AGILENT TECHNOLOGIES INC
Form 10-K
December 20, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended October 31, 2012

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: 5301 Stevens Creek Blvd., Santa Clara, California 95051
Registrant's telephone number, including area code: (408) 345-8886
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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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.
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller

reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value of the registrant's common equity held by non-affiliates as of April 30, 2012, was approximately $13.621 billion. Shares of stock held by officers, directors and 5 percent or more stockholders 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.

As of December 1, 2012, there were 347,934,544 outstanding shares of common stock, par value $0.01 per share.

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 March 20, 2013, and to be filed pursuant to Regulation 14A within 120 days after registrant's fiscal year ended October 31, 2012 are incorporated by reference into Part III of this Report	III

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Forward-Looking Statements

This report contains forward looking statements including, without limitation, statements regarding trends, seasonality, cyclicality and growth in, and drivers of, the markets we sell into, our strategic direction, our future effective tax rate and tax valuation allowance, earnings from our foreign subsidiaries, remediation activities, new product and service introductions, the ability of our products to meet market needs, changes to our manufacturing processes, the use of contract manufacturers, the impact of local government regulations on our ability to pay vendors or conduct operations, our liquidity position, our ability to generate cash from operations, growth in our businesses, our investments, the potential impact of adopting new accounting pronouncements, our financial results, our purchase commitments, our contributions to our pension plans, the selection of discount rates and recognition of any gains or losses for our benefit plans, our cost-control activities, compliance with the rules and regulations of the U.S. Food and Drug Administration (“FDA”) and other regulatory agencies, the integration of our Dako acquisition and other transactions, our stock repurchase program, our declared dividends, our transition to lower-cost regions, and the existence of economic instability, that involve risks and uncertainties. Our actual results could differ materially from the results contemplated by these forward looking statements due to various factors, including those discussed in Item 1A and elsewhere in this Form 10-K.

PART I

Item 1. Business

Overview

Agilent Technologies, Inc. (“we”, “Agilent” or the “company”), incorporated in Delaware in May 1999, is the world's premier measurement company providing core bio-analytical and electronic measurement solutions to the life sciences, chemical analysis, diagnostics and genomics, communications and electronics industries.

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

Our life sciences business focuses on the pharmaceutical, biotech, academic and government, bio-agriculture and food safety industries. Our chemical analysis business focuses on the petrochemical, environmental, forensics and food safety industries. Our diagnostics and genomics business focuses on clinical markets, academic and government, pharmaceutical, biotechnology and contract research organization industries. Our electronic measurement business addresses the communications, electronics and other industries. In addition to our four businesses, we conduct centralized manufacturing and order fulfillment through Agilent Order Fulfillment ("AOF") as well as research through Agilent Technologies Laboratories (“Agilent Labs”). Each of our four businesses, AOF and Agilent Labs, is supported by our global infrastructure organization, which provides shared services in the areas of finance, information technology, legal, workplace services and human resources.

On June 21, 2012, we acquired Dako through the purchase of 100% of the share capital of Dako, a limited liability company incorporated under the laws of Denmark, under the share purchase agreement, dated May 16, 2012. Dako provides antibodies, reagents, scientific instruments and software primarily to customers in pathology laboratories. As a result of the acquisition, Dako has become a wholly-owned subsidiary of Agilent. The consideration paid was

approximately $2.143 billion, of which $1.4 billion was paid directly to the seller and $743 million was paid to satisfy the outstanding debt of Dako. Agilent funded the acquisition using our existing cash.

On May 14, 2010, we acquired Varian, Inc., a leading supplier of scientific instrumentation and associated consumables for life science and applied market applications, for a total cash purchase price of approximately $1.5 billion. Varian's products include analytical instruments, research products and related software, consumable products, accessories and services, as well as vacuum products and related services and accessories. The acquisition broadens Agilent's applications and solutions offerings in both of our chemical analysis and life sciences businesses. It expands Agilent's product portfolio into atomic and molecular spectroscopy; establishes a strong position in nuclear magnetic resonance, imaging and vacuum technologies; and strengthens our consumables portfolio. We financed the purchase price of Varian using the proceeds from our September 2009 offering of senior notes and other existing cash. Varian's cash acquired at completion of the acquisition was approximately $226 million.

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On May 1, 2010, we completed the sale of our Network Solutions Division ("NSD") of our electronic measurement business to JDS Uniphase Corporation. NSD included Agilent's network assurance solutions, network protocol test and drive test products. On February 2, 2010, the company sold Hycor Biomedical Inc., a subsidiary of Agilent and part of our life sciences business, to Linden LLC, a Chicago-based healthcare private equity firm. Hycor is a global manufacturer and marketer of in-vitro diagnostics products.

We sell our products primarily through direct sales, but we also utilize distributors, resellers, manufacturer's representatives, telesales and electronic commerce. Of our total net revenue of $6.9 billion for the fiscal year ended October 31, 2012, we generated 32 percent in the U.S. and 68 percent outside the U.S. As of October 31, 2012, we employed approximately 20,500 people worldwide. Our primary research and development and manufacturing sites are in California, Colorado and Delaware in the U.S. and in Australia, China, Denmark, Germany, India, Italy, Japan, Malaysia, Poland, Singapore and the United Kingdom.

The net revenue, income from operations and assets by business segment, as of and for the fiscal year ended October 31, 2012 and for each of the past three years are shown in Note 21, "Segment Information", to our consolidated financial statements, which we incorporate by reference herein.

Life Sciences Business

Our life sciences business provides application focused solutions that include instruments, software, consumables, and services that enable customers to identify, quantify and analyze the physical and biological properties of substances and products. Key product categories in life sciences include: liquid chromatography (“LC”) systems, columns and components; liquid chromatography mass spectrometry (“LCMS”) systems; laboratory software and informatics systems; laboratory automation and robotic systems; dissolution testing; nucleic acid solutions; Nuclear Magnetic Resonance (“NMR”); Magnetic Resonance Imaging (“MRI”); and X-Ray Diffraction (“XRD”) systems; and services and support for the aforementioned products.

We employed approximately 4,000 people as of October 31, 2012 in our life sciences business. This business generated revenue of $1.6 billion in fiscal 2012, $1.5 billion in fiscal 2011 and $1.2 billion in fiscal 2010.

Life Science Markets

Our life sciences business focuses primarily on the following two markets:

The Pharma, Biotech, CRO & CMO Market. This market consists of “for-profit” companies who participate across the pharmaceutical value chain in the areas of therapeutic research, discovery & development, clinical trials, manufacturing and quality assurance and quality control. One sub-segment of this market is core and emerging pharmaceutical companies (“Pharma”). A second sub-segment includes biotechnology companies (“biotech”), contract research organizations (“CROs”) and contract manufacturing organizations (“CMOs”). Biotech companies and, to a somewhat lesser extent, CROs and CMOs typically participate in specific points in the Pharma industry value chain.

The Academic and Government Market. This market consists primarily of “not-for-profit” organizations and includes academic institutions, large government institutes and privately funded organizations. The academic and government research market plays an influential role in technology adoption and therapeutic developments for Pharma and molecular diagnostics companies. After decades of investment in basic biomedical research by government funding bodies, the focus has widened to include translational research - multidisciplinary scientific efforts directed at “accelerating therapy development”.

Life Science Measurement Products and Applications

A key factor in all of our life science measurement target markets is the need for new products that increase customer productivity and provide high quality data that enable decision making by our customers. Our key product segments include:

Liquid Chromatography Products

A liquid chromatograph (“LC”) or a high performance liquid chromatograph (“HPLC”) is used to separate molecules of a liquid mixture to determine the quantity and identity of the molecules present. The Agilent LC portfolio is modular in construction and can be configured as analytical and preparative systems. These systems can be stepwise upgraded to

highly sophisticated, automated workflow solutions such as method development, multi method/walk-up, high-capacity/high-throughput or multi dimensional LC and can be extended to application based analyzers e.g. for bio-molecular separations, chiral analysis or size exclusion chromatography. As a leader in liquid chromatography, we continue to expand our application space with new HPLC columns, new services and diagnostics offerings and ongoing instrument and software product enhancements.

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Mass Spectrometry Products

A mass spectrometer (“MS”) identifies and quantifies chemicals based on a chemical's molecular mass and characteristic patterns of fragment ion masses that result when a molecule is broken apart. Liquid chromatography (“LC”) is commonly used to separate compounds and introduce them to the MS system. The combined use of LC and MS (“LCMS”) is frequently used both to identify and quantify chemical compounds. Mass spectrometry is an important tool in analyzing small molecules and can also be used to characterize and quantify proteins and other biological entities. Agilent's LCMS portfolio includes instruments built around four main analyzer types - single quadrupole, triple quadrupole, time-of-flight (“TOF”) and quadrupole time-of-flight (“QTOF”). We significantly expanded our mass spectrometry portfolio in recent years with a focus on improving performance, reliability, and ease of use.

Software and Informatics Products

We provide software for instrument control, data acquisition, data analysis, laboratory content and business process management, and informatics. Our software facilitates the regulatory compliant use of instruments in pharmaceutical quality assurance/quality control environments. With OpenLab, Agilent has introduced a scalable, open architecture that enables customers to easily capture, analyze, and share scientific data throughout the lab and across the enterprise.

Lab Automation and Robotics

We offer a comprehensive suite of workflow solutions to our life science customers with the addition of automated liquid handling and robotics that range from standalone instrumentation to bench-top automation solutions to large, multi armed robotic systems. These solutions strengthen our offering of automated sample preparation solutions across a broad range of applications. In fiscal 2012 we acquired AssayMAP technology, which in combination with Agilent's Bravo liquid handling platform enables highly parallel automated microchromatography for protein purification and characterization.

NMR and MRI systems

With the acquisition of Varian during fiscal 2010, Agilent has enriched its portfolio with NMR, spectrometers, MRI systems and XRD systems used in a variety of industries including academic and not-for-profit research, life sciences (pharma and biotech), and industrial companies. All of these technologies are utilized for basic and applied research, and NMR is also used in process development and manufacturing QA/QC.

Nucleic Acid Solutions

We provide highly specialized contract manufacturing of nucleic acid molecules designed for use as active pharmaceutical ingredients (“API”) for pharmaceutical and biotech companies. The API we produce are custom modified versions of human DNA or RNA molecules that serve as the key component in drugs targeted at diseases that involve genetic disorders. We offer proprietary manufacturing process know-how for synthesis and purification of these complex molecules, and capability to support the quantities customers need for use in preclinical studies, clinical trials, and commercial production. We also provide an array of manufacturing related support-services, including development of analytical methods and processes, stability studies, process validation, and regulatory support.

Consumables and Services

We also offer a broad range of consumable products, which support our LC, and MS technology platforms. These consumable products include sample preparation products; self-manufactured LC columns, instrument replacement parts, and consumable supplies to meet our customers' analysis needs. All of our products are designed to Agilent's specifications to improve and maximize the performance of our instruments.

We offer a wide range of startup, operational, educational and compliance support services for our measurement and data handling systems. Our support services include maintenance, troubleshooting, repair and training for all of our chemical and bioinstrumentation analysis hardware and software products. Special service bundles have also been designed to meet the specific application needs of various industries.

Life Sciences Customers

We had over 30,000 customers for our life sciences business in 2012. No single customer represented a material amount of the net revenue of the life sciences business. A significant number of our life sciences customers are also customers of our chemical analysis and diagnostics and genomics businesses.

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The life sciences business is susceptible to seasonality in its orders and revenues primarily based on U.S. government and large pharmaceutical company budgets. In general, the result is that our first and fourth fiscal quarters tend to deliver the strongest profits for this group. However, general economic trends, new product introductions and competition might overshadow this trend in any given year.

Life Sciences Sales, Marketing and Support

The life science channel focuses on the therapeutics customer base (Pharma, biotech, CRO, CMO and Generics) and on emerging life sciences opportunities in academic and government life science research institutes. We deploy a multi-channel approach, marketing products to our customers through direct sales, electronic commerce, resellers, manufacturers' representatives and distributors. We use direct sales to market our solutions to all of our pharmaceutical and biopharmaceutical accounts. Sales agents supplement direct sales by providing broader geographic coverage and coverage of smaller accounts. Our active reseller program augments our ability to provide more complete solutions to our customers. We sell our consumable products through distributors, telesales, electronic commerce and direct sales.

We deliver our support services to customers in a variety of ways, including on-site assistance with repair or exchange of returned products, telephone support and self-diagnostic services provided over the Internet. We also offer special industry focused service bundles that are designed to meet the specific needs of hydrocarbon processing, environmental, pharmaceutical and biopharmaceutical customers to keep instruments fully operational and compliant with the respective industry requirements. Our products typically come with standard warranties, and extended warranties are available for additional cost.

Life Sciences Manufacturing

Our manufacturing supports our diverse product range and customer centric focus. We assemble highly configurable products to individual customer orders and make standard products to stock. We employ advanced manufacturing techniques and supply chain management systems to reduce costs and manufacturing cycle times. We selectively use third parties to provide some supply chain processes for manufacturing, warehousing and logistics. We have manufacturing facilities in California, Colorado and North Carolina in the U.S. Outside of the U.S., we have manufacturing facilities in Germany, Malaysia, Poland, Singapore and U.K. We utilize just-in-time manufacturing.

Life Sciences Competition

The markets for analytical instruments in which we compete are characterized by evolving industry standards and intense competition. Our principal competitors in the life sciences arena include: Bruker Corp., Danaher Corporation, Thermo Fisher Scientific Inc. and Waters Corp. Agilent competes on the basis of product performance, reliability, support quality, applications expertise, global channel coverage and price.

Chemical Analysis Business

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

We employed approximately 4,000 people as of October 31, 2012 in our chemical analysis business. This business generated revenue of $1.6 billion in fiscal 2012, $1.5 billion in fiscal 2011, and $1.2 billion in fiscal 2010.

Chemical Analysis Markets

Within chemical analysis, we focus primarily on the following markets:

The Chemical & Energy Market. The natural gas and petroleum refining markets use our products to measure and control the quality of their finished products and to verify the environmental safety of their operations. Petroleum refiners use our measurement solutions to analyze crude oil composition, perform raw material analysis, verify and improve refining processes and ensure the overall quality of gasoline, fuels, lubricants and other products. Our solutions are also used in the development, manufacturing and quality control of fine chemicals.

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The Environmental & Forensics Market. Our instruments, software and workflow solutions are used by the environmental market for applications such as laboratory and field analysis of chemical pollutants in air, water, soil and solid waste. Environmental industry customers include all levels of government, the industrial and manufacturing sectors, engineering and consulting companies, commercial testing laboratories and colleges and universities. Drug testing and forensics laboratories use our instruments, software and workflow solutions for applications such as analyzing evidence associated with crime, screening athletes for performance enhancing drugs, analyzing samples for recreational drugs, or detecting and identifying biological and chemical warfare agents. This instrumentation is used in either static or mobile laboratories. Customers include local, state, federal, and international law enforcement agencies and health laboratories.

The Food Market. Our instruments, software, and workflow solutions are used throughout the food production chain, including incoming inspection, new product development, quality control and assurance, and packaging. For example, our mass spectrometer portfolio, including triple quad liquid chromatography mass spectrometers, is used to analyze contaminants and residual pesticides in food. There is also a significant food safety market involved in analyzing food for pathogen contamination, accurate verification of species type and evidence of genetically modified content.

Chemical Analysis Products

A key factor in all of our chemical analysis markets is the need for new products that increase customer productivity and provide high quality data that enable decision-making by our customers. Our key product segments include:

Gas Chromatography Products

Agilent is the world's leading provider of gas chromatographs, both laboratory and portable models. A gas chromatograph ("GC") is used to separate any gas, liquid or solid that can be vaporized and then detect the molecules present to determine their identity and quantity. Agilent provides custom or standard analyzers configured for specific chemical analysis applications, such as detailed speciation of a complex hydrocarbon stream, calculation of gas calorific values in the field, or analysis of a new bio-fuel formulation. We also offer related software, accessories and consumable products for these and other similar instruments.

Mass Spectrometry Products

Mass spectrometry ("MS") is a technique for analyzing the individual chemical components of substances by ionizing them and determining their mass-to-charge ratios. Our MS products incorporate various technologies for measuring mass, including single-quadrupole, triple-quadrupole, quadrupole time-of-flight and ion trap mass spectrometers. We combine our mass spectrometers with other instruments to create high-performance instruments such as gas chromatograph mass spectrometers ("GC/MS"), and inductively coupled plasma mass spectrometers ("ICP-MS"). We also offer related software, accessories and consumable products for these and other similar instruments.

