, 2000, purchases and contributions under the Legacy Plan ceased. All unvested matching shares under the Legacy Plan will maintain their original vesting terms based on the employee s continued employment with Agilent. Vesting of these matching shares will be completed no later than October 31, 2002.

Effective November 1, 2000, Agilent adopted a new plan, the Agilent Technologies, Inc. Employee Stock Purchase Plan (the Agilent 423(b) Plan ). Under the provisions of the Agilent 423(b) Plan, eligible employees may contribute up to 10 percent of their base compensation to purchase shares of Agilent common stock at 85 percent of the lower of the fair market value at the entry date or purchase date as defined by the Agilent 423(b) Plan. As of October 31, 2001, 35,000,000 shares of Agilent common stock were authorized for issuance under the Agilent 423(b) Plan and 1,828,674 of these shares have been issued.

*Incentive compensation plans.* Prior to November 1999, certain of Agilent s employees participated in HP s stock-based incentive compensation plans under which they received stock options and other equity based awards. On September 17, 1999, Agilent adopted the Agilent Technologies, Inc. 1999 Stock Plan (the Agilent stock plan ) and subsequently reserved 67,800,000 shares of Agilent common stock for issuance under the plan. Stock options, stock appreciation rights, stock awards and cash awards may be granted under the Agilent stock plan. Options granted under the Agilent stock plan may be either incentive stock options, as defined in section 422 of the Internal Revenue Code, or non-statutory. Options generally vest at a rate of 25 percent per year over a period of four years from the date of grant. The exercise price for incentive stock options may not be less than 100 percent of the fair market value of the underlying Agilent stock on the date the stock award is granted.

At October 31, 2001, shares registered and available for option and restricted stock grants were 19,918,011. In February 2001, Agilent s shareholders approved an additional 45,000,000 shares to be available for option and restricted stock grants. The stock based compensation expense related to Agilent employees discounted options, stock appreciation rights and restricted stock was $8 million in 2001, $24 million in 2000, and was not material in 1999. The amount for 1999 was allocated from HP.

Effective June 2000, a majority of the HP awards held by Agilent employees were converted to Agilent awards of equivalent value. The conversion of HP options into Agilent options was done in such a manner that (1) the aggregate intrinsic value of the options immediately before and after the exchange is the same, (2) the ratio of the exercise price per option to the market value per option is not reduced, and (3) the vesting provisions and options period of the replacement Agilent options are the same as the original vesting terms and option period of the HP options.

**AGILENT TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes option activity for the years ended October 31, 2001 and 2000:

| | Shares | Weighted-Average Exercise Price |
|---|---|---|
| | (000) | |
| Outstanding options as of November 1, 1999 | | $ |
| Converted from HP | 17,667 | 31 |
| Granted | 30,202 | 59 |
| Exercised | (645) | 23 |
| Cancelled | (1,333) | 59 |
| Outstanding as of October 31, 2000 | 45,891 | $ 48 |
| Granted | 20,758 | 40 |
| Exercised | (1,114) | 20 |
| Cancelled | (1,879) | 72 |
| Outstanding as of October 31, 2001 | 63,656 | $ 46 |
| Options exercisable as of October 31, 2000 | 10,914 | $ 26 |
| Fair market value of options granted and converted during fiscal 2000 | | $ 48 |
| Options exercisable as of October 31, 2001 | 25,196 | $ 40 |
| Fair market value of options granted during fiscal 2001 | | $ 45 |

The following table summarizes information about all options outstanding at October 31, 2001:

| | Options Exercisable | | | Options Outstanding | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding (000) | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Number Exercisable (000) | Weighted-Average Exercise Price |
| $0 - 25 | 5,824 | 5.6 years | $ 14 | 4,365 | $ 12 |
| $26 - 50 | 40,032 | 9.1 years | 37 | 15,593 | 36 |
| $51 - 75 | 4,342 | 9.9 years | 61 | 1,065 | 62 |
| $76 - 100 | 13,182 | 9.4 years | 78 | 4,069 | 77 |
| $101 and over | 276 | 9.4 years | 119 | 104 | 119 |
| | 63,656 | | $ 46 | 25,196 | $ 40 |

*Pro forma information.* Agilent has elected to follow the accounting provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, for stock-based compensation granted to Agilent employees. Accordingly, compensation expense is recognized only when options are granted with a discounted exercise price. Any compensation expense is recognized ratably over the associated service period, which is generally the option vesting term.

Pro forma net earnings and net earnings per share information, as required by SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123), has been determined as if Agilent had accounted for all employee stock options granted, including shares under the Agilent 423(b) Plan to Agilent employees under SFAS No. 123 s fair value method. The fair value of these options was

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**AGILENT TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

estimated at grant date using a Black-Scholes option pricing model with the following weighted-average assumptions:

| | 2001 | 2000 | 1999(1) |
|---|---|---|---|
| Risk-free interest rate for options | 4.25% | 5.75% | 5.53% |
| Risk-free interest rate for the Agilent 423(b) Plan | 3.68-6.04% | | |
| Dividend yield | 0% | 0% | 1.00% |
| Volatility | 77% | 67% | 30% |
| Expected option life | 5.5 years | 7 years | 7 years |
| Expected life for the Agilent 423(b) Plan | 6 months-2 years | | |

(1) Assumptions for HP Options for the years 1999.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the four-year average vesting period of the options. The pro forma effect of recognizing compensation expense in accordance with SFAS No. 123 would have been to reduce Agilent s reported net earnings by $503 million in 2001 and by $281 million in 2000 and $38 million in 1999. Had compensation expense been recorded by Agilent in accordance with SFAS No. 123, the effect would have been to reduce basic net earnings per share by $1.10 and $0.63 in 2001 and 2000, respectively, and diluted net earnings per share by $1.10 and $0.62 in 2001 and 2000, respectively. In comparison, the effect would have been to reduce both basic and diluted net earnings per share by $0.10 in 1999. These pro forma amounts include amortized fair values attributable to options granted after October 31, 1995 only, and therefore are not representative of future pro forma amounts. These amounts were calculated using all options granted to employees across all segments of Agilent s business operations.