Spectroscopy Products

Spectroscopy is a technique for analyzing the individual chemical components of substances based on the absorption or emission of electromagnetic radiation of specific wavelengths of light. Our spectroscopy instruments include atomic absorption ("AA") spectrometers, microwave plasma-atomic emission spectrometers (“MP-AES”), inductively coupled plasma-optical emissions spectrometers ("ICP-OES"), inductively coupled plasma-mass spectrometers ("ICP-MS"), fluorescence spectrophotometers, ultraviolet- visible ("UV-Vis") spectrophotometers, Fourier Transform infrared ("FT-IR") spectrophotometers, near-infrared ("NIR") spectrophotometers, Raman spectrometers and sample automation products. We also offer related software, accessories and consumable products for these and other similar

instruments.

Vacuum Technology Products

Our vacuum technologies products are used to create, control, measure and test vacuum environments in life science, industrial and scientific applications where ultra-clean, high-vacuum environments are needed. Vacuum technologies' customers are typically OEMs that manufacture equipment for these applications. Products include a wide range of high and ultra-high vacuum pumps (diffusion, turbomolecular and ion getter), intermediate vacuum pumps (rotary vane, sorption and dry scroll), vacuum instrumentation (vacuum control instruments, sensor gauges and meters) and vacuum components (valves, flanges and other mechanical hardware). These products also include helium mass spectrometry and helium-sensing leak detection instruments used to identify and measure leaks in hermetic or vacuum environments. In addition to product sales, we also offer a wide range of services including an exchange and rebuild program, assistance with the design and integration of vacuum systems, applications support and training in basic and advanced vacuum technologies.

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Consumables and Services

We offer a broad range of consumable products, which support our technology platforms, including sample preparation consumables such as solid phase extraction ("SPE") and filtration products, self manufactured GC and LC columns, chemical standards, and instrument replacement parts. Consumable products also include scientific instrument parts and supplies such as filters and fittings for GC systems; xenon lamps and cuvettes for UV-Vis-NIR, fluorescence, FT-IR and Raman spectroscopy instruments; and graphite furnace tubes, hollow cathode lamps and specialized sample introduction glassware for our AA, ICP-OES and ICP-MS products.

We offer a wide range of startup, operational, educational and compliance support services for our measurement and data handling systems. Our support services include maintenance, troubleshooting, repair and training for all of our chemical and bioinstrumentation analysis hardware and software products. Special service bundles have also been designed to meet the specific application needs of various industries.

Chemical Analysis Customers

We had approximately 35,000 customers for our chemical analysis business in 2012. No single customer represented a material amount of the net revenue of the chemical analysis business. A significant number of our chemical analysis customers are also customers of our life sciences business.

The chemical analysis business is susceptible to seasonality in its orders and revenues primarily based on U.S. government and large company budgets. The result is that our fourth fiscal quarter tends to deliver the strongest profits for this business. However, general economic trends, new product introductions and competition might overshadow this trend in any given year.

Chemical Analysis Sales, Marketing and Support

Our sales and support delivery channels are aligned by key markets. We market products to our customers through direct sales, electronic commerce, resellers, manufacturers' representatives and distributors. Additionally, we are optimizing our worldwide distribution capabilities to address high-growth opportunities such as the environmental and food safety markets in the Asia-Pacific region.

We use direct sales to market our solutions to our large- and medium-sized chemical customers and environmental accounts. Sales agents supplement direct sales by providing broader geographic coverage and coverage of smaller accounts. Our active reseller program augments our ability to provide more complete solutions to our customers. We sell our consumable products through distributors, telesales, electronic commerce and direct sales.

We deliver our support services to customers in a variety of ways, including on-site assistance with repair or exchange of returned products, telephone support and self-diagnostic services provided over the Internet. We also offer special industry-focused service bundles that are designed to meet the specific needs including those for hydrocarbon processing and environmental customers to keep instruments fully operational and compliant with the respective industry requirements. Our products typically come with standard warranties, and extended warranties are available for additional cost.

Chemical Analysis Manufacturing

Our manufacturing supports our diverse product range and customer-centric focus. We assemble highly configurable products to individual customer orders and make standard products to stock. We employ advanced manufacturing techniques and supply chain management systems to reduce costs and manufacturing cycle times. We selectively use

third parties to provide some supply chain processes for manufacturing, warehousing and logistics. We have manufacturing facilities in California, Delaware, Connecticut, and Massachusetts in the U.S. Outside of the U.S., we have manufacturing facilities in Australia, Canada, China, Italy, Malaysia, Netherlands, Japan, and the United Kingdom. We utilize just-in-time manufacturing and so typically do not maintain a high level of inventory.

Chemical Analysis Competition

The markets for analytical instruments in which we compete are characterized by evolving industry standards and intense competition. Our principal competitors in the chemical analysis arena include: Bruker Corporation, PerkinElmer Inc., Shimadzu Corporation and Thermo Fisher Scientific Inc. Agilent competes on the basis of product performance, reliability, support quality, applications expertise, global channel coverage and price.

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Diagnostics and Genomics Business

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

We employed approximately 2,000 people as of October 31, 2012 in our diagnostics and genomics business. This business generated revenue of $0.4 billion in fiscal 2012 and $0.3 billion in fiscal 2011 and 2010.

Diagnostics and Genomics Markets

Our diagnostics and genomics business focuses primarily on the following three markets:

The Clinical Market. A significant part of our clinical diagnostic customers are in pathology labs throughout the world. Our high-quality, automated pathology tissue staining platforms and solutions are used most heavily by the large labs located in hospitals, medical centers, and reference labs. The market is skewed towards the mature economies, with approximately 75% of the market in North America, Western Europe and Japan. The mix is changing, however, as emerging markets increase spending on human health.
The clinical market for genomics consists of high complexity clinical labs performing patient testing, including "for-profit" reference laboratories, hospital labs, and molecular diagnostic companies. While these labs primarily purchase in vitro diagnostics ("IVD") labeled testing kits, they often develop and validate their own molecular based tests. Analyte Specific Reagents ("ASRs") are often used by these labs.

The Academic and Government Market. This market consists primarily of "not-for-profit" organizations and includes academic institutions, large government institutions and privately funded organizations. The academic and government research market plays an influential role in technology adoption and therapeutic developments for Pharma/Biotech and Clinical Laboratories. As such, there is heavy emphasis on human disease research.

The Pharma, Biotech, & CRO Market. This market consists of "for-profit" companies who participate across the pharmaceutical value chain in the areas of therapeutic research, discovery and development and clinical trials. There has been much activity in this market space, where most large Pharma companies have acquired a biopharma arm, enabling development of therapeutics based on both small molecules (classic pharmaceuticals) and large molecules (protein/ antibody based). Due to the relative low drug efficacy within oncology, Pharma companies are partnering with diagnostic companies to bring validated test to the market with their new drugs. Additionally, Pharma companies are more often outsourcing clinical trial work to CRO's, making them a growing portion of this market segment.

Diagnostics and Genomics Products and Applications

Our products fall into seven main areas of work: pathology products, specific proteins and flow reagents, target enrichment, cytogenetic research solutions, microarrays, nucleic acid quality control, and molecular biology products.

Pathology Products

This area consists of routine clinical solutions for tissue based cancer diagnostics with solutions that comprise antibodies, reagents, instruments and software targeting both primary and advanced cancer diagnostics. Our CoverStainer and Artisan based product families target primary cancer diagnostics through Hematoxylin and Eosin (“H&E”) staining as well as Special Stains for additional insights and detection of potentially carcinogenic infections. Our Autostainer based IHC solution and Instant Quality Fluorescence In Situ Hybridization ("IQFISH") technologies provide advanced tumor typing through investigation of protein and gene expression. This also includes so called companion diagnostic tests that are used to help identify patients most likely to benefit from a specific targeted therapy.

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Specific Proteins and Flow Reagents

Our reagent partnership business is a provider of clinical diagnostic products within the areas of specific proteins for turbidimetry and reagents for flow cytometry. These are sold OEM as customized reagent solutions supplied to top IVD companies or through retail partners.

Target Enrichment

Agilent continues to be a strong player in the next generation sequencing market. SureSelect enables researchers to enrich their samples for only the regions of the genome of interest (for example, the gene coding region), thus vastly reducing the amount of sequencing needed per sample, and thereby reducing the overall experiment cost. The level of customization available for the SureSelect product line enables researchers to accurately enrich for and sequence the entire exome (gene coding region), as well as other subsets of genes or regions they are interested in for specific research. This is particularly useful for researchers who focus on DNA mutation detection and genotyping. SureSelect is compatible with major next generation sequencing platforms.

Cytogenetic Research Solutions

Agilent is a leading provider of microarrays for Comparative Genomic Hybridization (“CGH”), most used by customers in cytogenetic laboratories. The product portfolio has been expanded to include microarrays that detect both copy number changes and copy neutral changes by utilizing single nucleotide polymorphisms (“SNPs”) on the same microarray. In addition to the microarrays, Agilent's research solution includes reagents for sample processing, hardware for reading the microarrays, and software to help users view the data in a meaningful way.

Microarrays

Agilent provides a wide range of microarrays to the research market. We offer custom arrays with no minimum order size and short delivery time, which differentiates us from other vendors and enables researchers the maximum flexibility in their studies. Our end-to-end solution includes reagents for sample preparation and microarray processing; hardware for sample QC and high-throughput microarray scanning; 60-mer oligo microarrays on industry standard 1” × 3” glass slides for key applications (gene expression, microRNA, methylation, splice variants, and chromatin immunoprecipitation applications); custom microarray design services; and GeneSpring software products for data analysis.

Nucleic Acid QC

Agilent provides an instrument platform for sizing, quantitation, and quality control of DNA, RNA, and proteins for researchers performing gene expression and next generation sequencing experiments. This platform includes instruments that address the range of throughput needs for genomics scientists. The flagship Bioanalyzer has typically been targeted towards customers with lower throughput needs while the TapeStation is targeted towards higher throughput researchers. Both systems include dedicated analysis software plus pre-packaged consumables and pre-validated methods.

PCR & qPCR Instrumentation and Molecular Biology Reagents

Polymerase Chain Reaction (“PCR”) is a standard laboratory method used to amplify the amount of genetic material of a given sample to enable further interrogation. Quantitative PCR (“qPCR”) or real time PCR is also a standard method used in genomic research facilities to measure the amount of a specific nucleic acid sequence within a sample. There are several applications for qPCR, among the most common are identifying the expression level of a specific gene, or

calculating the amount of a specific pathogen present in a sample. Agilent offers a complete portfolio of PCR & qPCR instruments, as well as specialty enzymes for amplifying difficult sample types. In addition to PCR and qPCR enzymes, Agilent offers a wide range of molecular biology reagents including tools for cloning and mutagenesis applications.

Diagnostics and Genomics Customers

We had over 15,000 customers in our diagnostics and genomics business in 2012. No single customer represented a material amount of the net revenue of the diagnostics and genomics business. A significant number of our diagnostics and genomics customers are also customers of our life sciences business.

The genomics business is susceptible to seasonality in its orders and revenues primarily based on U.S. and foreign government budgets. In general, the result is that our second and fourth quarters tend to be the strongest quarters for revenues. The diagnostics business is generally a fairly stable business impacted primarily by local holidays. However, general economic trends, new product

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introductions and competition might overshadow this trend in any given year.

Diagnostics and Genomics Sales, Marketing and Support

The diagnostics and genomics channel focuses on the clinical customer base (pathology labs and high complexity clinical testing labs) as well as on human disease research customers within Pharma, Biotech, CRO, academic and government genomics research institutes. We deploy a multi-channel approach, marketing products to our customers through direct sales, electronic commerce, resellers, manufacturers' representatives and distributors. We use direct sales to market our pathology clinical solutions in major markets and our genomic solutions to all of our genomics accounts. Sales agents and distributors supplement direct sales by providing broader geographic coverage and coverage of smaller accounts. Our active reseller program augments our ability to provide more complete solutions to our customers. We utilize telesales for more mature product lines, as well as for reorders of reagent products.

We deliver our support services to customers in a variety of ways, including on-site assistance with repair or exchange of returned products, telephone support and self-diagnostic services provided over the internet. Our genomics products typically come with standard warranties, and extended warranties are available for additional cost. Our complete pathology solutions are often sold with both application and technical service support.

Diagnostics and Genomics Manufacturing

Our manufacturing supports our diverse product range and customer-centric focus. We offer customers the ability to customize their designs for microarrays and target enrichment for free through our web portal. Our manufacturing process then converts these designs into custom products for shipment to customers. We employ advanced manufacturing techniques and supply chain management systems to reduce costs and manufacturing cycle times. We selectively use third parties to provide some supply chain processes for manufacturing, warehousing and logistics. We have genomics manufacturing facilities in California and Texas (FDA registered) in the U.S. Outside of the U.S., we have genomics manufacturing facilities in Germany, Malaysia, Singapore and the U.K. We utilize just-in-time manufacturing. Manufacturing of our pathology products, specific proteins and flow reagents takes place in Denmark and in California, both sites are FDA registered.

Diagnostics and Genomics Competition

The markets for diagnostics and genomic products in which we compete are characterized by intense competition. Our principal competitors in the genomics arena include: Affymetrix Inc., Illumina, Inc., Life Technologies Corp, Abbott Laboratories, Roche, Bio-Rad Inc. and Perkin-Elmer. Our principal competitors in the pathology arena include Ventana Medical Systems, Inc. (Roche Tissue Diagnostics), Leica Biosystems Nussloch GmbH (Danaher Corporation), Thermo Fisher Scientific Inc., Sakura and Abbott Laboratories. Agilent competes on the basis of product performance, reliability, support quality, applications expertise, global channel coverage and price.

Diagnostics and Genomics Government Regulation

Some of the products the diagnostics and genomics group sells are subject to regulatory approval by the FDA and other regulatory bodies throughout the world. As such, we continually invest in our manufacturing infrastructure to gain and maintain certifications necessary for the level of clearance. Our pathology manufacturing facilities in Denmark and California have established quality management systems and manufacturing practices designed to comply with the adequate standards for the in vitro diagnostics industry, including ISO 13485 Medical devices and FDA 21CFR Part 820 quality system regulation as well as additional international standards. Our genomics Cedar Creek, Texas manufacturing facility has been registered with the FDA as a medical device manufacturing facility. This FDA registered facility is the site where our class I ASR SureFISH products are manufactured. Additionally,

other facilities maintain ISO 13485 manufacturing compliance.

Electronic Measurement Business

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

Our electronic measurement business employed approximately 8,000 people as of October 31, 2012. Our electronic measurement business generated $3.3 billion in revenue in fiscal 2012 and 2011 and $2.8 billion in revenue in fiscal 2010.

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Electronic Measurement Markets

Our electronic measurement products serve the following markets:

The Communications Test Market

We market our electronic measurement products and services to network equipment manufacturers ("NEMs"), handset manufacturers, and communications service providers, including the component manufacturers within the supply chain for these customers.

NEMs manufacture and sell products to facilitate the transmission of voice, data and video traffic. The NEMs' customers are the distributors of end-user subscriber devices, including wireless personal communication devices and set-top boxes, as well as communications service providers that deploy and operate the networks and services. To meet their customers' demands, NEMs require test and measurement instruments, systems and solutions for the development, production and installation of each network technology.

Communications service providers require reliable network equipment that enables new service offerings and allows their networks to operate at ever-increasing capacities. To achieve this, communications service providers require a range of sophisticated test instruments and systems to monitor and evaluate network performance and to identify any sources of communications failure.

Handset manufacturers require test and measurement products for the design, development, manufacture and repair of mobile handsets. These mobile handsets are used for voice, data and video delivery to individuals who connect wirelessly to the service provider's network. The handset manufacturers' primary customers are large and small service providers. The handset manufacturers require test and measurement products that enable technology development in conformance with the latest communications standards.

Component manufacturers design, develop and manufacture electronic components and modules used in network equipment and handsets. The component manufacturers require test and measurement products to verify that the performance of their components and modules meet the specifications of their NEM and handset customers.

The communications test market accounted for approximately 37 percent of revenue from our electronic measurement business in 2012.

The General Purpose Test Market

We market our general purpose test products and services to the electronics industry and other industries with significant electronic content such as the aerospace and defense, computer and semiconductor industries. These electronics and electronics-dependent industries design, develop and manufacture a wide range of products, including those produced in high volumes, such as computers, computer peripherals, electronic components, consumer electronics, enterprise servers, storage networks and automotive electronics. The components, printed circuit assemblies and functional devices for these products may be designed, developed and manufactured by electronic components companies, by original equipment manufacturers or by contract manufacturers.

For the development and timely commercialization of new technologies, manufacturers require state-of-the-art test instruments, systems and design software in order to design products for efficient and cost-effective manufacturing and to validate product performance in a variety of configurations and environments.

Customers use our general purpose test solutions in developing and manufacturing a wide variety of electronic components and systems. These customers' test requirements include testing the electrical parameters of digital, radio frequency, and microwave frequency components and assemblies; testing multiple parameters of the printed circuit boards used in almost every electronic device; testing of the final product; and testing of systems containing multiple electronic instruments. For semiconductor and board test applications, customers use our solutions in the design, development, manufacture, installation, deployment, and operation of semiconductor and printed circuit assembly fabrication.

We address the biology, life sciences and material science markets by providing solutions such as the atomic force microscope, nano indenters and scanning electron microscope. For nanotechnology applications, customers use our products to study biological samples at the cellular and molecular level including imaging of DNA and proteins, and to study and research polymers, electrochemistry, and thin films.

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The general purpose test market accounted for approximately 63 percent of revenue from our electronic measurement business in 2012.

Electronic Measurement Products

We divide our electronic measurement products into communications test products and general purpose test products.

Communications Test Products

We sell products and services applicable to a wide range of communications networks and systems including wireless communications and microwave networks, voice, broadband, data, and fiber optic networks. Test products include electronic design automation ("EDA") software, vector and signal analyzers, signal generators, vector network analyzers, one box testers, oscilloscopes, logic and protocol analyzers, and bit-error ratio testers.

Our wireless communications and microwave network products include radio frequency and microwave test instruments and EDA software tools. These products are required for the design and production of wireless network products, communications links, cellular handsets and base stations. We provide handheld instruments for the installation and maintenance of wireless networks. Our high-frequency EDA software tools and instruments are used by radio frequency integrated circuit design engineers to model, simulate and analyze communications product designs at the circuit and system levels. Our customers are also applying this technology more frequently to model signal integrity problems in digital design applications as digital speeds continue to increase.

Our suite of fiber optic test products measure and analyze a wide variety of critical optical and electrical parameters in fiber optic networks and their components. Components which can be tested with Agilent solutions include source lasers, optical amplifiers, filters and other passive components. Test products include optical modulation analyzers, optical component analyzers, optical power meters, and optical laser source products.

General Purpose Test Products

We sell the following types of products into the general purpose test market: general purpose instruments, modular instruments and test software, digital test products, semiconductor and board test solutions, electronics manufacturing test equipment, atomic force microscopes and network surveillance solutions.

General purpose instruments are used principally by engineers in research and development laboratories, manufacturing, and calibration and service, for measuring voltage, current, frequency, signal pulse width, modulation and other complex electronics measurements. Our general purpose products include spectrum analyzers, network analyzers, signal generators, logic analyzers, digitizing oscilloscopes, voltmeters, multimeters, frequency counters, bench and system power supplies, function generators and waveform synthesizers.

Modular instruments and test software are used by the designers and manufacturers of electronic devices as the building blocks of systems that can be configured for a wide variety of test applications, and changed as needed by a combination of modular hardware and software components. Examples include test systems for aviation systems maintenance and multi-function university labs.

Our digital test products are used by research and development engineers across a broad range of industries to validate the function and performance of their digital product and system designs. These designs include a wide range of products from simple digital control circuits to complex high speed systems such as computer servers and the latest generation gaming consoles. The test products offered include high-performance oscilloscopes, logic and serial

protocol analyzers, logic-signal sources and data generators.

Our semiconductor and board test solutions enable customers to develop and test state of the art semiconductors, test and inspect printed circuit boards, perform functional testing, and measure position and distance information to the sub-nanometer level. We supply parametric test instruments and systems used primarily to examine semiconductor wafers during the manufacturing process. Our in-circuit test system helps identify quality defects, such as faulty or incorrect parts, that affect electrical performance. Our laser interferometer measurement systems are based on precision optical technology and provide precise position or distance information for dimensional measurements.

Our atomic force microscopes ("AFM") are high-resolution imaging devices that can resolve features as small as an atomic

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lattice. An AFM allows researchers to observe and manipulate molecular and atomic level features. Our expanding portfolio of AFM products provides customers with reliable, easy-to-use tools for a wide range of nanotechnology applications, including semiconductor, data storage, polymers, materials science and life science studies.

Our surveillance systems and subsystems are used by defense and government engineers and technicians to detect, locate and analyze signals of interest. These signals may be transmitted via radio frequency signals or wire lines. The products offered include receivers for detecting radio frequency signals, probes for detecting wire line signals and software that enables the identification and analysis of these signals.

Electronic Measurement Customers

Agilent's electronic measurement customers include contract manufacturers of electronic products, handset manufacturers and network equipment manufacturers who design, develop, manufacture and install network equipment, service providers who implement, maintain and manage communication networks and services, and companies who design, develop, and manufacture semiconductors and semiconductor lithography systems. Our customers use our products to conduct research and development, manufacture, install and maintain radio frequency, microwave frequency, digital, semiconductor, and optical products and systems and conduct nanotechnology research. Many of our customers purchase solutions across several of our major product lines for their different business units.

We had approximately 15,000 customers for electronic measurement products in fiscal 2012 and no single customer represented a material amount of the net revenue of the electronic measurement business.

In general, the orders and revenues from many of the electronic measurement markets and product categories are seasonal, traditionally marked by lower business levels in the first quarter of the fiscal year and higher volumes in the fourth quarter of the fiscal year. This seasonality is particularly evident in products that we sell into the aerospace and defense industry, as well as those linked to consumer spending, which includes some of our communications test equipment. The seasonal impact of our business is tempered by broader economic trends and the diversity of our electronic measurement products and customers, which span multiple industries.

Electronic Measurement Sales, Marketing and Support

We have a focused sales strategy, using a direct sales force, resellers, manufacturer's representatives and distributors to meet our customers' needs. Our direct sales force is focused on identifying customer needs and recommending solutions involving the effective use and deployment of our equipment, services, systems and capabilities. Some members of our direct sales force focus on global accounts, providing uniform services on a worldwide basis. Others focus on our more complex products such as our high-performance instruments, where customers require strategic consultation. Our sales force also engages with the contract manufacturer market by collaborating with original equipment manufacturers to specify our test equipment for contract manufacturer test applications, as well as marketing to contract manufacturers directly.

Our direct sales force consists of field engineers and systems engineers who have in-depth knowledge of the customers' business and technology needs. Our systems engineers provide a combination of consulting, systems integration and application and software engineering services and are instrumental in all stages of the sale, implementation and support of our complex systems and solutions.

To complement our direct sales force we have agreements with many channel partners around the world. These partners, including resellers, manufacturer's representatives, and distributors, serve Agilent's customers across a number of product lines and provide the same level of service and support expected from our direct channel. Lower dollar transactions can also be served by our tele-sales and electronic commerce channels.

Our products typically come with standard warranties, and extended warranties are available at additional cost.

Electronic Measurement Manufacturing

We concentrate our electronic measurement manufacturing efforts primarily on final assembly and test of our products. To maximize our productivity and our ability to respond to market conditions, we use contract manufacturers for the production of printed circuit boards, sheet metal fabrication, metal die-casting, plastic molding and standard electronic components. We also manufacture proprietary devices and assemblies in our own fabrication facilities for competitive advantage. We have manufacturing facilities in California and Colorado in the U.S. Outside of the U.S. we have manufacturing facilities in China, Germany, Japan and Malaysia.

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We generally only manufacture products when we have received firm orders for delivery and do not generally hold large stocks of finished inventory.

Electronic Measurement Competition

The market for electronic measurement equipment is highly competitive. Our electronic measurement business competes with a number of significant competitors in all our major product categories and across our targeted industries. In the communications test market our primary competitors are Aeroflex Incorporated, Anritsu Corporation, Ansoft Corporation (a subsidiary of Ansys Corporation), National Instruments Corporation, Rohde & Schwartz GmbH & Co. KG, Spirent plc, Tektronix, Inc. (a subsidiary of Danaher Corporation) and Teradyne, Inc. In the general purpose test market, we compete against companies such as Aeroflex Incorporated, Bruker Corporation, Fluke Corporation (a subsidiary of Danaher Corporation), Teledyne Technologies Incorporated, National Instruments Corporation, Rohde & Schwartz GmbH & Co. KG, Tektronix, Inc. (a subsidiary of Danaher Corporation), Teradyne, Inc., Test Research Inc., and Zygo Corporation.

Our electronic measurement business offers a wide range of products, and these products compete primarily on the basis of product quality and functionality, as well as performance and reliability.

Agilent Technologies Research Laboratories

Agilent Technologies Research Laboratories ("Research Labs") is our research organization based in Santa Clara, California, with offices in Europe and China. The Research Labs create competitive advantage through high-impact technology, driving market leadership and growth in Agilent's core businesses and expanding Agilent's measurement footprint into adjacent markets. At the cross-roads of the organization, the Research Labs are able to identify and enable synergies across Agilent's businesses to create competitive differentiation and compelling customer value.

The technical staff have advanced degrees that cover a wide range of scientific and engineering fields, including biology, chemistry, computer science, distributed measurement, electrical engineering, image processing, materials science, mathematics, nano/microfabrication, microfluidics, software, informatics, optics, physics, physiology and signal processing. As of the end of October 2012, Research Labs employed approximately 250 personnel worldwide.

Global Infrastructure Organization

We provide support to our businesses through our global infrastructure organization. This support includes services in the areas of finance, legal, workplace services, human resources and information technology. Generally these organizations are centrally operated from Santa Clara, California, with services provided worldwide. As of the end of October 2012, our global infrastructure organization employed approximately 3,000 people worldwide including Research Labs.

Agilent Order Fulfillment Organization

Beginning in fiscal year 2012, we created the Agilent Order Fulfillment organization to centralize all order fulfillment and supply organizations and operations. AOF leverages our strength in manufacturing, engineering, strategic sourcing and logistics for life sciences, chemical analysis and electronic measurement businesses. In general, AOF employees are dedicated to specific businesses and business headcount numbers include AOF employees.

The following discussions of Research and Development, Backlog, Intellectual Property, Materials, Environmental, International Operations and Acquisition and Disposal of Material Assets include information

common to each of our businesses.

Research and Development

Research and development ("R&D") expenditures were $668 million in 2012, $649 million in 2011 and $612 million in 2010, the vast majority of which was company-sponsored. We anticipate that we will continue to have significant R&D expenditures in order to maintain our competitive position with a continuing flow of innovative, high-quality products and services.

Backlog

Backlog represents the amount of revenue expected from orders that have already been booked, including orders for goods and services that have not been delivered to customers, orders invoiced but not yet recognized as revenue, and orders for goods

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that were shipped but not invoiced, awaiting acceptance by customers. Backlog amounts have been restated for the year ended October 31, 2011 to conform to this definition.

On October 31, 2012, our unfilled backlog for the electronic measurement business was approximately $800 million, as compared to approximately $850 million at October 31, 2011. On October 31, 2012, our unfilled backlog for the chemical analysis business was approximately $360 million, as compared to approximately $320 million at October 31, 2011. Within our life sciences business, our unfilled backlog was approximately $500 million on October 31, 2012 as compared to approximately $490 million at October 31, 2011. On October 31, 2012, our unfilled backlog for the diagnostics and genomics business was approximately $30 million, as compared to approximately $30 million at October 31, 2011. We expect that a majority of the unfilled backlog for all four businesses will be delivered to customers within six months. On average, our unfilled backlog represents approximately three months' worth of revenues. We believe backlog on any particular date, while indicative of short-term revenue performance, is not necessarily a reliable indicator of medium or long-term revenue performance.

Intellectual Property

We generate patent and other intellectual property rights covering significant inventions and other innovations in order to create a competitive advantage. While we believe that our licenses, patents and other intellectual property rights have value, in general no single license, patent or other intellectual property right is in itself material. In addition, our intellectual property rights may be challenged invalidated or circumvented or may otherwise not provide significant competitive advantage.

Materials

Our manufacturing operations employ a wide variety of semiconductors, electromechanical components and assemblies and raw materials such as plastic resins and sheet metal. Our electronic measurement, chemical analysis, life sciences and diagnostics and genomics businesses all purchase materials from thousands of suppliers on a global basis. Some of the parts that require custom design work are not readily available from alternate suppliers due to their unique design or the length of time necessary for design work. Our long-term relationships with suppliers allow us to proactively manage technology road maps and product discontinuance plans and monitor their financial health. Even so, some suppliers may still extend their lead times, limit supplies, increase prices or cease to produce necessary parts for our products. If these are unique components, we may not be able to find a substitute quickly or at all. To address the potential disruption in our supply chain, we use a number of techniques, including qualifying multiple sources of supply and redesign of products for alternative components. In addition, while we generally attempt to keep our inventory at minimal levels, we do purchase incremental inventory as circumstances warrant to protect the supply chain.

Environmental

Our R&D, manufacturing and distribution operations involve the use of hazardous substances and are regulated under international, federal, state and local laws governing health and safety and the environment. We apply strict standards for protection of the environment and occupational health and safety to sites inside and outside the U.S., even if not subject to regulation imposed by foreign governments. We believe that our properties and operations at our facilities comply in all material respects with applicable environmental laws and occupational health and safety laws. However, the risk of environmental liabilities cannot be completely eliminated and there can be no assurance that the application of environmental and health and safety laws to Agilent will not require us to incur significant expenditures. We are also regulated under a number of international, federal, state, and local laws regarding recycling, product packaging and product content requirements. The environmental, product content/disposal and recycling laws are gradually becoming more stringent and may cause us to incur significant expenditures in the future.

Some of our operations are located on properties that are known to have subsurface contamination undergoing remediation by our former parent company, Hewlett-Packard Company ("HP"). As part of the initial separation agreement from HP in 1999, HP agreed to retain the liability for the contamination, perform the required remediation and indemnify us with respect to claims arising out of the contamination. The determination of the existence and cost of remediation of additional contamination caused by us, if any, could involve costly and time-consuming negotiations and litigation. While we expect that HP will meet its remediation and indemnification obligations in this regard, there can be no guarantee that it will do so. Under our agreement with HP, HP will have access to these properties to perform the remediation. HP has agreed to minimize interference with on-site operations at those properties during the course of the remediation, but there can be no guarantee that our operations will not be interrupted or that we will not be required to incur unreimbursed costs associated with the remediation. The remediation could also harm on-site operations and the future use and negatively affect the value and future use of the properties. Several of the sites under the initial separation agreement from HP have been sold.

In addition, some of these properties are undergoing remediation by HP under an order of an agency of the state in which

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the property is located. Although HP has agreed to indemnify us with respect to such subsurface contamination, it is possible that one or more of the governmental agencies will require us to be named on any of these orders. The naming of Agilent will not affect HP's obligation to indemnify us with regard to these matters.

We are liable and are indemnifying HP for any contamination found at all facilities transferred to us by HP excluding the properties undergoing remediation. In addition, we are obligated to indemnify HP for liability associated with past non-compliance with environmental laws regulating ongoing operations, if any, at all properties transferred to us by HP, as well as at sold or discontinued businesses that are related to our businesses. While we are not aware of any material liabilities associated with such indemnified matters, there is no guarantee that such contamination or regulatory non-compliance does not exist, and will not expose us to material liability in the future.

We are being indemnified by HP with respect to all environmental liabilities for which HP accrued a reserve, and we are not aware of any material environmental liabilities assumed by us which are not subject to the indemnity.