**14. Retirement Plans and Postretirement Benefits**

*General.* Substantially all of Agilent s employees are covered under various Agilent defined benefit and defined contribution plans. Additionally, Agilent sponsors postretirement health care benefits and a death benefit under the Survivor Protection Plan to U.S. employees.

*Sale of healthcare solutions business.* In the United States, employees of the healthcare solutions business ( HSG employees ) were offered a choice of terminating and remaining in the Agilent Retirement Plan or terminating and taking a distribution from the Agilent Retirement Plan. In the funded status table below, amounts relating to settlements of HSG employees benefit obligations are treated as regular plan payments. Additionally, eligible HSG employees (i.e. those who qualified for retirement on August 1, 2001) were offered an opportunity to elect to receive benefits under the Agilent Continued Group Medical and SeniorMed Program. Generally, outside the United States, subject to local statutory or other practical limitations, HSG employees Projected Benefit Obligations calculated in accordance with the Asset Purchase Agreement were transferred to Philips along with an equal amount of assets. Amounts reported in this footnote reflect Agilent s continuing operations excluding the healthcare solutions business, except where noted.

*Spin-off from HP.* On or before June 2, 2000, Agilent assumed responsibility for pension, deferred profit-sharing, 401(k) and other post retirement benefits from HP for current and former employees whose last work assignment prior to the distribution date was with Agilent. These current and former employees are collectively referred to as Agilent Employees. In the U.S., the Hewlett-Packard Company Retirement Plan and Deferred Profit-Sharing Plan Master Trust, was converted to the Group Trust for the Hewlett-Packard Company Deferred Profit-Sharing Plan and Retirement Plan and the Agilent Technologies, Inc. Deferred Profit-Sharing Plan and Retirement Plan

**AGILENT TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(the Group Trust ) and a pro rata share of the assets of the Group Trust were assigned to the Agilent Retirement Plan Trust and the Agilent Deferred Profit-Sharing Trust. Outside the U.S., generally, a pro rata share of the HP pension assets, if any, were transferred or otherwise assigned to the Agilent entity in accordance with local law or practice. The pro rata share was in the same proportion as the projected benefit obligation for Agilent Employees was to the total projected benefit obligation of HP and Agilent combined. For all the periods presented, the consolidated financial statements include the trust assets, liabilities and expenses that were assigned to Agilent.

*Pension and deferred profit-sharing plans.* Worldwide pension and deferred profit-sharing costs included in earnings from continuing operations were $106 million in 2001, $69 million in 2000 and $111 million in 1999. The 1999 amount was an allocation from HP.

U.S. employees who meet eligibility criteria are provided benefits under Agilent s Retirement Plan ( Retirement Plan ). Defined benefits are generally based on an employee s average pay during the final five years of employment and length of service. For eligible service through October 31, 1993, the benefit payable under the defined benefit plan is reduced by any amounts due to the eligible employee under Agilent s fixed and frozen defined contribution deferred profit-sharing plan ( DPSP ), which was closed to new participants in November 1993.

The combined status of the Retirement Plan and DPSP for U.S. Agilent Employees follows.

| | October 31, | |
|---|---|---|
| | 2001 | 2000 |
| | (In millions) | |
| Fair value of plan assets | $1,717 | $2,379 |
| Retirement benefit obligation | $1,968 | $2,309 |

Eligible employees outside the U.S. generally receive retirement benefits under various retirement plans based upon factors such as years of service and employee compensation levels. Eligibility is generally determined in accordance with local statutory requirements.

*Postretirement benefit plans.* In addition to receiving pension benefits, eligible Agilent Employees may participate in Agilent s Continued Group Medical and SeniorMed Program that provides benefits to U.S. retired employees. Substantially all of Agilent s current U.S. employees could become eligible for these benefits, and the existing benefit obligation relates primarily to those employees. Once participating in the medical plan, retirees may choose from managed-care and indemnity options, with their contributions dependent on options chosen and length of service.

*401(k) defined contribution plan.* Agilent s U.S. eligible employees may participate in the Agilent Technologies, Inc. 401(k) Plan (the Agilent Savings Accumulation Plan or ASAP ), which was established as a supplemental retirement program. Assets and liabilities related to Agilent employees were transferred to Agilent by HP effective June 2, 2000. Beginning February 1, 1998, enrollment in TAXCAP/ ASAP became automatic for employees who meet eligibility requirements unless they decline participation. Under the ASAP program, Agilent matches contributions by employees up to a maximum of 4 percent of an employee s annual compensation. Prior to November 1, 2000, the maximum combined contribution to the Legacy Plan and ASAP was 25 percent of an employee s annual eligible compensation subject to certain regulatory and plan limitations. Beginning November 1, 2000, the maximum contribution to the Agilent 423(b) Plan and ASAP was 10 percent and 20 percent, respectively, of an employee s annual eligible compensation subject to certain regulatory and plan limitations. Agilent s expense included in earnings from continuing operations related to ASAP was $53 million in 2001, $48 million in 2000 and $44 million in 1999. The 1999 amount was an allocation from HP.