As part of our acquisition of Varian in 2010, we assumed the liabilities of Varian, including Varian's costs and potential liabilities for environmental matters. One such cost is our obligation, along with the obligation of Varian Semiconductor Equipment Associates, Inc. ("VSEA") (under the terms of a Distribution Agreement between Varian, VSEA and Varian Medical Systems, Inc. ("VMS")) to each indemnify VMS for one-third of certain costs (after adjusting for any insurance proceeds and tax benefits recognized or realized by VMS for such costs) relating to (a) environmental investigation, monitoring and/or remediation activities at certain facilities previously operated by Varian Associates, Inc. ("VAI") and third-party claims made in connection with environmental conditions at those facilities, and (b) U.S. Environmental Protection Agency or third-party claims alleging that VAI or VMS is a potentially responsible party under the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended ("CERCLA") in connection with certain sites to which VAI allegedly shipped manufacturing waste for recycling, treatment or disposal (the "CERCLA sites"). With respect to the facilities formerly operated by VAI, VMS is overseeing the environmental investigation, monitoring and/or remediation activities, in most cases under the direction of, or in consultation with, federal, state and/or local agencies, and handling third-party claims. VMS is also handling claims relating to the CERCLA sites. Although any ultimate liability arising from environmental- related matters could result in significant expenditures that, if aggregated and assumed to occur within a single fiscal year, could be material to our financial statements, the likelihood of such occurrence is considered remote. Based on information currently available and our best assessment of the ultimate amount and timing of environmental-related events, management believes that the costs of environmental-related matters are unlikely to have a material adverse effect on our financial condition or results of operations.

We maintain a comprehensive Environmental Site Liability insurance policy which may cover certain clean-up costs or legal claims related to environmental contamination. This policy covers specified active, inactive and divested locations.

International Operations

Our net revenue originating outside the U.S., as a percentage of our total net revenue, was approximately 68 percent in fiscal 2012, 70 percent in fiscal 2011, and 68 percent in fiscal 2010, the majority of which was from customers other than foreign governments. Annual revenues derived from China were approximately 16 percent in fiscal 2012 and 2011 and 14 percent in fiscal 2010. Approximately 10 percent of our revenue in fiscal 2012, 11 percent in fiscal 2011 and 10 percent in fiscal 2010 was derived from Japan. Revenues from external customers are generally attributed to countries based upon the location of the Agilent sales representative.

Long-lived assets located outside of the U.S., as a percentage of our total long-lived assets, was approximately 60 percent in fiscal year 2012, 56 percent in fiscal year 2011 and 52 percent in fiscal year 2010. Approximately 12, 13

and 13 percent of our long-lived assets were located in Japan in fiscal years 2012, 2011 and 2010, respectively.

Most of our sales in international markets are made by foreign sales subsidiaries. In countries with low sales volumes, sales are made through various representatives and distributors. However, we also sell into international markets directly from the U.S.

Our international business is subject to risks customarily encountered in foreign operations, including interruption to transportation flows for delivery of parts to us and finished goods to our customers, changes in a specific country's or region's political or economic conditions, trade protection measures, import or export licensing requirements, consequences from changes in tax laws and regulatory requirements, difficulty in staffing and managing widespread operations, differing labor regulations, differing protection of intellectual property and geopolitical turmoil, including terrorism and war. We are also exposed to foreign currency exchange rate risk inherent in our sales commitments, anticipated sales and expenses, and assets and liabilities denominated in currencies other than the local functional currency, and may also become subject to interest rate risk inherent in any debt we incur, or investment portfolios we hold. There may be an increased risk of political unrest in regions where we have significant

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manufacturing operations such as Southeast Asia. However, we believe that our international diversification provides stability to our worldwide operations and reduces the impact on us of adverse economic changes in any single country. Financial information about our international operations is contained in Note 21, "Segment Information", to our consolidated financial statements.

Acquisition of Material Assets

On June 21, 2012, we acquired Dako through the purchase of 100% of the share capital of Dako, a limited liability company incorporated under the laws of Denmark, under the share purchase agreement, dated May 16, 2012. Dako provides antibodies, reagents, scientific instruments and software primarily to customers in pathology laboratories. As a result of the acquisition, Dako has become a wholly-owned subsidiary of Agilent. The consideration paid was approximately $2.143 billion, of which $1.4 billion was paid directly to the seller and $743 million was paid to satisfy the outstanding debt of Dako. Agilent funded the acquisition using our existing cash.

On May 14, 2010, we completed our acquisition of Varian, Inc., a leading supplier of scientific instrumentation and associated consumables for life science and applied market applications, for a total cash purchase price of approximately $1.5 billion. Varian's products include analytical instruments, research products and related software, consumable products, accessories and services, as well as vacuum products and related services and accessories. The acquisition broadens Agilent's applications and solutions offerings in life sciences, environmental, and energy and materials. It also expands Agilent's product portfolio into atomic and molecular spectroscopy; establishes a leading position in nuclear magnetic resonance, imaging and vacuum technologies; and strengthens our consumables portfolio. We financed the purchase price of Varian using the proceeds from our September 2009 offering of senior notes and other existing cash. Varian's cash acquired at completion of the acquisition was approximately $226 million.

Executive Officers of the Registrant

The names of our current executive officers and their ages, titles and biographies appear below:

Solange Glaize, 48, has served as our Vice President, Corporate Controllership and Chief Accounting Officer since March, 2012. From June 2011 to March 2012, Ms. Glaize served as our Vice President of Finance and Business Development, Group CFO, Life Sciences Group and from September 2009 to June 2011 as Vice President of Finance, Group CFO, Life Sciences Group. From May 2005 to November 2009, she served as Senior Director of Finance, Life Sciences Solution Unit. Ms. Glaize has previously served in various capacities for Agilent, including as Director of Finance, Worldwide Order Fulfillment, Director of Sales Finance and Administration, Semiconductor Products Group and as Managing Director, European Financial Services. Prior to joining Agilent, Ms. Glaize held a variety of positions in finance with Hewlett-Packard Company.

Jean M. Halloran, 60, has served as our Senior Vice President, Human Resources since from August 1999. From 1997 to 1999, Ms. Halloran served as Director of Corporate Education and Development for Hewlett Packard. Prior to assuming this position, from 1993 to 1997, Ms. Halloran acted as human resources manager for Hewlett Packard's Measurement Systems Organization. Ms. Halloran joined Hewlett Packard in 1980 in the Medical Products Group, where she held a variety of positions in human resources, manufacturing and strategic planning.

Didier Hirsch, 61, has served as our Senior Vice President and Chief Financial Officer since July 2010 and served as interim Chief Financial Officer from April 2010 to July 2010. Prior to that he served as Vice President, Corporate Controllership and Tax from November 2006 to July 2010 and as Chief Accounting Officer from November 2007 to July 2010. From April 2003 to October 2006, Mr. Hirsch served as Vice President and Controller. Prior to assuming this position, Mr. Hirsch served as Vice President and Treasurer from September 1999 to April 2003. Mr. Hirsch had joined Hewlett Packard Company in 1989 as Director of Finance and Administration of Hewlett Packard France. In 1993, he became Director of Finance and Administration of Hewlett Packard Asia Pacific, and in 1996 Director of Finance and Administration of Hewlett Packard Europe, Middle East, and Africa. Mr. Hirsch serves on the Board of Directors of Logitech International and International Rectifier Corporation.

Marie Oh Huber, 51, has served as Senior Vice President, General Counsel and Secretary since September 2009 and serves as an officer or director for a variety of Agilent subsidiaries. She served as our Vice President, Deputy General Counsel and Assistant Secretary from June 2007 to September 2009 and as our Vice President, Assistant General Counsel and Assistant Secretary from July 2002 to June 2007. She is also a director of the American Leadership Forum - Silicon Valley.

Michael R. McMullen, 51, has served as Senior Vice President, Agilent and President, Chemical Analysis Group since September 2009. From January 2002 to September 2009, he served as our Vice President and General Manager of the Chemical Analysis Solutions Unit of the Life Sciences and Chemical Analysis Group. Prior to assuming this position, from March 1999 to December 2001, Mr. McMullen served as Country Manager for Agilent's China, Japan and Korea Life Sciences and Chemical

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Analysis Group. Prior to this position, Mr. McMullen served as our Controller for the Hewlett Packard Company and Yokogawa Electric Joint Venture from July 1996 to March 1999.

Ronald S. Nersesian, 53, has served as President since November 2012 and as Chief Operating Officer since November 2011. From November 2011 to November 2012 Mr. Nersesian served as Executive Vice President and Chief Operating Officer. He served as our Senior Vice President, Agilent and President, Electronic Measurement Group from March 2009 to November 2011, as our Vice President and General Manager of the Wireless Business Unit of the Electronics Measurement Group from February 2005 to February 2009, and as our Vice President and General Manager of the Design Validation Division from May 2002 to February 2005. Prior to joining Agilent, Mr. Nersesian served in management positions with LeCroy Corporation from 1996 to 2002. Mr. Nersesian serves on the Board of Directors of Trimble Navigation Limited.

Nicolas H. Roelofs, 54, has served as Senior Vice President, Agilent and President, Life Sciences Group since September 2009. From June 2006 to September 2009 he served as our Vice President and General Manager of the Life Sciences Solutions Unit of the Life Sciences and Chemical Analysis Group. Prior to joining Agilent, Mr. Roelofs served as Group Operations Officer of the Life Sciences Group of Bio-Rad Laboratories from January 2005 to May 2006. Prior to that, Mr. Roelofs served as Chief Operating Officer of Stratagene Corporation from September 2001 to December 2004.

Guy Séné, 58, has served as Senior Vice President, Agilent and President, Electronic Measurement Group since November 2011. From May 2009 to November 2011, Mr. Séné served as our Vice President and General Manager, Microwave and Communications Division of the Electronic Measurement Group, and from October 2006 to April 2009, he served as our Vice President and General Manager, Signal Analysis Division. Prior to that, Mr. Séné held a broad variety of positions in sales, marketing and support in Europe and Asia for Agilent and Hewlett Packard Company.

William P. Sullivan, 62, has served as Agilent's Chief Executive Officer and a Director since March 2005 and as President from March 2005 to November 2012. Before being named as Agilent's Chief Executive Officer, Mr. Sullivan served as Executive Vice President and Chief Operating Officer from March 2002 to March 2005. In that capacity, he shared the responsibilities of the president's office with Agilent's former President and Chief Executive Officer, Edward W. Barnholt. Mr. Sullivan also had overall responsibility for Agilent's Electronic Products and Solutions Group, the company's largest business group. Prior to assuming that position, Mr. Sullivan served as our Senior Vice President, Semiconductor Products Group, from August 1999 to March 2002. Before that, Mr. Sullivan held various management positions at Hewlett Packard Company. Mr. Sullivan serves on the Board of the Children's Discovery Museum in San Jose, California, as well as on the Board of Directors of URS Corporation and Avnet, Inc.

Investor Information

We are subject to the informational requirements of the Securities Exchange Act of 1934 (“Exchange Act”). Therefore, we file periodic reports, proxy statements and other information with the Securities and Exchange Commission (“SEC”). Such reports, proxy statements and other information may be read and copied by visiting the Public Reference Room of the SEC at 100 F Street N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically.

You can access financial and other information at our Investor Relations website. The address is www.investor.agilent.com. We make available, free of charge, copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC.

Our Amended and Restated Corporate Governance Standards, the charters of our Audit and Finance Committee, our Compensation Committee, our Executive Committee and our Nominating/Corporate Governance Committee, as well as our Standards of Business Conduct (including code of ethics provisions that apply to our principal executive officer, principal financial officer, principal accounting officer and senior financial officers) are available on our

website at www.investor.agilent.com under “Corporate Governance”. These items are also available in print to any stockholder in the United States and Canada who requests them by calling (877) 942-4200. This information is also available by writing to the company at the address on the cover of this Annual Report on Form 10-K.

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Item 1A. Risk Factors

Risks, Uncertainties and Other Factors That May Affect Future Results

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

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

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

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

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

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

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

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

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

As part of our efforts to streamline operations and to cut costs, we outsource aspects of our manufacturing processes and other functions and continue to evaluate additional outsourcing. If our contract manufacturers or other outsourcers fail to perform their obligations in a timely manner or at satisfactory quality levels, our ability to bring products to market and our reputation could suffer. For example, during a market upturn, our contract manufacturers may be unable to meet our demand requirements, which may preclude us from fulfilling our customers' orders on a timely basis. The ability of these manufacturers to perform is largely outside of our control. Additionally, changing or replacing our contract manufacturers or other outsourcers could cause disruptions or delays. In addition, we outsource significant portions of our information technology ("IT") and other administrative

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functions. Since IT is critical to our operations, any failure to perform on the part of our IT providers could impair our ability to operate effectively. In addition to the risks outlined above, problems with manufacturing or IT outsourcing could result in lower revenues, unexecuted efficiencies, and impact our results of operations and our stock price. Much of our outsourcing takes place in developing countries and, as a result, may be subject to geopolitical uncertainty.

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

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

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

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

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

Because we cannot immediately adapt our production capacity and related cost structures to rapidly changing market conditions, when demand does not meet our expectations, our manufacturing capacity will likely exceed our production requirements. If, during a general market upturn or an upturn in one of our segments, we cannot increase our manufacturing capacity to meet product demand, we will not be able to fulfill orders in a timely manner which could lead to order cancellations, contract breaches or indemnification obligations. This inability could materially and adversely limit our ability to improve our results. By contrast, if during an economic downturn we had excess manufacturing capacity, then our fixed costs associated with excess manufacturing capacity would adversely affect our income, margins, and operating results.

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

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

- interruption to transportation flows for delivery of parts to us and finished goods to our customers;
- changes in foreign currency exchange rates;
- changes in a specific country's or region's political, economic or other conditions;
- trade protection measures and import or export licensing requirements;
- negative consequences from changes in tax laws;
- difficulty in staffing and managing widespread operations;
- differing labor regulations;
- differing protection of intellectual property;

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- unexpected changes in regulatory requirements; and
- geopolitical turmoil, including terrorism and war.

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

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

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

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

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

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

In the normal course of business, we frequently engage in discussions with third parties relating to possible acquisitions, strategic alliances, joint ventures and divestitures, and generally expect to complete several transactions per year. For example, during fiscal 2010, we closed our acquisition of Varian, Inc. and the sale of our Network Solutions Division. During fiscal 2011, we completed the acquisitions of A2 Technologies, Lab901 and Biocius Life Sciences Inc. During fiscal 2012, we completed various acquisitions, including Dako A/S, BioSystem Development LLC, Halo Genomics AB, the test systems division of AT4 wireless, and the test and measurement businesses of Centellax Inc. As a result of such transactions, our financial results may differ from our own or the

investment community's expectations in a given fiscal quarter, or over the long term. Such transactions often have post-closing arrangements including but not limited to post-closing adjustments, transition services, escrows or indemnifications, the financial results of which can be difficult to predict. In addition, acquisitions and strategic alliances may require us to integrate a different company culture, management team and business infrastructure. We may have difficulty developing, manufacturing and marketing the products of a newly acquired company in a way that enhances the performance of our combined businesses or product lines to realize the value from expected synergies. Depending on the size and complexity of an acquisition, our successful integration of the entity depends on a variety of factors, including:

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

In addition, effective internal controls are necessary for us to provide reliable and accurate financial reports and to effectively

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

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

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

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

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

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

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

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

- the possibility that the acquisition may not further our business strategy as we expected;
- the possibility that we may not be able to expand the reach and customer base for Dako current and future products as expected;
- the possibility that we may not be able to expand the reach and customer base for Agilent products as expected;
- the possibility that the carrying amounts of goodwill and other purchased intangible assets may not be recoverable; and

- the fact that the acquisition will substantially expand our diagnostics business, and we may not experience anticipated growth in that market.

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

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

The electronic measurement and life sciences industries are intensely competitive and have been subject to increasing consolidation. For instance, Danaher Corporation completed its acquisitions of Beckman Coulter, Inc. in June 2011 and IRIS

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International in November 2012; Thermo Fisher Scientific completed its acquisitions of Phadia in August 2011, Doe & Ingalls in May 2012, and One Lambda in September 2012; and PerkinElmer completed its acquisitions of Haoyuan Biotech in November 2012 and Caliper Life Sciences in November 2011. Consolidation in our industries could result in existing competitors increasing their market share through business combinations, which could have a material adverse effect on our business, financial condition and results of operations. We may not be able to compete successfully in increasingly consolidated industries and cannot predict with certainty how industry consolidation will affect our competitors or us.

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

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

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

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

As part of our acquisition of Varian, we assumed the liabilities of Varian, including Varian's costs and potential liabilities for environmental matters. One such cost is our obligation, along with the obligation of Varian Semiconductor Equipment Associates, Inc. ("VSEA") (under the terms of a Distribution Agreement between Varian, VSEA and Varian Medical Systems, Inc. ("VMS")) to each indemnify VMS for one-third of certain costs (after adjusting for any insurance proceeds and tax benefits recognized or realized by VMS for such costs) relating to (a) environmental investigation, monitoring and/or remediation activities at certain facilities previously operated by Varian Associates, Inc. ("VAI") and third-party claims made in connection with environmental conditions at those facilities, and (b) U.S. Environmental Protection Agency or third-party claims alleging that VAI or VMS is a potentially responsible party under the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended ("CERCLA") in connection with certain sites to which VAI allegedly shipped manufacturing waste for recycling, treatment or disposal (the "CERCLA sites"). With respect to the facilities formerly operated by VAI, VMS is overseeing the environmental investigation, monitoring and/or remediation activities, in most cases under the

direction of, or in consultation with, federal, state and/or local agencies, and handling third-party claims. VMS is also handling claims relating to the CERCLA sites. Although any ultimate liability arising from environmental- related matters could result in significant expenditures that, if aggregated and assumed to occur within a single fiscal year, could be material to our financial statements, the likelihood of such occurrence is considered remote. Based on information currently available and our best assessment of the ultimate amount and timing of environmental-related events, management believes that the costs of environmental-related matters are unlikely to have a material adverse effect on our financial condition or results of operations.

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

Our businesses are subject to various significant international, federal, state and local regulations, including but not limited to health and safety, packaging, product content, labor and import/export regulations. These regulations are complex, change frequently and have tended to become more stringent over time. We may be required to incur significant expenses to comply with these regulations or to remedy violations of these regulations. Any failure by us to comply with applicable government regulations

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could also result in cessation of our operations or portions of our operations, product recalls or impositions of fines and restrictions on our ability to carry on or expand our operations. In addition, because many of our products are regulated or sold into regulated industries, we must comply with additional regulations in marketing our products.

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

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

A number of our products from our life sciences, chemical analysis and diagnostics and genomics businesses are subject to regulation by the United States Food and Drug Administration ("FDA") and certain similar foreign regulatory agencies. In addition, a number of our products may be in the future subject to regulation by the FDA and certain similar foreign regulatory agencies. As such, we continually invest in our manufacturing infrastructure to gain and maintain certifications necessary for the level of clearance. Our pathology manufacturing facilities in Denmark and California have established quality management systems and manufacturing practices designed to comply with the adequate standards for the in vitro diagnostics industry, including ISO 13485 Medical devices and FDA 21CFR Part 820 quality system regulation as well as additional international standards. Our genomics Cedar Creek, Texas manufacturing facility has been registered with the FDA as a medical device manufacturing facility. This FDA registered facility is the site where our class I ASR SureFISH products are manufactured. Additionally, other facilities maintain ISO 13485 manufacturing compliance. If we or any of our suppliers or distributors fail to comply with FDA and other applicable regulatory requirements or are perceived to potentially have failed to comply, we may face, among other things, adverse publicity affecting both us and our customers, investigations or notices of non-compliance, fines, injunctions, and civil penalties; partial suspensions or total shutdown of production facilities or the imposition of operating restrictions; increased difficulty in obtaining required FDA clearances or approvals; seizures or recalls of our products or those of our customers; or the inability to sell our products.

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

We derive a portion of our revenues from direct and indirect sales to U.S., state, local, and foreign governments and their respective agencies. Such contracts are subject to various procurement laws and regulations, and contract provisions relating to their formation, administration and performance. Failure to comply with these laws, regulations or provisions in our government contracts could result in the imposition of various civil and criminal penalties, termination of contracts, forfeiture of profits, suspension of payments, or suspension from future government contracting. If our government contracts are terminated, if we are suspended from government work, or if our ability to compete for new contracts is adversely affected, our business could suffer.

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

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

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

From time to time, third parties may claim that one or more of our products or services infringe their intellectual property rights. We analyze and take action in response to such claims on a case by case basis. Any dispute or litigation regarding patents

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

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

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

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

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

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

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

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

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

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

Although the cash generated in the United States from our operations covers our normal operating requirements and debt service requirements, a substantial amount of additional cash is required for special purposes such as the maturity of our debt obligations, including our senior notes coming due in July 2013, our stock repurchase program, our declared dividends and

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acquisitions of third parties. Our business operating results, financial condition, and strategic initiatives could be adversely impacted if we were unable to address our U.S. cash requirements through (1) the efficient and timely repatriations of overseas cash or (2) other sources of cash obtained at an acceptable cost.

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

We currently have outstanding an aggregate principal amount of $2.25 billion in senior unsecured notes and a $44 million secured mortgage. We also are a party to a five-year senior unsecured revolving credit facility which expires in October, 2016 and under which we may borrow up to $400 million and a Danish Krone denominated credit facility equivalent to $9 million. We may borrow additional amounts in the future and use the proceeds from any future borrowing for general corporate purposes, other future acquisitions, expansion of our business or repurchases of our outstanding shares of common stock.

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

- increasing our vulnerability to downturns in our business, to competitive pressures and to adverse economic and industry conditions;
- requiring the dedication of an increased portion of our expected cash from operations to service our indebtedness, thereby reducing the amount of expected cash flow available for other purposes, including capital expenditures, acquisitions and stock repurchases; and
- limiting our flexibility in planning for, or reacting to, changes in our business and our industry.

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

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

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

have elected to self-insure, we may be at a greater risk that our operations will be harmed by a catastrophic loss.

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

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

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the misappropriation or unauthorized disclosure of confidential information belonging to us or to our employees, partners, customers or suppliers, which could result in our suffering significant financial or reputational damage.

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

As of October 31, 2012, we had cash and cash equivalents of approximately $2.35 billion invested or held in a mix of money market funds, time deposit accounts and bank demand deposit accounts. Disruptions in the financial markets may, in some cases, result in an inability to access assets such as money market funds that traditionally have been viewed as highly liquid. Any failure of our counterparty financial institutions or funds in which we have invested may adversely impact our cash and cash equivalent positions and, in turn, our results and financial condition.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of October 31, 2012 we owned or leased a total of approximately 11.1 million square feet of space worldwide including the Dako acquisition. Of that, we owned approximately 8.6 million square feet and leased the remaining 2.5 million square feet. Our sales and support facilities occupied a total of approximately 1.4 million square feet. Our manufacturing plants, R&D facilities and warehouse and administrative facilities occupied approximately 9.7 million square feet. All of our businesses share sales offices throughout the world.

Information about each of our businesses appears below:

Life Sciences Group. Our life science measurement business has manufacturing and R&D facilities in Singapore, Malaysia, Germany, Poland, U.K. and the U.S.

Chemical Analysis Group. Our chemical analysis measurement business has manufacturing and R&D facilities in Australia, China, Malaysia, Italy, Japan, Netherlands, U.K. and the U.S.

Diagnostics & Genomics Group. Our diagnostic and genomics business has manufacturing and R&D facilities in Denmark and the U.S.

Electronic Measurement Group. Our electronic measurement business has manufacturing and R&D facilities in China, Germany, Japan, Malaysia, Singapore, India and the U.S.

Item 3. Legal Proceedings

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

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PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on the New York Stock Exchange with the ticker symbol “A”. The following table sets forth the high and low sale prices and the dividend payments per quarter for the 2011 and 2012 fiscal years as reported in the consolidated transaction reporting system for the New York Stock Exchange:

Fiscal 2011	High	Low	Dividends
First Quarter (ended January 31, 2011)	$44.45	$34.38	N/A
Second Quarter (ended April 30, 2011)	$50.68	$39.94	N/A
Third Quarter (ended July 31, 2011)	$55.33	$41.29	N/A
Fourth Quarter (ended October 31, 2011)	$42.78	$28.67	N/A

Fiscal 2012	High	Low	Dividends
First Quarter (ended January 31, 2012)	$44.85	$32.51	N/A
Second Quarter (ended April 30, 2012)	$46.28	$39.15	$0.10
Third Quarter (ended July 31, 2012)	$43.27	$35.32	$0.10
Fourth Quarter (ended October 31, 2012)	$40.97	$35.38	$0.10

As of December 1, 2012, there were 33,750 common stockholders of record.

We paid our first quarterly dividend on April 25, 2012 to shareholders of record as of the close of business on April 3, 2012. During fiscal 2012, we issued three quarterly dividends, each in the amount of $0.10 per share. On November 16, 2012, we announced a dividend in the amount of $0.10 per share payable on January 23, 2013 to the shareholders of record as of the close of business on December 31, 2012. All decisions regarding the declaration and payment of dividends are at the discretion of our Board of Directors and will be evaluated regularly in light of our financial condition, earnings, growth prospects, funding requirements, applicable law, and any other factors that our Board deems relevant. The information required by this item with respect to equity compensation plans is included under the caption Equity Compensation Plans in our proxy statement for the annual meeting of stockholders to be held March 20, 2013, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, and is incorporated herein by reference.

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ISSUER PURCHASES OF EQUITY SECURITIES

The table below summarizes information about the company's purchases, based on trade date; of its equity securities registered pursuant to Section 12 of the Exchange Act during the quarterly period ended October 31, 2012. The total number of shares of common stock purchased by the company during the year ended October 31, 2012 is 4,500,000.

Period	Total Number of Shares of Common Stock Purchased(1)	Weighted Average Price Paid per Share of Common Stock(2)	Total Number of Shares of Common Stock Purchased as Part of Publicly Announced Plans or Programs(1)	Maximum Approximate Dollar Value of Shares of Common Stock that May Yet Be Purchased Under the Plans or Programs (in millions)
	(a)	(b)	(c)	(d)
Aug. 1, 2012 through Aug. 31, 2012	—	—	—	NA
Sep. 1, 2012 through Sep. 30, 2012	500,000	38.49	500,000	NA
Oct. 1, 2012 through Oct. 31, 2012	2,000,000	$37.53	2,000,000	NA
Total	2,500,000	$37.72	2,500,000	

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

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

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Item 6. Selected Financial Data

SELECTED FINANCIAL DATA
(Unaudited)

	Years Ended October 31,				
	2012	2011	2010	2009	2008
	(in millions, except per share data)				
Consolidated Statement of Operations Data:	(2)		(1)		
Net revenue	$6,858	$6,615	$5,444	$4,481	$5,774
Income before taxes	$1,043	$1,032	$692	$7	$815
Net income (loss)	$1,153	$1,012	$684	$(31)	$693
Net income (loss) per share — Basic:	$3.31	$2.92	$1.97	$(0.09)	$1.91
Net income (loss) per share — Diluted:	$3.27	$2.85	$1.94	$(0.09)	$1.87
Weighted average shares used in computing basic net income (loss) per share	348	347	347	346	363
Weighted average shares used in computing diluted net income (loss) per share	353	355	353	346	371
Cash dividends declared per common share	$0.30	—	—	—	—

	October 31,				
	2012	2011	2010	2009	2008
	(in millions)				
Consolidated Balance Sheet Data:	(2)		(1)		
Cash and cash equivalents and short-term investments	$2,351	$3,527	$2,649	$2,493	$1,429
Working capital	$2,736	$3,732	$3,086	$2,838	$1,852
Long-term restricted cash and cash equivalents	$—	$—	$—	$1,566	$1,582
Total assets	$10,536	$9,057	$9,696	$7,612	$7,007
Long-term debt	$2,112	$1,932	$2,190	$2,904	$2,125
Stockholders' equity	$5,182	$4,308	$3,228	$2,506	$2,559

(1) Consolidated financial data includes Varian, acquired on May 14, 2010.
(2) Consolidated financial data includes Dako, acquired on June 21, 2012 and non-recurring tax benefit relating to the reversal of U.S. valuation allowance.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Overview and Executive Summary

Agilent is the world's premier measurement company, providing core bio-analytical and electronic measurement solutions to the life sciences, chemical analysis, diagnostics and genomics, communications and electronics industries. Our fiscal year end is October 31. Unless otherwise stated, all years and dates refer to our fiscal year.

Agilent's total orders in 2012 were $6,877 million, an increase of 2 percent when compared to 2011. The increase in orders associated with the Dako acquisition accounted for 2 percentage points of order growth for the year ended October 31, 2012 when compared to 2011. Within each of our life sciences, chemical analysis and electronic measurement businesses, orders were flat when compared to the prior year. Orders within our diagnostics and genomics business increased 44 percent when compared to last year and was attributable to the Dako acquisition. Agilent's total orders in 2011 increased 18 percent when compared to 2010. The increase in orders associated with the Varian acquisition less the orders attributable to our divested businesses accounted for 5 percentage points of order growth for the year ended October 31, 2011 when compared to 2010.

Agilent's net revenue of $6,858 million increased 4 percent when compared to 2011. The revenue increase associated with the Dako acquisition accounted for approximately 2 percentage points of the revenue increase for the year ended October 31, 2012 when compared to 2011. Foreign currency movements for 2012 had an unfavorable impact of approximately1 percentage point compared to 2011. There was modest growth in demand for life sciences products led by an increase in revenue from the pharmaceutical and biotechnology market, but there was also a corresponding decrease in revenue from the academic and government market for the year ended October 31, 2012, when compared to the prior year. Within our chemical analysis business revenue grew moderately compared with the prior year. There were modest increases in revenue from the food safety and forensics markets, but environmental and petrochemical markets were relatively flat when compared to the prior year. The diagnostics and genomics business growth compared to the prior year was attributable to the acquisition of Dako. Within electronic measurement, total revenue from general purpose markets was flat in 2012 when compared to the prior year with a modest shortfall in revenue from aerospace and defense offset by an increase in revenue from the computer and semi-conductor market. Also within electronic measurement, the communications test business was flat for the year ended October 31, 2012 when compared to the prior year with wireless manufacturing reporting good revenue growth in the year offset by a decline

in the revenue from the wireless R&D market. Agilent's total net revenue in 2011 increased 22 percent when compared to 2010. The revenue increase associated with the Varian acquisition less the revenue attributable to our divested businesses accounted for 5 percentage points of revenue increase for the year ended October 31, 2011 when compared to 2010.

Net income was $1,153 million in 2012 compared to net income of $1,012 million and $684 million in 2011 and 2010, respectively. In 2012, 2011 and 2010 we generated operating cash flows of $1,228 million, $1,260 million and $718 million, respectively. As of October 31, 2012 and 2011 we had cash and cash equivalents balances of $2,351 million and $3,527 million, respectively.

On June 21, 2012, we completed our acquisition of Dako A/S through the acquisition of 100% of the share capital of Dako A/S, a limited liability company incorporated under the laws of Denmark (“Dako”), under the share purchase agreement, dated May 16, 2012. Dako provides antibodies, reagents, scientific instruments and software primarily to customers in pathology laboratories. As a result of the acquisition, Dako became a wholly-owned subsidiary of Agilent. The consideration paid was approximately $2,143 million, of which $1,400 million was paid directly to the seller and $743 million was paid to satisfy the

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outstanding debt of Dako. Agilent funded the acquisition using existing cash. The acquisition has been accounted for in accordance with the authoritative accounting guidance and the results of Dako are included in Agilent's consolidated financial statements from the date of acquisition. The acquisition of Dako and its portfolio is another step to increase our growth in several rapidly expanding areas of diagnostics, including anatomic pathology and molecular diagnostics, as well as strengthen our existing offerings with a focus on product development to help in the fight against cancer. For additional details related to the acquisition of Dako, see Note 3, "Acquisitions".

Looking forward, we believe we have entered a slow-growth environment where continued uncertainty will dampen demand for our products and services. There are improvements to be achieved in operating performance by leveraging our value engineering, purchase power, logistics and manufacturing capabilities. We also have a number of variable cost mechanisms that we are able to use moving forward. We expect to continue to introduce innovative technologies and deliver market-leading products, while we make progress in optimizing our order fulfillment and manufacturing operations.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management's best knowledge of current events and actions that may impact the company in the future, actual results may be different from the estimates. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used or changes in the accounting estimate that are reasonably likely to occur could materially change the financial statements. Our critical accounting policies are those that affect our financial statements materially and involve difficult, subjective or complex judgments by management. Those policies are revenue recognition, inventory valuation, share-based compensation, retirement and post-retirement plan assumptions, valuation of goodwill and purchased intangible assets and accounting for income taxes.