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**AGILENT TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Components of net periodic cost.* For the years ended October 31, 2001, 2000 and 1999, net pension and postretirement benefit costs for Agilent are comprised of:

| | Pensions | | | | | | U.S. Postretirement Benefit Plans | | |
|---|---|---|---|---|---|---|---|---|---|
| | U.S. Plans | | | Non-U.S. Plans | | | | | |
| | 2001 | 2000 | 1999 | 2001 | 2000 | 1999 | 2001 | 2000 | 1999 |
| | (In millions) | | | | | | | | |
| Service cost benefits earned during the period | $ 87 | $ 74 | $ 72 | $ 44 | $ 51 | $ 54 | $ 13 | $ 10 | $ 10 |
| Interest cost on benefit obligation | 41 | 35 | 25 | 42 | 39 | 38 | 24 | 18 | 14 |
| Expected return on plan assets | (56) | (51) | (30) | (59) | (58) | (57) | (36) | (33) | (17) |
| Amortization and deferrals: | | | | | | | | | |
| Actuarial (gain) loss | (10) | (12) | 3 | 6 | (1) | (4) | (18) | (10) | (6) |
| Transition obligation (asset) | | (3) | (3) | | | | | | |
| Prior service cost | 1 | 2 | 2 | 1 | 1 | 1 | | (4) | (3) |
| Net plan costs | $ 63 | $ 45 | $ 69 | $ 34 | $ 32 | $ 32 | $(17) | $(19) | $ (2) |
| Curtailment gain | (28) | | | (4) | | | (7) | | |
| Settlement loss | 1 | | | 21 | | | | | |
| Other | | | | 7 | | | | | |
| Total net plan costs | $ 36 | $ 45 | $ 69 | $ 58 | $ 32 | $ 32 | $(24) | $(19) | $ (2) |
| Distribution of net plan costs: | | | | | | | | | |
| Continuing operations | $ 32 | $ 40 | $ 62 | $ 55 | $ 29 | $ 29 | $(23) | $(17) | $ (2) |
| Discontinued operations | 4 | 5 | 7 | 3 | 3 | 3 | (1) | (2) | |
| Total net plan costs | $ 36 | $ 45 | $ 69 | $ 58 | $ 32 | $ 32 | $(24) | $(19) | $ (2) |

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**AGILENT TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Funded status.* As of October 31, 2001 and 2000, the funded status of the defined benefit and postretirement benefit plans is:

| | U.S. Defined Benefit Plans | | Non-U.S. Defined Benefit Plans | | U.S. Postretirement Benefit Plans | |
|---|---|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 |
| | | | (In millions) | | | |
| Change in fair value of plan assets: | | | | | | |
| Fair value beginning of year | $ 655 | $ 477 | $ 807 | $ 706 | $ 426 | $ 306 |
| Actual return on plan assets | (164) | 172 | (64) | 99 | (108) | 110 |
| Employer contributions | 1 | 13 | 60 | 84 | | |
| Participants contributions | | | 8 | 7 | 4 | 5 |
| Change in population estimate | | 16 | | 8 | | 15 |
| Benefits paid | (41) | (23) | (10) | (10) | (11) | (10) |
| Currency impact | | | (9) | (87) | | |
| Divestiture of Healthcare Solutions Business | | | (60) | | | |
| Other | | | 14 | | | |
| Fair value end of year | $ 451 | $ 655 | $ 746 | $ 807 | $ 311 | $ 426 |
| Change in benefit obligation: | | | | | | |
| Benefit obligation beginning of year | 585 | 434 | 821 | 773 | 317 | 238 |
| Reclassification of plans | | | | | | 14 |
| Service cost | 87 | 74 | 44 | 51 | 13 | 10 |
| Interest cost | 41 | 35 | 42 | 39 | 24 | 18 |
| Participants contributions | | | 8 | | 4 | 5 |
| Plan amendment | | | (17) | | | 59 |
| Change in population estimate | | 12 | | 7 | | 5 |
| Actuarial (gain) loss | 73 | 53 | 4 | 48 | 40 | (22) |
| Benefits paid | (41) | (23) | (13) | (10) | (11) | (10) |
| Currency impact | | | (12) | (87) | | |
| Divestiture of Healthcare Solutions Business | (43) | | (63) | | (7) | |
| Other | | | 7 | | | |
| Benefit obligation end of year | $ 702 | $ 585 | $ 821 | $ 821 | $ 380 | $ 317 |
| Plan assets in excess of (less than) benefit obligation | (251) | 70 | (75) | (14) | (69) | 109 |
| Unrecognized net actuarial (gain) loss | 129 | (160) | 191 | 102 | (102) | (304) |
| Unrecognized prior service cost (benefit) related to plan changes | 8 | 10 | (8) | 8 | 3 | 3 |
| Unrecognized net transition asset* | | | (1) | (1) | | |
| Net prepaid (accrued) costs | $ (114) | $ (80) | $ 107 | $ 95 | $ (168) | $ (192) |