Revenue recognition. We enter into agreements to sell products (hardware or software), services, and other arrangements (multiple element arrangements) that include combinations of products and services. Revenue from product sales, net of trade discounts and allowances, is recognized provided that persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, and collectability is reasonably assured. Delivery is considered to have occurred when title and risk of loss have transferred to the customer. Revenue is reduced for estimated product returns, when appropriate. For sales that include customer-specified acceptance criteria, revenue is recognized after the acceptance criteria have been met. For products that include installation, if the installation meets the criteria to be considered a separate element, product revenue is recognized upon delivery, and recognition of installation revenue occurs when the installation is complete. Otherwise, neither the product nor the installation revenue is recognized until the installation is complete. Revenue from services is deferred and recognized over the contractual period or as services are rendered and accepted by the customer. We allocate revenue to each element in our multiple-element arrangements based upon their relative selling prices. We determine the selling price for each deliverable based on a selling price hierarchy. The selling price for a deliverable is based on our vendor specific objective evidence (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available. Revenue from the sale of software products that are not required to deliver the tangible product's essential functionality are accounted for under software revenue recognition rules. Revenue allocated to each element is then recognized when the basic revenue recognition criteria for that element have been met. The amount of product revenue recognized is affected by our judgments as to whether an arrangement includes multiple elements.

We use VSOE of selling price in the selling price allocation in all instances where it exists. VSOE of selling price for products and services is determined when a substantial majority of the selling prices fall within a reasonable range when sold separately. TPE of selling price can be established by evaluating largely interchangeable competitor products or services in standalone sales to similarly situated customers. As our products contain a significant element of proprietary technology and the solution offered differs substantially from that of competitors, it is difficult to obtain the reliable standalone competitive pricing necessary to establish TPE. ESP represents the best estimate of the price at which we would transact a sale if the product or service were sold on a standalone basis. We determine ESP for a product or service by using historical selling prices which reflect multiple factors including, but not limited to customer type, geography, market conditions, competitive landscape, gross margin objectives and pricing practices. The determination of ESP is made through consultation with and approval by management. We may modify or develop new pricing practices and strategies in the future. As these pricing strategies evolve, we may modify our pricing practices in the future, which may result in changes in ESP. The aforementioned factors may result in a different allocation of revenue to the deliverables in multiple element arrangements, which may change the pattern and timing of revenue recognition for these elements but will not change the total revenue recognized for the arrangement.

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Inventory valuation. We assess the valuation of our inventory on a periodic basis and make adjustments to the value for estimated excess and obsolete inventory based upon estimates about future demand and actual usage. Such estimates are difficult to make under most economic conditions. The excess balance determined by this analysis becomes the basis for our excess inventory charge. Our excess inventory review process includes analysis of sales forecasts, managing product rollovers and working with manufacturing to maximize recovery of excess inventory. If actual market conditions are less favorable than those projected by management, additional write-downs may be required. If actual market conditions are more favorable than anticipated, inventory previously written down may be sold to customers, resulting in lower cost of sales and higher income from operations than expected in that period.

Share-based compensation. We account for share-based awards in accordance with the authoritative guidance. Under the authoritative guidance, share-based compensation expense is primarily based on estimated grant date fair value and is recognized on a straight line basis. The fair value of share-based awards for employee stock option awards was estimated using the Black-Scholes option pricing model. Shares granted under the LTPP were valued using the Monte Carlo simulation model. The estimated fair value of restricted stock unit awards is determined based on the market price of Agilent's common stock on the date of grant adjusted for expected dividend yield. On January 17, 2012, the company's Board of Directors approved the initiation of quarterly cash dividends to the company's shareholders. The fair value of all the awards granted prior to the declaration of quarterly cash dividend was measured based on an expected dividend yield of 0%. The ESPP allows eligible employees to purchase shares of our common stock at 85 percent of the fair market value at the purchase date.

Both the Black-Scholes and Monte Carlo simulation fair value models require the use of highly subjective and complex assumptions, including the option's expected life and the price volatility of the underlying stock. The expected stock price volatility assumption was determined using the historical volatility of Agilent's stock option over the most recent historical period equivalent to the expected life. A 10 percent increase in our estimated volatility from 38 percent to 48 percent for our most recent employee stock option grant would generally increase the value of an award and the associated compensation cost by approximately 23 percent if no other factors were changed.

In 2010 the expected life of our employee stock options was 4.4 years. In the first quarter of 2011, we revised our estimate of the expected life of our employee stock options from 4.4 to 5.8 years. For the grants awarded under the 2009 stock plan after November 1, 2010, we increased the period available to retirement eligible employees to exercise their options from three years at retirement date to the full contractual term of ten years. In developing our estimated life of our employee stock options of 5.8 years, we considered the historical option exercise behavior of our executive employees who were granted the majority of the options in the annual grants, which we believe is representative of future behavior. There was no change to the expected life of our employee stock options in 2012. See Note 4, "Share-based Compensation," to the consolidated financial statements for more information.

The assumptions used in calculating the fair value of share-based awards represent our best estimates, but these estimates involve inherent uncertainties and the application of management judgment. Although we believe the assumptions and estimates we have made are reasonable and appropriate, changes in assumptions could materially impact our reported financial results.

Retirement and post-retirement benefit plan assumptions. Retirement and post-retirement benefit plan costs are a significant cost of doing business. They represent obligations that will ultimately be settled sometime in the future and therefore are subject to estimation. Pension accounting is intended to reflect the recognition of future benefit costs over the employees' average expected future service to Agilent based on the terms of the plans and investment and funding decisions. To estimate the impact of these future payments and our decisions concerning funding of these obligations, we are required to make assumptions using actuarial concepts within the framework of accounting principles generally accepted in the U.S. Two critical assumptions are the discount rate and the expected long-term return on plan assets. Other important assumptions include, expected future salary increases, expected future increases

to benefit payments, expected retirement dates, employee turnover, retiree mortality rates, and portfolio composition. We evaluate these assumptions at least annually.

The discount rate is used to determine the present value of future benefit payments at the measurement date - October 31 for both U.S. and non-U.S. plans. For 2012 and 2011, the U.S. discount rates were based on the results of matching expected plan benefit payments with cash flows from a hypothetically constructed bond portfolio and decreased in 2012 from the previous year. For 2012 and 2011, the discount rate for non-U.S. plans was generally based on published rates for high quality corporate bonds and either remained unchanged or decreased. Lower discount rates increase present values and subsequent year pension expense; higher discount rates decrease present values and subsequent year pension expense.

The company uses alternate methods of amortization as allowed by the authoritative guidance which amortizes the actuarial gains and losses on a consistent basis for the years presented. For U.S. Plans, gains and losses are amortized over the average future working lifetime. For most Non-U.S. Plans and U.S. Post-Retirement Benefit Plans, gains and losses are amortized using

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a separate layer for each year's gains and losses. The expected long-term return on plan assets is estimated using current and expected asset allocations as well as historical and expected returns. Plan assets are valued at fair value. If we changed our estimated return on assets by 1 percent, the impact would be $6 million on U.S. pension expense and $17 million on non-U.S. pension expense. The net periodic pension and post-retirement benefit costs recorded in operations excluding curtailments and settlements were $52 million in 2012, $58 million in 2011, and $82 million in 2010.

Goodwill and purchased intangible assets. Agilent reviews goodwill for impairment annually during our fourth fiscal quarter and whenever events or changes in circumstances indicate the carrying value may not be recoverable. As defined in the authoritative guidance, a reporting unit is an operating segment, or one level below an operating segment. We aggregated components of an operating segment that have similar economic characteristics into our reporting units. At the time of an acquisition, we assign goodwill to the reporting unit that is expected to benefit from the synergies of the combination. Subsequent to October 31, 2011, we formed a fourth segment, diagnostics and genomics, from a portion of our life sciences segment. As a result, Agilent now has four segments, life sciences, chemical analysis, diagnostics and genomics and electronic measurement, which are the same as our reporting units

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

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

The qualitative indicators replace those previously used to determine whether an interim goodwill impairment test is required. Agilent opted to early adopt this guidance for the year ended October 31, 2011.

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

In fiscal year 2012, we assessed goodwill impairment for our four reporting units; life sciences, chemical analysis, diagnostics and genomics and electronic measurement. Based on our results of our qualitative test for goodwill impairment, by reporting unit, as of September 30, 2012, we believe that it is more-likely-than-not that the fair value of each of our four reporting units, life sciences, chemical analysis, diagnostics and genomics and electronic measurement, is greater than their respective carrying values. There was no impairment of goodwill during the years ended October 31, 2012, 2011 and 2010. Each quarter we review the events and circumstances to determine if goodwill impairment is indicated.

Purchased intangible assets consist primarily of acquired developed technologies, proprietary know-how, trademarks, and customer relationships and are amortized using the straight-line method over estimated useful lives ranging from

6 months to 15 years. In-process research and development (IPR&D) is initially capitalized at fair value as an intangible asset with an indefinite life and assessed for impairment thereafter. When the IPR&D project is complete, it is reclassified as an amortizable purchased intangible asset and is amortized over its estimated useful life. If an IPR&D project is abandoned, Agilent will record a charge for the value of the related intangible asset to Agilent's consolidated statement of operations in the period it is abandoned.

In July 2012, the FASB simplified the guidance for testing for impairment of indefinite-lived intangible assets other than goodwill. The changes are intended to reduce compliance costs. Agilent's indefinite-lived intangible assets are in the IPR&D intangible assets. The revised guidance allows a qualitative approach for testing indefinite-lived intangible assets for impairment, similar to the recently issued impairment testing guidance for goodwill and allows the option to first assess qualitative factors (events and circumstances) that could have affected the significant inputs used in determining the fair value of the indefinite-lived intangible asset to determine whether it is more likely than not (meaning a likelihood of more than 50 percent) that the indefinite-lived intangible asset is impaired. An organization may choose to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to calculating its fair value. The amendments are effective for annual and

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interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. Agilent adopted this guidance for the year ended October 31, 2012. We recorded an impairment of $1 million in 2012, relating to an IPR&D project that was abandoned. No impairments were recorded in 2011 and 2010.

We continually monitor events and changes in circumstances that could indicate carrying amounts of long-lived assets, including purchased intangible assets, may not be recoverable. When such events or changes in circumstances occur, we assess the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the undiscounted future cash flows is less than the carrying amount of those assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets. In 2012, we recorded $1 million of impairments of other intangibles related to the cancellation of an in-process research and development project. We performed impairment analyses of purchased intangible assets in 2011 and recorded $3 million of impairment charges primarily related to a business where we ceased operations. We performed impairment analyses of purchased intangible assets in 2010 and recorded $13 million of impairment charges primarily related to a divested business.

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

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

During the fourth quarter of 2012, we concluded that the valuation allowance for most of our U.S. federal and state deferred tax assets is no longer needed primarily due to the emergence from cumulative losses in recent years, the return to sustainable U.S. operating profits and the expectation of sustainable profitability in future periods. As of October 31, 2012, the cumulative positive evidence outweighed the negative evidence regarding the likelihood that most of the deferred tax asset for Agilent's U.S. consolidated income tax group will be realized. Accordingly, we recognized a non-recurring, non-cash tax benefit of $280 million relating to the valuation allowance reversal.

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

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax law and regulations in a multitude of jurisdictions. Although the guidance on the accounting for uncertainty in income taxes prescribes the use of a recognition and measurement model, the determination of whether an uncertain tax position has met those thresholds will continue to require significant judgment by management. In accordance with the guidance on the accounting for uncertainty in income taxes, for all U.S. and other tax jurisdictions, we recognize potential liabilities for anticipated tax audit issues based on our estimate of whether, and the extent to which, additional taxes

and interest will be due. The ultimate resolution of tax uncertainties may differ from what is currently estimated, which could result in a material impact on income tax expense. If our estimate of income tax liabilities proves to be less than the ultimate assessment, a further charge to expense would be required. If events occur and the payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. We include interest and penalties related to unrecognized tax benefits within the provision for income taxes on the consolidated statements of operations.

As a part of our accounting for business combinations, intangible assets are recognized at fair values and goodwill is measured as the excess of consideration transferred over the net estimated fair values of assets acquired. Impairment charges associated with goodwill are generally not tax deductible and will result in an increased effective income tax rate in the period that any impairment is recorded. Amortization expenses associated with acquired intangible assets are generally not tax deductible and therefore deferred tax liabilities have been recorded for non-deductible amortization expenses as a part of the accounting for business combinations.

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Adoption of New Pronouncements

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

Restructuring Costs, Asset Impairments and Other Charges

Our 2009 restructuring program, the ("FY 2009 Plan"), announced in the first half of 2009, was conceived in response to deteriorating economic conditions and was designed to deliver sufficient savings to enable our businesses to reach their profitability targets throughout the cycle. Workforce reduction payments, primarily severance, were largely complete in fiscal year 2010. Lease payments should primarily be complete by the end of fiscal 2014.

Foreign Currency

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

Results from Operations

Orders and Net Revenue

	Years Ended October 31,			2012 over 2011	2011 over 2010
	2012	2011	2010	% Change	% Change
	(in millions)				
Orders	$6,877	$6,769	$5,744	2%	18%
Net revenue:					
Products	$5,659	$5,482	$4,464	3%	23%
Services and other	$1,199	$1,133	$980	6%	16%
Total net revenue	$6,858	$6,615	$5,444	4%	22%

	Years Ended October 31,			2012 over 2011	2011 over 2010
	2012	2011	2010	Ppts Change	Ppts Change
% of total net revenue:					
Products	83 %	83 %	82 %	—	1 ppt
Services and other	17 %	17 %	18 %	—	(1) ppt
Total	100 %	100 %	100 %		

Agilent's total orders in 2012 were $6,877 million, an increase of 2 percent when compared to 2011. The increase in orders associated with the Dako acquisition accounted for 2 percentage points of order growth for the year ended October 31, 2012 when compared to 2011. Within each of our life sciences, chemical analysis and electronic

measurement businesses, orders were flat when compared to the prior year. Orders within our diagnostics and genomics business increased 44 percent when compared to last year and was attributable to the Dako acquisition. Agilent's total orders in 2011 increased 18 percent when compared to 2010. The increase in orders associated with the Varian acquisition less the orders attributable to our divested businesses accounted for 5 percentage points of order growth for the year ended October 31, 2011 when compared to 2010.

Agilent's net revenue of $6,858 million increased 4 percent when compared to 2011. The revenue increase associated with the Dako acquisition accounted for approximately 2 percentage points of the revenue increase for the year ended October 31, 2012 when compared to 2011. Foreign currency movements for 2012 had an unfavorable impact of approximately 1 percentage point

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compared to 2011. There was modest growth in demand for life sciences products led by an increase in revenue from the pharmaceutical and biotechnology market, but there was also a corresponding decrease in revenue from the academic and government market for the year ended October 31, 2012, when compared to the prior year. Within our chemical analysis business revenue grew moderately compared with the prior year. There were modest increases in revenue from the food safety and forensics markets, but environmental and petrochemical markets were relatively flat when compared to the prior year. The diagnostics and genomics business growth compared to the prior year was attributable to the acquisition of Dako. Within electronic measurement, total revenue from general purpose markets was flat in 2012 when compared to the prior year with a modest shortfall in revenue from aerospace and defense offset by an increase in revenue from the computer and semi-conductor market. Also within electronic measurement, the communications test business was flat for the year ended October 31, 2012 when compared to the prior year with wireless manufacturing reporting good revenue growth in the year offset by a decline in the revenue from the wireless R&D market. Agilent's total net revenue in 2011 increased 22 percent when compared to 2010. The revenue increase associated with the Varian acquisition less the revenue attributable to our divested businesses accounted for 5 percentage points of revenue increase for the year ended October 31, 2011 when compared to 2010. Note 21, "Segment Information" shows a reconciliation between segment revenue and net revenue.

Services and other revenue include revenue generated from servicing our installed base of products, warranty extensions and consulting. Services and other revenue increased 6 percent in 2012 as compared to 2011. The service and other revenue growth is higher than product revenue growth due to a portion of the revenue being driven more by the previously installed base than current period product sales. Services and other revenue increased 16 percent in 2011 as compared to 2010. The increase in services and other revenue associated with the Varian acquisition less the revenue attributable to the network solutions divestiture accounted for 2 percentage points of revenue increase in 2011.