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**AGILENT TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| | U.S. Defined Benefit Plans | | Non-U.S. Defined Benefit Plans | | U.S. Postretirement Benefit Plans | |
|---|---|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 |
| | (In millions) | | | | | |
| Amounts recognized in the consolidated balance sheet consist of: | | | | | | |
| Prepaid (accrued) defined benefit plan costs | (114) | (80) | 107 | 86 | | |
| Prepaid defined benefit plan costs allocated to discontinued operations | | | | 9 | | |
| (Accrued) post retirement benefits costs | | | | | (168) | (192) |
| Net prepaid (accrued) costs** | $(114) | $(80) | $107 | $ 95 | $(168) | $(192) |

* Amortized over periods ranging from 10 to 22 years.

** The asset and pension obligation amounts that will be transferred to Philips for the sale of Agilent s healthcare solutions business are subject to final adjustment. The final amounts to be transferred to Philips are not expected to be materially different from the estimated amounts.

Plan assets consist primarily of listed stocks and bonds.

Defined benefit plans whose benefit obligations are in excess of the fair value of the plan assets are:

| | U.S. Defined Benefit Plans October 31, | | Non-U.S. Defined Benefit Plans October 31, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| | (In millions) | | (In millions) | |
| Aggregate benefit obligation | $(702) | $(50) | $(579) | $(541) |
| Aggregate fair value of plan assets | $ 451 | | $ 483 | $ 506 |

The non-current portion of the liability for retirement and post retirement benefits plans is included in other liabilities and totaled $169 million at October 31, 2001 and $221 million at October 31, 2000.

**AGILENT TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Assumptions.* The assumptions used to measure the benefit obligations and to compute the expected long-term return on assets for Agilent s defined benefit and postretirement benefit plans are:

| | Years Ended October 31, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| U.S. defined benefit plans: | | | |
| Discount rate | 7.0% | 7.5% | 7.25% |
| Average increase in compensation levels | 5.5% | 6.0% | 5.0% |
| Expected long-term return on assets | 9.0% | 9.0% | 9.0% |
| Non-U.S. defined benefit plans: | | | |
| Discount rate | 2.5 - 6.5% | 3.0 - 6.5% | 3.3 - 6.0% |
| Average increase in compensation levels | 3.5 - 5.5% | 3.5 - 5.5% | 3.5 - 5.3% |
| Expected long-term return on assets | 6.5 - 8.5% | 6.1 - 8.5% | 6.1 - 8.5% |
| U.S. postretirement benefits plans: | | | |
| Discount rate | 7.0% | 7.5% | 7.25% |
| Expected long-term return on assets | 9.0% | 9.0% | 9.0% |
| Current medical cost trend rate | 7.75% | 7.75% | 8.2% |
| Ultimate medical cost trend rate | 5.5% | 5.5% | 5.5% |
| Medical cost trend rate decreases to ultimate rate in year | 2007 | 2007 | 2007 |

Assumed health care trend rates could have a significant effect on the amounts reported for health care plans. A one-percentage point change in the assumed health care cost trend rates for the year ended October 31, 2001 would have the following effects:

| | 1 Percentage Point Increase | 1 Percentage Point Decrease |
|---|---|---|
| | (In millions) | |
| Effect on total service and interest cost components | $ 9 | $ (7) |
| Effect on postretirement benefit obligations | $ 69 | $(54) |

## 15. Notes Payable and Short-term Borrowings

*Notes payable and short-term borrowings.* Notes payable and short-term borrowings as of October 31, 2001 consisted of notes payable to banks of $4 million and the current portion of capitalized leases of $2 million dollars. The average interest rate for the notes payable to banks was 9.0 percent. For 2000, notes payable and short-term borrowings consisted of notes payable to banks of $106 million and other short-term debt of $4 million dollars.

*Lines of Credit.* Agilent has two revolving credit facilities with no outstanding balances at the end of 2001. Those facilities are a $250 million facility that terminates on November 5, 2005 and a 364-day $250 million facility that terminated on November 2, 2001. In November 2001, Agilent extended the latter facility to November 1, 2002. See Note 19 Subsequent Events for changes to debt arrangements after October 31, 2001. In addition to these committed facilities, Agilent has access to uncommitted credit lines through its banking partners.

**AGILENT TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16. Commitments**

*Operating Lease Commitments:* Agilent leases certain real and personal property from unrelated third parties under non-cancelable operating leases. Future minimum lease payments under leases at October 31, 2001 were $98 million for 2002, $86 million for 2003, $63 million for 2004, $52 million for 2005, $40 million for 2006 and $105 million thereafter. Certain leases require Agilent to pay property taxes, insurance and routine maintenance, and include escalation clauses. Rent expense was $100 million in 2001, $69 million in 2000 and $102 million in 1999.

**17. Contingencies**

Agilent is involved in lawsuits, claims, investigations and proceedings, including patent, commercial and environmental matters that arise in the ordinary course of business. There are no such matters pending that Agilent expects to be material in relation to its business, consolidated financial condition, results of operations or cash flows.

**18. Segment Information**

*Description of segments.* Agilent is a diversified technology company that provides enabling solutions to customers in high growth markets within the communications, electronics, and life science industries. The results of our healthcare solutions business, previously reported as a segment, are disclosed in Note 3 Discontinued Operations above.

Agilent organizes its business operations into three major groups test and measurement, semiconductor products, and chemical analysis, each of which comprises a reportable segment. The segments were determined based primarily on how management views and evaluates Agilent s operations. Other factors, including customer base, homogeneity of products, technology and delivery channels, were also considered in determining Agilent s reportable segments.

Agilent includes the following businesses:

- test and measurement, which provides test instruments, standard and customized test, measurement and monitoring instruments and systems for the design, manufacture and support of electronics and communications devices, and software for the design of high-frequency electronic and communications devices and networks. The test and measurement business includes operating segments that have been aggregated based on the similarity of the nature of their products and services, their production processes, their class of customers, their distribution methods and their economic characteristics;

- semiconductor products, which provides fiber optic communications devices and assemblies, components and integrated circuits for wireless, networking, computing and printing applications, image sensors and general-purpose opto-electronic components; and

- chemical analysis, which provides analytical instruments, systems and services for chromatography, spectroscopy, bio-instrumentation and consumables.

*Segment revenue and profit.* The accounting policies used to derive reportable segment results are generally the same as those described in Note 2, Summary of Significant Accounting Policies. In 2000 and 1999, internal revenue and earnings from continuing operations include transactions between segments that are intended to reflect an arm s length transfer at the best price available for comparable external customers.

A significant portion of the segments expenses arise from shared services and infrastructure that Agilent (HP for 1999) has historically provided to the segments in order to realize economies of

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**AGILENT TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

scale and to efficiently use resources. These expenses include costs of centralized research and development, legal, accounting, employee benefits, real estate, insurance services, information technology services, treasury and other Agilent corporate (HP in 1999) infrastructure costs. These expenses are allocated to the segments and the allocations have been determined on a basis that Agilent considered to be a reasonable reflection of the utilization of services provided to or benefits received by the segments. A different result could be arrived at for any segment if costs were specifically identified to each segment.

In 2001, Agilent s management changed its measure of the profitability of each of the business segments to exclude goodwill and other intangible amortization and certain non-recurring items included within Corporate and Other. Agilent also changed its definition of segment assets to include all assets, including an allocation of assets previously held at corporate. Information provided in respect of prior periods has been restated to reflect these changes.

The following tables reflect the results of Agilent s reportable segments under Agilent s management reporting system. These results are not necessarily a depiction that is in conformity with accounting principles generally accepted in the United States of America. The performance of each segment is measured based on several metrics, including (loss) 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 Measurement | Semiconductor Products | Chemical Analysis | Total Segments |
|---|---|---|---|---|
| | | (In millions) | | |
| **Year Ended October 31, 2001:** | | | | |
| Total net revenue | $5,432 | $1,850 | $1,114 | $8,396 |
| Depreciation expense | $ 198 | $ 149 | $ 33 | $ 380 |
| (Loss) earnings from continuing operations | $ (141) | $ (183) | $ 118 | $ (206) |
| **Year Ended October 31, 2000:** | | | | |
| External revenue | $6,108 | $2,213 | $1,040 | $9,361 |
| Internal revenue | | 51 | | 51 |
| Total net revenue | $6,108 | $2,264 | $1,040 | $9,412 |
| Depreciation expense | $ 184 | $ 171 | $ 34 | $ 389 |
| Earnings from continuing operations | $ 706 | $ 248 | $ 41 | $ 995 |
| **Year Ended October 31, 1999:** | | | | |
| External revenue | $4,082 | $1,722 | $1,026 | $6,830 |
| Internal revenue | 4 | 40 | | 44 |
| Total net revenue | $4,086 | $1,762 | $1,026 | $6,874 |
| Depreciation expense | $ 202 | $ 177 | $ 38 | $ 417 |
| Earnings from continuing operations | $ 210 | $ 166 | $ 120 | $ 496 |

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**AGILENT TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Reconciliation to Agilent, as Reported**

| | Years Ended October 31, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| | (In millions) | | |
| Net revenue from continuing operations: | | | |
| Total reportable segments | $8,396 | $9,412 | $6,874 |
| Elimination of internal revenue | | (51) | (44) |
| Total net revenue, as reported | $8,396 | $9,361 | $6,830 |
| (Loss) earnings from continuing operations before taxes: | | | |
| Total reportable segments earnings from operations | $ (206) | $ 995 | $ 496 |
| Total amortization of goodwill and other non-operational one-time items | (572) | (71) | (74) |
| Other income (expense), net | 301 | 94 | 41 |
| Total (loss) earnings from continuing operations before taxes, as reported | $ (477) | $1,018 | $ 463 |
| Depreciation and amortization expense: | | | |
| Total reportable segments depreciation | $ 380 | $ 389 | $ 417 |
| Corporate amortization expense | 354 | 71 | 23 |
| Total depreciation and amortization expense, as reported | $ 734 | $ 460 | $ 440 |

*Major Customers.* No customer represented 10 percent or more of Agilent s total net revenue in 2001 or 2000. In 1999 HP accounted for approximately 12 percent of Agilent s total net revenue.