Backlog

Backlog represents the amount of revenue expected from orders that have already been booked, including orders for goods and services that have not been delivered to customers, orders invoiced but not yet recognized as revenue, and orders for goods that were shipped but not invoiced, awaiting acceptance by customers. Backlog amounts have been restated for the year ended October 31, 2011 to conform to this definition.
On October 31, 2012, our unfilled backlog for the electronic measurement business was approximately $800 million, as compared to approximately $850 million at October 31, 2011. On October 31, 2012, our unfilled backlog for the chemical analysis business was approximately $360 million, as compared to approximately $320 million at October 31, 2011. Within our life sciences business, our unfilled backlog was approximately $500 million on October 31, 2012 as compared to approximately $490 million at October 31, 2011. On October 31, 2012, our unfilled backlog for the diagnostics and genomics business was approximately $30 million, as compared to approximately $30 million at October 31, 2011. We expect that a majority of the unfilled backlog for all four businesses will be delivered to customers within six months. On average, our unfilled backlog represents approximately three months' worth of revenues. We believe backlog on any particular date, while indicative of short-term revenue performance, is not necessarily a reliable indicator of medium or long-term revenue performance.

Costs and Expenses

	Years Ended October 31,			2012 over 2011 Change	2011 over 2010 Change
	2012	2011	2010		
Gross margin on products	53.9 %	54.9 %	55.7 %	(1) ppt	(1) ppt
Gross margin on services and other	46.1 %	45.9 %	45.1 %	—	1 ppt
Total gross margin	52.6 %	53.3 %	53.8 %	(1) ppt	(1) ppt

Operating margin	16.3	%	16.2	%	10.3	%	—	6 ppts
(in millions)								
Research and development	$668		$649		$612		3%	6%
Selling, general and administrative	$1,817		$1,809		$1,752		—	3%

In 2012, total gross margin decreased 1 percentage point in comparison to 2011. The unfavorable impact of product mix, increased intangible amortization and inventory fair value adjustments related to the Dako acquisition were offset by lower variable and incentive pay. In 2011, total gross margins decreased 1 percentage point in comparison to 2010. The unfavorable impact of the Varian acquisition (including fair value adjustments) and higher variable and incentive pay were largely offset by the benefits of favorable volume impacts, decreased business and infrastructure programs and lower restructuring costs. Operating margins in

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2012 were flat when compared to 2011. This was the result of maintaining cost control through a decrease in variable and incentive pay while absorbing increases in expenditure from acquisitions and wage increases. Operating margins in 2011 increased 6 percentage points as compared to 2010 due to higher volume partly offset by increased variable and incentive pay.

Gross inventory charges were $30 million in 2012, 2011 and 2010. Sales of previously written down inventory were $5 million in 2012, 2011 and 2010.

Our research and development efforts focus on potential new products and product improvements covering a wide variety of technologies, none of which is individually significant to our operations. We conduct five types of research and development: basic research, foundation technologies, communications, life sciences and measurement. Our research seeks to improve on various technical competencies in electronics, software, systems and solutions, life sciences and photonics. In each of these research fields, we conduct research that is focused on specific product development for release in the short-term as well as other research that is intended to be the foundation for future products over a longer time-horizon. Some of our product development research is designed to improve on the more than 20,000 products already in production, focus on major new product releases, and develop new product segments for the future. Due to the breadth of research and development projects across all of our businesses, there are a number of drivers of this expense. We remain committed to invest about 10 percent of revenues in research and development and have focused our development efforts on key strategic opportunities to align our business with available markets and position ourselves to capture market share.

Research and development expenditures increased 3 percent in 2012 compared to 2011. Increased expenditure was due to our continued investment in new product development and technologies and increased costs due to acquisitions, primarily Dako, offset by lower variable and incentive pay. Research and development expenditures increased 6 percent in 2011 compared to 2010. Increases were due to new product development, the Varian acquisition and higher variable and incentive pay. These increases were partly offset by the impact of the divested businesses (the network solutions and Hycor businesses) and decreased restructuring expenses.

Selling, general and administrative expenses were flat in 2012 when compared to 2011. Increases were due to the acquisition of Dako, wage increases and investments in sales channel coverage offset by decreases in variable and incentive pay and lower commissions. Selling general and administrative expenses increased 3 percent in 2011 compared to 2010. Increased expenditure was due to the Varian acquisition and higher variable and incentive pay offset by the impact of decreased restructuring expenses and the costs associated with the divested businesses (the network solutions and Hycor businesses).

For the year ended October 31, 2010 we recorded a $132 million gain on the sale of our network solutions business and $54 million of other income in respect of a tax sharing settlement with Hewlett Packard Company.

Interest expense for the years ended October 31, 2012, 2011 and 2010 was $101 million, $86 million and $96 million, respectively, and relates to the interest charged on our senior notes offset by the amortization of deferred gains recorded upon termination of interest rate swap contracts.

At October 31, 2012, our headcount was approximately 20,500 compared to 18,700 in 2011 and 18,500 in 2010. A significant proportion of the increase in our headcount in 2012, compared to 2011, was due to the Dako acquisition.

Income Taxes

	Years Ended October 31,		
	2012	2011	2010

	(in millions)		
Provision (benefit) for income taxes	$(110)	$20	$8

For 2012, the effective tax rate reflects a favorable benefit of 11 percent. The 11 percent effective tax rate benefit reflects tax on earnings in jurisdictions that have low effective tax rates and includes a $280 million tax benefit due to the reversal of a valuation allowance for most U.S. federal and state deferred tax assets. Valuation allowances require an assessment of both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable. Such assessment is required on a jurisdiction by jurisdiction basis. In the fourth quarter of 2012, management concluded that the valuation allowance for most of Agilent's U.S. federal and state deferred tax assets is no longer needed primarily due to the emergence from cumulative losses in recent years, the return to sustainable U.S. operating profits and the expectation of sustainable profitability in future periods. As of October 31, 2012, the cumulative positive evidence outweighed the negative evidence regarding the likelihood that most of the deferred tax asset for Agilent's U.S. consolidated income tax group will be realized. Accordingly, we recognized a

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non-recurring tax benefit of $280 million relating to the valuation allowance reversal. The effective tax rate also includes a non-recurring tax expense of $88 million relating to an increase in the overall residual U.S. tax expected to be imposed upon the repatriation of unremitted foreign earnings previously considered permanently reinvested. During the fourth quarter of 2012, we assessed the forecasted cash needs and overall financial position of our foreign subsidiaries and determined that a portion of previously permanently reinvested earnings would no longer be reinvested overseas. The effective tax rate is also reduced by a $68 million tax benefit primarily associated with the recognition of previously unrecognized tax benefits and the reversal of the related interest accruals due to the reassessment of certain uncertain tax positions relating to foreign jurisdictions.

For 2011, the effective tax rate was 2 percent. The 2 percent effective tax rate reflects tax on earnings in jurisdictions that had low effective tax rates and includes a $97 million net tax benefit primarily associated with a refund in Canada and the recognition of previously unrecognized tax benefits and the reversal of the related interest accruals due to the reassessment of certain uncertain tax positions. The income tax provision also included a $26 million out of period adjustment to reduce the carrying value of certain U.K. deferred tax assets for which the majority was recorded in the quarter ended April 30, 2011. The overstatement of these deferred tax assets resulted in an overstatement of the U.K. valuation allowance release in the fourth quarter of 2010. For the full year, this out of period adjustment was substantially offset by other out of period adjustments. The net impact of all out of period adjustments on the effective tax rate was immaterial. Without considering interest and penalties, the effective rate reflected taxes in all jurisdictions except the U.S. and certain foreign jurisdictions in which income tax expense or benefit continued to be offset by adjustments to valuation allowances.

For 2010, the effective tax rate was 1 percent. The 1 percent effective tax rate included a $101 million beneficial release of the U.K. valuation allowance, a $32 million current year increase in prior year tax reserves, and tax on earnings in jurisdictions that had low effective tax rates. Also included is a $17 million tax benefit related to a $54 million non-taxable settlement payment received in connection with a tax sharing agreement between Agilent and Hewlett Packard Company. Without considering interest and penalties, the effective rate reflected taxes in all jurisdictions except the U.S. and certain foreign jurisdictions in which income tax expense or benefit continued to be offset by adjustments to valuation allowances.

Agilent enjoys tax holidays in several different jurisdictions, most significantly in Singapore and Malaysia. The tax holidays provide lower rates of taxation on certain classes of income and require various thresholds of investments and employment or specific types of income in those jurisdictions. The tax holidays are due for renewal between 2015 and 2023. As a result of the incentives, the impact of the tax holidays decreased income taxes by $122 million, $127 million, and $62 million in 2012, 2011, and 2010, respectively. The benefit of the tax holidays on net income per share (diluted) was approximately $0.35, $0.36, and $0.18 in 2012, 2011 and 2010, respectively.

In accordance with the guidance on the accounting for uncertainty in income taxes, for all U.S. and other tax jurisdictions, we recognize potential liabilities for anticipated tax audit issues based on our estimate of whether, and the extent to which, additional taxes and interest will be due. If our estimate of income tax liabilities proves to be less than the ultimate assessment, a further charge to expense would be required. If events occur and the payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. We include interest and penalties related to unrecognized tax benefits within the provision for income taxes on the consolidated statements of operations.

In the U.S., tax years remain open back to the year 2006 for federal income tax purposes and the year 2000 for significant states. In 2011, Agilent and the Internal Revenue Service (“IRS”) reached an agreement on transfer pricing issues covering years 2003 - 2007. Tax adjustments resulting from these agreements were offset with net operating losses and tax credit carryforwards. Agilent's U.S. federal income tax returns for 2006 through 2007 are currently

under audit by the IRS. During the three months ended July 31, 2012, we received a Revenue Agents Report ("RAR") for these years and filed a protest to dispute certain adjustments, the most significant of which pertains to the amount of a gain from the disposition of a business that was allocated to the U.S. for income tax purposes. There can be no assurance that the outcome of this dispute will not have a material adverse effect on our operating results or financial condition. In other major jurisdictions where we conduct business, the tax years generally remain open back to the year 2003. With these jurisdictions and the U.S., it is reasonably possible that there could be significant changes to our unrecognized tax benefits in the next twelve months due to either the expiration of a statute of limitation or a tax audit settlement. Given the number of years and numerous matters that remain subject to examination in various tax jurisdictions, we are unable to estimate the range of possible changes to the balance of our unrecognized tax benefits.

Segment Overview

Agilent is a measurement company providing core bio-analytical and electronic measurement solutions to the life sciences, chemical analysis, communications and electronics, diagnostics and genomics industries. In the third fiscal quarter of 2012, we formed a new operating segment. The new diagnostics and genomics segment was formed from a portion of our pre-existing life

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sciences business plus the business of our recent acquisition of Dako A/S ("Dako"). Following this reorganization, Agilent has four business segments comprised of the life sciences business, the chemical analysis business, diagnostics and genomics business and the electronic measurement business. The historical segment numbers for both the life sciences and diagnostics and genomics segments have been recast to conform to this new reporting structure in our financial statements.

Life Sciences

Our life sciences business provides application-focused solutions that include instruments, software, consumables, and services that enable customers to identify, quantify and analyze the physical and biological properties of substances and products. Key product categories in life sciences include: liquid chromatography ("LC") systems, columns and components; liquid chromatography mass spectrometry ("LCMS") systems; laboratory software and informatics systems; laboratory automation and robotic systems; dissolution testing; nucleic acid solutions; Nuclear Magnetic Resonance ("NMR"), Magnetic Resonance Imaging ("MRI"), and X-Ray Diffraction (“XRD”) systems; and services and support for the aforementioned products.

Orders and Net Revenue

	Years Ended October 31,			2012 over 2011 Change	2011 over 2010 Change
	2012	2011	2010		
	(in millions)				
Orders	$1,594	$1,597	$1,279	—	25%
Net revenue from products	$1,180	$1,147	$926	3%	24%
Net revenue from services and other	402	368	300	9%	23%
Total net revenue	$1,582	$1,515	$1,226	4%	24%

Life sciences orders in 2012 were flat compared to 2011. Foreign currency movements had an unfavorable impact of 2 percentage point on order growth when compared to the prior year. Order results were led by demand in the informatics, automation, nucleic acid, and services portfolios. Geographically, orders grew 6 percent in the Americas, declined 10 percent in Europe, grew 19 percent in Japan, and were flat in other Asia Pacific during 2012 when compared to 2011. Budget constraints and cautious spending weighed on the results in Europe. Life sciences orders in 2011 increased 25 percent compared to 2010, driven by strength in the LCMS, automation, and informatics portfolios, along with consumables and services. Excluding the impact of the Varian and Biocius acquisitions and the Hycor divestiture, orders grew 13 percent year over year.

Life sciences net revenue in 2012 increased 4 percent compared to 2011. Foreign currency movements for 2012 had an unfavorable impact of 2 percentage points compared to 2011. Revenue growth was led by strength in the LCMS, informatics, automation, nucleic acid solutions, and services portfolios. Services business was strong due to demand for service contracts, maintenance, and multi-vendor services. Geographically, revenue grew 6 percent in the Americas, 1 percent in Europe, 4 percent in Japan, and 7 percent in other Asia Pacific during 2012 when compared to 2011. Life sciences revenue in 2011 increased 24 percent compared to 2010, with growth in the Americas helped by an expanded sales channel selling a broader portfolio of products to our customers. Excluding the impact of the Varian and Biocius acquisitions and the Hycor divestiture, revenue grew 13 percent year over year.

During this fiscal year, revenue grew in the pharmaceutical and biotech markets, food testing, and all other applied markets including forensics, petrochemical, and environmental. Despite tightening of budgets, growth in the pharmaceutical market was driven by technology refresh programs leading to replacement business, quality assurance, and quality control. The food market saw moderate growth as global food regulations continue to drive demand. LCMS food testing was driven by the continued uptake of metabolomics LCMS Quadrupole Time-of-Flight (Q-TOF) based solutions in the food industry and improved software analysis tools. Applied markets also grew from last year,

with forensics, petrochemical, and environmental applications all making moderate gains. The academia and government market was rather weak, reflecting the macroeconomic environment.

The overall macroeconomic weakness has affected demand for our instruments and application solutions, and we expect that to continue at the start of the next fiscal year. Despite this weakness, we continue to invest in expanding and improving our life sciences applications and solutions portfolio. Our new products released during the year, such as the 1290 Infinity Quaternary LC System, continue our technology leadership in the LC market by setting new benchmarks for performance, versatility and cost-of-ownership. In addition, we continue to focus on application-specific solutions in emerging countries and markets.

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Gross Margin and Operating Margin

The following table shows the life sciences business' margins, expenses and income from operations for 2012 versus 2011, and 2011 versus 2010.

	Years Ended October 31,			2012 over 2011 Change	2011 over 2010 Change
	2012	2011	2010		
Total gross margin	50.8 %	50.4 %	52.4 %	—	(2) ppts
Operating margin	14.5 %	13.3 %	16.6 %	1 ppt	(3) ppts
(in millions)					
Research and development	$141	$134	$104	5%	29%
Selling, general and administrative	$433	$427	$335	1%	28%
Income from operations	$230	$202	$203	14%	(1)%

Gross margins in 2012 remained flat compared to 2011. Favorable revenue volume and lower material costs were offset by higher infrastructure costs and unfavorable product mix. Gross margins declined by 2 percentage points in 2011 compared to 2010 mainly due to the impact of the Varian portfolio, which has lower gross margins, higher logistics costs, and higher consumables costs partially offset by favorable volume impact.

Research and development expenses increased 5 percent in 2012 compared to 2011. The increase was mainly due to continued investment in new products and technologies. Research and development expenses increased 29 percent in 2011 compared to 2010, mostly due to our Varian and Biocius acquisitions and investments in new product development.

Selling, general and administrative expenses increased 1 percent in 2012 compared to 2011. The increase was due to investments in sales channel coverage with a focus on emerging markets, partially offset by lower commissions and discretionary spending. Selling, general and administrative expenses increased 28 percent in 2011 compared to 2010. The increase was due to acquisitions (Varian and Biocius), higher commissions, and investments in sales channel coverage.

Operating margins increased by 1 percentage point in 2012 compared to 2011. The increase was mainly due to favorable gross profit from higher revenue outpacing operating expense growth. Operating margins declined by 3 percentage points in 2011 compared to 2010 as the operating expense growth slightly outpaced the increased gross profit.