The equity investment totals disclosed for each segment represent equity method investments directly managed by the segment.

| | Test and Measurement | Semiconductor Products | Chemical Analysis | Total Segments |
|---|---|---|---|---|
| | (In millions) | | | |
| **As of October 31, 2001:** | | | | |
| Assets | $5,310 | $1,714 | $962 | $7,986 |
| Capital expenditures | 495 | 304 | 82 | 881 |
| Investment in equity-method investees | 21 | 14 | 0 | 35 |
| **As of October 31, 2000:** | | | | |
| Assets | $4,924 | $1,904 | $804 | $7,632 |
| Capital expenditures | 553 | 203 | 47 | 803 |
| Investment in equity-method investees | 16 | 46 | 20 | 82 |
| **As of October 31, 1999:** | | | | |
| Assets | $2,906 | $1,098 | $601 | $4,605 |
| Capital expenditures | 281 | 119 | 29 | 429 |

| | | | | |
|---|---|---|---|---|
| Investment in equity-method investees | 13 | 15 | 12 | 40 |

Total segment assets at October 31, 2000 excluded $698 million of assets allocated to the healthcare solutions business which were determined under Agilent s management reporting system. Net investment in discontinued operations at October 31, 2000 of $597 million was determined using accounting principles generally accepted in the United States of America.

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**AGILENT TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Geographic Information**

| | United States | Japan | Rest of the World | Total |
|---|---|---|---|---|
| | | (In millions) | | |
| Net revenue (based on location of customer): | | | | |
| Year ended October 31, 2001 | $3,373 | $1,083 | $3,940 | $8,396 |
| Year ended October 31, 2000 | 3,992 | 1,032 | 4,337 | 9,361 |
| Year ended October 31, 1999 | 2,912 | 759 | 3,159 | 6,830 |
| Long-lived assets (all non-current assets): | | | | |
| October 31, 2001 | $1,796 | $ 539 | $ 852 | $3,187 |
| October 31, 2000 | 1,316 | 356 | 922 | 2,594 |
| October 31, 1999 | 878 | 237 | 614 | 1,729 |

**19. Subsequent Events**

On November 15, 2001, Agilent announced that it would eliminate an additional 4,000 jobs, which is approximately 10 percent of its workforce by the middle of 2002.

On November 19, 2001, Agilent s revolving credit agreements were amended. Among other changes, the financial covenants were changed to limit the amount of debt that the company can have relative to the sum of shareholders equity and debt, to limit the amount of cash used for future acquisitions and to require certain minimum amounts of earnings before interest, tax, depreciation and amortization on a rolling four-quarter basis.

On November 27, 2001, Agilent announced the closing of a private offering of $1.15 billion aggregate principal amount of 3 percent senior convertible debentures due 2021. Agilent intends to use the net proceeds of the offering for working capital and general corporate purposes and to fund potential acquisitions and restructuring costs. The debentures are convertible into Agilent s common stock at a conversion price of $32.22 per share. Consequently Agilent s future diluted earnings per share may be reduced. The debentures are redeemable at Agilent s option beginning in December 2004, and holders of the debentures have the ability to require Agilent to repurchase the debentures, in whole or in part, on specified dates in 2006, 2011 and 2016.

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## QUARTERLY SUMMARY

| | Three Months Ended | | | |
|---|---|---|---|---|
| | January 31 | April 30 | July 31 | October 31 |
| | (In millions, except per share amounts) (Unaudited) | | | |
| **2001** | | | | |
| Net revenue | | | | |
| As reported | $2,548 | $2,382 | $1,806 | $1,606 |
| Impact of SAB 101 adjustment | 17 | 24 | 13 | N/A |
| | $2,565 | $2,406 | $1,819 | $1,606 |
| Total costs | | | | |
| As reported | $1,277 | $1,406 | $1,146 | $1,317 |
| Impact of SAB 101 adjustment | 7 | 11 | 2 | N/A |
| | $1,284 | $1,417 | $1,148 | $1,317 |
| Earnings (loss) from operations | | | | |
| As reported | $ 284 | $ (62) | $ (342) | $ (692) |
| Impact of SAB 101 adjustment | 10 | 13 | 11 | N/A |
| | $ 294 | $ (49) | $ (331) | $ (692) |
| Earnings (loss) from continuing operations | | | | |
| As reported | $ 181 | $ 83 | $ (214) | $ (449) |
| Impact of SAB 101 adjustment | (7) | 6 | (6) | N/A |
| | $ 174 | $ 89 | $ (220) | $ (449) |
| Net earnings (loss) from discontinued operations | (2) | 13 | (5) | |
| Gain from sale of discontinued operations, net of taxes | | | | 646 |
| (Loss) earnings from operations before cumulative effect of changes in accounting principles | 172 | 102 | (225) | 197 |
| Cumulative effect of adopting SFAS No 133, net of taxes | (25) | | | |
| Cumulative effect of adopting SAB 101, net of taxes | (47) | | | |
| Net earnings (loss) | $ 100 | $ 102 | $ (225) | $ 197 |
| Net earnings per share Basic: | | | | |
| Earnings (loss) from continuing operations | | | | |
| As reported | $ 0.39 | $ 0.18 | $ (0.47) | $ (0.98) |
| Impact of SAB 101 adjustment | (0.01) | 0.01 | (0.01) | N/A |
| | 0.38 | 0.19 | (0.48) | (0.98) |
| Net earnings (loss) from discontinued operations | | 0.03 | (0.01) | |
| Gain from sale of discontinued operations, net of taxes | | | | 1.41 |

| | | | | |
|---|---|---|---|---|
| Cumulative effect of adopting SFAS No. 133, net of taxes | (0.06) | | | |
| Cumulative effect of adopting SAB 101, net of taxes | (0.10) | | | |
| Net earnings (loss) | $ 0.22 | $ 0.22 | $ (0.49) | $ 0.43 |

| | Three Months Ended | | | |
|---|---|---|---|---|
| | January 31 | April 30 | July 31 | October 31 |
| | (In millions, except per share amounts) (Unaudited) | | | |
| Net earnings per share Diluted: | | | | |
| Earnings (loss) from continuing operations | | | | |
| As reported | $ 0.38 | $ 0.18 | $ (0.47) | $ (0.98) |
| Impact of SAB 101 adjustment | (0.01) | 0.01 | (0.01) | N/A |
| | 0.37 | 0.19 | (0.48) | (0.98) |
| Net earnings (loss) from discontinued operations | | 0.03 | (0.01) | |
| Gain from sale of discontinued operations, net of taxes | | | | 1.41 |
| Cumulative effect of adopting SFAS No. 133, net of taxes | (0.06) | | | |
| Cumulative effect of adopting SAB 101, net of taxes | (0.10) | | | |
| Net earnings (loss) | $ 0.21 | $ 0.22 | $ (0.49) | $ 0.43 |
| Average shares used in computing net earnings per share: | | | | |
| Basic | 455 | 456 | 459 | 460 |
| Diluted | 466 | 461 | 459 | 460 |
| Range of common stock prices on NYSE | $ 38.06-68.00 | $ 25.00-55.00 | $ 26.20-41.18 | $ 18.00-32.70 |
| **2000** | | | | |
| Net revenue | $ 1,851 | $ 2,142 | $ 2,351 | $ 3,017 |
| Total costs | $ 955 | $ 1,069 | $ 1,189 | $ 1,522 |
| Earnings from operations | $ 104 | $ 184 | $ 189 | $ 447 |
| Earnings from continuing operations | $ 88 | $ 140 | $ 143 | $ 301 |
| Net earnings from discontinued operations | $ 43 | $ 26 | $ 12 | $ 4 |
| Net earnings | $ 131 | $ 166 | $ 155 | $ 305 |
| Net earnings per share Basic: | | | | |
| Earnings from continuing operations | $ 0.20 | $ 0.31 | $ 0.31 | $ 0.66 |
| Net earnings from discontinued operations | $ 0.10 | $ 0.06 | $ 0.03 | $ 0.01 |
| Net earnings | $ 0.30 | $ 0.37 | $ 0.34 | $ 0.67 |
| Net earnings per share Diluted: | | | | |
| Earnings from continuing operations | $ 0.20 | $ 0.31 | $ 0.31 | $ 0.65 |
| Net earnings from discontinued operations | $ 0.10 | $ 0.05 | $ 0.03 | $ 0.01 |
| Net earnings | $ 0.30 | $ 0.36 | $ 0.34 | $ 0.66 |
| Average shares used in computing net earnings per share: | | | | |

| | | | | |
|---|---|---|---|---|
| Basic | 439 | 452 | 453 | 454 |
| Diluted | 440 | 457 | 461 | 462 |
| Range of common stock prices on NYSE | $40.00-79.25 | $71.00-159.00 | $40.75-100.75 | $38.80-63.00 |

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By /s/ MARIE OH HUBER

Marie Oh Huber
*Vice President, Assistant General Counsel*
*and Assistant Secretary*

Date: February 1, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| * Edward W. Barnholt | President, Chief Executive Officer and Director (Principal Executive Officer) | 2/1/02 |
| Gerald Grinstein | Non-Executive Chairman of the Board of Directors | |
| * Adrian T. Dillon | Executive Vice President and Chief Financial Officer (Principal Financial Officer) | 2/1/02 |
| * Dorothy D. Hayes | Vice President and Controller (Principal Accounting Officer) | 2/1/02 |
| * James Cullen | Director | 2/1/02 |
| * Thomas E. Everhart | Director | 2/1/02 |
| * Robert J. Herbold | Director | 2/1/02 |
| * Walter B. Hewlett | Director | 2/1/02 |
| * | Director | 2/1/02 |

Heidi Kunz

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| Signature | Title | Date |
|---|---|---|
| * | Director | 2/1/02 |
| David M. Lawrence, M.D. | | |
| * | Director | 2/1/02 |
| A. Barry Rand | | |

*By: /s/ MARIE OH HUBER

Marie Oh Huber
Attorney-in-Fact

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**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 ( S-1 ). |
| 2.2 | General Assignment and Assumption Agreement between Hewlett-Packard and the Company. Incorporated by reference from Exhibit 2.2 of the Company s S-1. |
| 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 S-1. |
| 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 S-1. |
| 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 S-1. |
| 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 S-1. |
| 2.7 | Employee Matters Agreement between Hewlett-Packard and the Company. Incorporated by reference from Exhibit 2.7 of the Company s S-1. |
| 2.8 | Tax Sharing Agreement between Hewlett-Packard and the Company. Incorporated by reference from Exhibit 2.8 of the Company s S-1. |
| 2.9 | Master IT Service Level Agreement between Hewlett-Packard and the Company. Incorporated by reference from Exhibit 2.9 of the Company s S-1. |
| 2.10 | Real Estate Matters Agreement between Hewlett-Packard and the Company. Incorporated by reference from Exhibit 2.10 of the Company s S-1. |
| 2.11 | Environmental Matters Agreement between Hewlett-Packard and the Company. Incorporated by reference from Exhibit 2.11 of the Company s S-1. |
| 2.12 | Master Confidential Disclosure Agreement between Hewlett-Packard and the Company. Incorporated by reference from Exhibit 2.12 of the Company s S-1. |
| 2.13 | Indemnification and Insurance Matters Agreement between Hewlett-Packard and the Company. Incorporated by reference from Exhibit 2.13 of the Company s S-1. |
| 2.14 | Non U.S. Plan. Incorporated by reference from Exhibit 2.14 of the Company s S-1. |
| 2.15 | Agreement and Plan of Merger, dated as of November 24, 2000, by and among Agilent Technologies, Inc., Tahoe Acquisition Corp. and Objective Systems Integrators, Inc. Incorporated by reference from Exhibit 99.1(A) of the Schedule 13D filed by Agilent Technologies, Inc. on December 4, 2000. |
| 2.16 | Tender and Voting Agreement, dated as of November 24, 2000, by and among Agilent Technologies, Inc., Tahoe Acquisition Corp. and Objective Systems Integrators, Inc. Incorporated by reference from Exhibit 99.1(B) of the Schedule 13D filed by Agilent Technologies, Inc. on December 4, 2000. |
| 2.17 | Asset Purchase Agreement between the Company and Philips dated as of November 17, 2000. Incorporated by reference from Exhibit 2.17 of the Company s 10-Q filed on March 19, 2001. |
| 2.18 | Amendment and Supplemental Agreement dated as of August 1, 2001 between Agilent Technologies, Inc. and Koninklijke Philips Electronics N.V. Incorporated by reference from Exhibit 2.2 of the Company s Form 8-K filed August 15, 2001. |
| 2.19 | Master Service Level Agreement dated as of August 1, 2001 between Agilent Technologies, Inc. and Koninklijke Philips Electronics N.V. Incorporated by reference from Exhibit 2.3 of the Company s Form 8-K filed August 15, 2001. |
| 3.1 | Amended and Restated Certificate of Incorporation. Incorporated by reference from Exhibit 3.1 of the Company s S-1. |
| 3.2 | Bylaws. Incorporated by reference from Exhibit 3.2 of the Company s S-1. |
| 4.1 | Preferred Stock Rights Agreement between the Company and Harris Trust and Savings Bank dated as of May 12, 2000. Incorporated by reference from Exhibit 1 of the Company s Form 8-A, filed on May 17, 2000. |

| Exhibit Number | Description |
|---|---|
| 5-8 | Not applicable. |
| 9. | None. |
| 10.1 | Agilent Technologies, Inc. Employee Stock Purchase Plan. Incorporated by reference from Exhibit 10.1 of the Company s S-1.* |
| 10.2 | Agilent Technologies, Inc. 1999 Stock Plan. Incorporated by reference from Exhibit 10.2 of the Company s S-1.* |
| 10.3 | 1999 Non-Employee Director Stock Plan. Incorporated by reference from Exhibit 10.3 of the Company s S-1.* |
| 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 S-1. |
| 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 S-1.* |
| 10.6 | Agilent Technologies, Inc. Executive Deferred Compensation Plan. Incorporated by reference from Exhibit 10.6 of the Company s Form 10-K filed January 25, 2000.* |
| 10.7 | Agilent Technologies, Inc. Excess Benefit Retirement Plan.* Previously filed. |
| 10.8 | Five Year Credit Agreement dated as of November 5, 1999. Incorporated by reference from Exhibit 2.15 of the Company s S-1. |
| 10.9 | Amended and Restated 364-Day Credit Agreement dated November 3, 2000. Incorporated by reference from Exhibit (d)(11) of the Company s Form SC TO-T/ A as filed with the Commission on January 3, 2001. |
| 10.10 | Asset Purchase Agreement, dated September 29, 2000, between Agilent Technologies, Inc. and The CIT Group/ Equipment Financing, Inc. Incorporated by reference from Exhibit 10.10 of the Company s 10-Q filed on March 19, 2001. |
| 10.11 | Purchase and Sale Agreement dated February 1, 2001, between Agilent Technologies, Inc. and BEA Systems, Inc. Incorporated by reference from Exhibit 10.11 of the Company s Form 10-Q filed on June 16, 2001. |
| 10.12 | Agilent Technologies, Inc. Employee Stock Purchase Plan. Incorporated by reference from Exhibit 4.1 of the Company s Form S-8 filed September 29, 2000.* |
| 10.13 | Agilent Technologies, Inc. 1999 Stock Plan (restatement, effective September 17, 2001).* Previously filed. |
| 10.14 | Agilent Technologies, Inc. Deferred Compensation Plan (amended and restated as of November 1, 2001).* Previously filed. |
| 11.1 | See Note 7 in Notes to Condensed Consolidated Financial Statements on page 15. |
| 12-15. | Not applicable. |
| 16. | None. |
| 17. | Not applicable. |
| 18. | None. |
| 19-20. | Not applicable. |
| 21.1 | Subsidiaries of Agilent Technologies, Inc. as of October 31, 2001. Previously filed. |
| 22. | None. |
| 23.1 | Consent of Independent Accountants. |
| 24.1 | Powers of Attorney. Previously filed. |
| 25-26. | Not applicable. |
| 27-98. | Not applicable. |
| 99. | None. |

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