Income from Operations

Income from operations in 2012 increased by $28 million or 14 percent on a revenue increase of $67 million, a 41 percent year-over-year operating margin incremental. Income from operations in 2011 decreased by $1 million or 1 percent despite a revenue increase of $289 million. Operating margin incremental is measured by the increase in income from operations compared to the prior period divided by the increase in revenue compared to the prior period.

Chemical Analysis

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

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Orders and Net Revenue

	Years Ended October 31,			2012 over 2011 Change	2011 over 2010 Change
	2012	2011	2010		
	(in millions)				
Orders	$1,604	$1,589	$1,224	1%	30%
Net revenue from products	$1,219	$1,194	$954	3%	25%
Net revenue from services and other	340	324	246	5%	32%
Total net revenue	$1,559	$1,518	$1,200	3%	27%

Chemical analysis orders in 2012 increased 1 percent compared to 2011. Foreign currency movements for 2012 had an unfavorable impact of 1 percentage point compared to 2011. Order results were led by solid performance in services and consumables, along with GC-MS and ICP-MS instruments. Service orders were led by strength in contracts and lab management services. ICP-MS orders were led by our 7700 Series ICP-MS and 8800 ICP-MS Triple Quadrupole (ICP-QQQ). Growth was largely offset by declines in GC instruments and the vacuum pump portfolio. Geographically, orders grew 5 percent in the Americas, declined 5 percent in Europe, declined 4 percent in Japan, and grew 4 percent in other Asia Pacific during 2012 when compared to 2011. Europe was negatively impacted by the budget constraints and cautious spending. Chemical analysis orders in 2011 increased 30 percent compared to 2010, driven by strength in the GC, GC-MS, ICP-MS portfolios, along with consumables and services. Excluding the impact of the Varian and A2 Technologies acquisitions, orders grew 11 percent year over year.

Chemical analysis net revenue in 2012 increased 3 percent compared to 2011. Foreign currency movements for 2012 had an unfavorable impact of 2 percentage points compared to 2011. Revenue growth was led by services and consumables, along with the strength in ICP-MS instruments. However, we continue to face challenges in the vacuum pump portfolio as weakness in semiconductor and industrial markets affected results. Geographically, revenue grew 2 percent in the Americas, declined 1 percent in Europe, declined 2 percent in Japan, and grew 8 percent in other Asia Pacific during 2012 when compared to 2011. Many U.S. government purchases have been slowed or put on hold due to continued weakness at the federal, state, and local levels, which slowed growth in the Americas. Other Asia Pacific was a bright spot, boosted by a strong finish in China during the last quarter. Chemical analysis revenue in 2011 increased 27 percent compared to 2010, with particularly strong growth in other Asia Pacific including China. Excluding the impact of the Varian and A2 Technologies acquisitions, revenues grew 8 percent year over year.

Growth was mixed in core end markets. The worldwide food market remains strong in all sectors, and demand to export safe and high quality food in the emerging markets remains robust. The food safety segment continues to drive increased testing capacity and instrument purchases in all product categories, consumables, and services. Forensics market growth was encouraging, particularly in developing countries. Increasing demand for screening and identification of abused prescription pharmaceuticals and designer drugs is driving purchasing of new, high resolution mass spectrometry technologies. Environmental has softened as government budget constraints impacted demand. Petrochemical market results were relatively flat. Weak industrial demand in chemical and energy end markets, along with declining prices, have negatively impacted profitability of companies in the energy and chemical market segment. This has resulted in customer cut backs on capital spending, and some slowing in the replacement business, particularly in the Americas and Europe. Other applied markets showed net growth as growth in the pharmaceutical and biotech markets was partially offset by decline in the academic and government markets.

The overall macroeconomic weakness has affected demand for our instruments and application solutions, and we expect that to continue in the near term. Despite this weakness, we will continue to invest in research and development and seek to expand our position in developing countries and emerging markets. Our new products released during the year, such as the GC-MS Q-TOF, ICP-QQQ, and MP-AES, have demonstrated strong market acceptance. In addition,

we are focusing on improvements in profitability of the Varian portfolio by refreshing products and consolidating supply chain activities.

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Gross Margin and Operating Margin

The following table shows the chemical analysis business's margins, expenses and income from operations for 2012 versus 2011, and 2011 versus 2010.

	Years Ended October 31,			2012 over 2011 Change	2011 over 2010 Change
	2012	2011	2010		
Total gross margin	51.4 %	51.1 %	53.5 %	—	(2) ppts
Operating margin	21.7 %	20.6 %	23.3 %	1 ppt	(3) ppts
(in millions)					
Research and development	$93	$92	$68	—	35%
Selling, general and administrative	$371	$371	$294	—	26%
Income from operations	$338	$313	$279	8%	12%

Gross margins in 2012 remained flat compared to 2011. Higher product discounts were offset by favorable revenue volume and lower material costs. Gross margins declined by 2 percentage points in 2011 compared to 2010 due to the addition of the Varian portfolio, which has lower gross margins and higher logistics costs.

Research and development expenses remained flat in 2012 compared to 2011. We continue to make investments in product R&D. Research and development expenses increased 35 percent in 2011 compared to 2010, primarily driven by the Varian acquisition.

Selling, general and administrative expenses remained flat in 2012 compared to 2011. Investments in sales channel coverage with a focus on emerging markets were offset by lower commissions and discretionary spending. Selling, general and administrative expenses increased 26 percent in 2011 compared to 2010, primarily driven by the Varian acquisition.

Operating margins increased by 1 percentage point in 2012 compared to 2011. The increase was mainly due to favorable gross profit from higher revenue while holding expenses flat. Operating margins declined by 3 percentage points in 2011 compared to 2010 due to decline in gross margins and increase in incremental operating expenses.

Income from Operations

Income from operations in 2012 increased by $25 million or 8 percent on a revenue increase of $41 million, a 60 percent year-over-year operating margin incremental. Income from operations in 2011 increased by $34 million or 12 percent compared to 2010 on a revenue increase of $318 million, an 11 percent year-over-year operating margin incremental.

Diagnostics and Genomics

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

pharmacodiagnostics, also called companion diagnostics, which may be used to identify patients most likely to benefit from a specific targeted therapy.

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Orders and Net Revenue

	Years Ended October 31,			2012 over 2011 Change	2011 over 2010 Change
	2012	2011	2010		
	(in millions)				
Orders	$399	$278	$247	44%	13%
Net revenue from products	$398	$277	$253	45%	9%
Net revenue from services and other	$4	$—	$—	—	—
Total net revenue	$402	$277	$253	45%	9%

Diagnostics and genomics orders in 2012 increased 44 percent compared to 2011. The incremental orders associated with the acquisition of Dako accounted for 32 percent of our diagnostics and genomics business, and 45 percentage points of the order growth in 2012. Foreign currency movements had an unfavorable currency impact of 1 percentage points on the year-over-year. Excluding the impact of the Dako acquisition, the 2012 order growth was led by strength in CGH array, HaloPlex, GeneSpring and Bioanalyzer Chips & Reagents. Geographically, excluding the impact of the Dako acquisition, orders declined 5 percent in the Americas, 2 percent in Europe and 2 percent in other Asia Pacific as a result of macro-economic pressures in the Americas and Europe. Japan saw order growth of 12 percent compared to 2011 driven by the strong order performance as the country recovers from the triple disaster (tsunami, earthquake and nuclear reactor meltdown) in 2011. Diagnostics and genomics orders in 2011 increased 13 percent compared to 2010. Order results were led by strength in SureSelect, microarrays and Bioanalyzer sales. Geographically, orders grew 5 percent in the Americas, 15 percent in Europe, 21 percent in Japan, and 32 percent in other Asia Pacific during 2011 when compared to 2010.

Diagnostics and genomics net revenue in 2012 increased 45 percent compared to 2011. There was $126 million in revenue associated with the acquisition of Dako in 2012. The incremental revenue associated with the acquisition of Dako accounted for 31 percent of our diagnostics and genomics business, and 45 percentage points of revenue growth in 2012 compared to 2011. Foreign currency movements for 2012 had an unfavorable impact of 1 percentage point compared to 2011. The increase in services and other revenue in 2012 was due to the Dako acquisition. Excluding the impact of the Dako acquisition, revenue growth was led by TapeStations, HaloPlex, Bioanalyzer consumables and CGH arrays, offset by declines in microarrays and SureSelect. Revenue associated with the Dako acquisition consisted primarily of IHC product offerings. Geographically, excluding the impact of the Dako acquisition, revenues declined 1 percent in the Americas, 4 percent in Europe, 36 percent in other Asia Pacific, and grew 74 percent in Japan during 2012 when compared to 2011. Diagnostics and genomics net revenue in 2011 increased 9 percent compared to 2010. Foreign currency movements for 2011 had a favorable impact of 3 percentage points compared to 2010. Revenue growth was led by SureSelect and followed by solid performance in CGH and gene expression microarrays as well as Bioanalyzers. Geographically, revenues declined 2 percent in the Americas, grew 19 percent in Europe, 17 percent in Japan, and 26 percent in other Asia Pacific during 2011 when compared to 2010.

During 2012, we saw strong revenue growth in the clinical, diagnostics, and the pharmaceutical and biotech markets, with offsetting declines in the academic and government market. Solid growth in the clinical market reflected increased investments in genomics applications driven by aging populations all over the world and greater use of next generation sequencing within clinical centers. The cancer diagnostics market remained robust within pathology staining as the fundamental socio-demographic growth drivers continued to increase test volumes, while the more efficient automation solutions and test procedure standardization drove demand due to its cost and labor reduction advantages. Growth in the pharmaceutical and biotech market was strong, reflecting worldwide outsourcing demand for preclinical research and development as patents expire and generic drugs expand rapidly. The academia and government market remained soft in 2012 due to the U.S. and European cautious funding environments. However, next generation sequencing continues to attract government funding in many fields, including medical science, microbiology, and bio-agriculture. In 2011, we saw positive revenue growth in the pharmaceutical and biotech, academic and government markets, as well as solid growth in the clinical market.

Looking forward, we are optimistic about our growth opportunities in the clinical research market as our broad portfolio of products especially SureFISH, HaloPlex and CGH microarrays are well suited to address customer needs. The addition of HaloPlex has strengthened our target enrichment offerings and sales have exceeded our expectation. We have plans to continue investing in target enrichment as next generation sequencing moves into the research clinic. We are committed to the microarray business and have partnered with a former competitor who is exiting the microarray business to transition their customers onto Agilent microarrays, further growing our installed base. We continue to expand our SureFISH menu of probes and are now at over 450 probes targeting both cancer and constitutional applications including translocation probes targeting leukemia for cancer market. We are always looking selectively at acquisition opportunities to better serve our customers and to drive future growth.

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Gross Margin and Operating Margin

The following table shows diagnostics and genomics' margins, expenses and income from operations for 2012 versus 2011, and 2011 versus 2010.

	Years Ended October 31,			2012 over 2011 Change	2011 over 2010 Change
	2012	2011	2010		
Total gross margin	62.9 %	61.0 %	58.7 %	2 ppts	2 ppts
Operating margin	16.1 %	12.5 %	7.1 %	4 ppts	5 ppts
(in millions)					
Research and development	$54	$40	$38	37%	4%
Selling, general and administrative	$134	$95	$93	41%	3%
Income from operations	$65	$35	$18	88%	92%

Gross margins improved by 2 percentage points in 2012 compared to 2011. The improved gross margins were due to the acquisition of Dako, lower royalty expenses, due to a decline of certain key royalty-bearing products, and a favorable hedging impact in 2012. Gross margins improved by 2 percentage points in 2011 compared to 2010 mainly due to favorable currency impacts, lower royalty expenses, due to a decline of certain key royalty-bearing products, and favorable product mix in favor of higher margin consumable and reagent revenues.

Research and development expenses increased 37 percent in 2012 compared to 2011, due to the acquisition of Dako offset by lower project expenses. Research and development expenses increased 4 percent in 2011 compared to 2010, driven mainly by the Lab901 acquisition.

Selling, general and administrative expenses increased 41 percent in 2012 compared to 2011. The increase was due to the acquisition of Dako, partially offset by decreases in commission expenses and infrastructure expenses. Selling, general and administrative expenses increased 3 percent in 2011 compared to 2010 due to the Lab901 acquisition.

Operating margins improved by 4 percentage points in 2012 compared to 2011. Operating margins improved by 5 percentage points in 2011 compared to 2010. Factors which led to operating margin improvement over both periods have been explained in the above discussions on better gross margins and well controlled operating expenses.

Income from Operations

Income from operations in 2012 increased by $30 million or 88 percent on a revenue increase of $125 million, a 24 percent year-over-year operating margin incremental. Income from operations in 2011 increased by $17 million or 92 percent compared to 2010 on a revenue increase of $24 million, a 69 percent year-over-year operating margin incremental.

Electronic Measurement

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

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Orders and Net Revenue

	Years Ended October 31,			2012 over 2011 Change	2011 over 2010 Change
	2012	2011	2010		
	(in millions)				
Orders	$3,280	$3,305	$2,994	(1)%	10%
Net revenue from products	$2,862	$2,875	$2,345	—	23%
Net revenue from services and other	453	441	439	3%	—
Total net revenue	$3,315	$3,316	$2,784	—	19%

Electronic measurement orders declined 1 percent in 2012 compared to 2011. Foreign currency movements had a slightly unfavorable impact on the year-over-year growth rate. Growth in our communications test business reflected solid wireless communications demand partially offset by a decline in broadband communications orders. General purpose test was lower year-over-year on weaker industrial and lower aerospace and defense business partially offset by higher computer and semiconductor test orders. On a geographic basis, orders increased 13 percent in the Americas but declined by 3 percent in Japan, 7 percent in Europe, and 11 percent in Asia Pacific excluding Japan. Year-over-year changes in communications test demand contributed to the order growth in the Americas and the decline in Asia Pacific excluding Japan. Electronic measurement orders increased 10 percent in 2011 compared to 2010. Order growth in wireless manufacturing, industrial, and computers and semiconductor test was partially offset by a decline in network monitoring orders associated with the divestiture of the network solutions business.

Electronic measurement revenue was flat in 2012 compared to 2011 on flat demand for both general purpose and communications test. Foreign currency movements had minimal impact on year-over-year growth. Regionally, revenue from the Americas increased 10 percent, reflecting strong communications test business, offset by declines of 1 percent in Japan, 5 percent in Asia Pacific excluding Japan, and 11 percent in Europe. The decline in Europe reflected a broader market slowdown and general economic weakness. Revenue from products was flat year-over-year while service related revenue increased 3 percent due to our installed base. Electronic measurement revenue increased 19 percent in 2011 compared to 2010 on strong demand from industrial, computers and semiconductor, and wireless communications test partially offset by a decrease in network monitoring associated with the divestiture of the networks solutions business.

General purpose test revenue, representing approximately 63 percent of electronic measurement revenue, reflected slight growth in computers and semiconductor business, flat industrial test demand, and a slight decline in aerospace and defense. Growth in the computers and semiconductor business reflected continuing demand for digital test driven in part by the proliferation of high speed data transmission and increased investments in new semiconductor processes and technology partially offset by a decline in semiconductor manufacturing. Uncertain global economic conditions contributed to flat revenue for industrial or general purpose application test. Our aerospace and defense business reflected stronger demand from the United States government offset by softer demand from international customers, including Asia. In 2011, general purpose test represented 63 percent of electronic measurement revenue with strong demand from industrial, computer, and semiconductor test customers.

Communications test revenue, representing approximately 37 percent of electronic measurement revenue, reflected strong wireless manufacturing test demand offset by lower wireless R&D and broadband communications business. Strength in wireless manufacturing was driven by capacity expansion for smartphones and the associated supply chain. Though investments continued in high data rate applications including long-term evolution (“LTE”), economic uncertainty and cautious spending by customers contributed to soft wireless R&D demand. Broadband communications moderated following a period of strong investment associated with the evolution to data-driven services. In 2011, communications test represented 37 percent of electronic measurement revenue, reflecting growth

in wireless and broadband communications partially offset by a decline in network monitoring revenue due to the divestiture of the network solutions business.

Looking forward, we expect a cautious spending environment driven by ongoing global economic uncertainty. There continues to be downward pressure on the aerospace and defense market with near-term uncertainty relating to the budget for the United States government. We anticipate continued interest in high-speed digital test applications with limited investment in semiconductor manufacturing capacity. Communications test demand is expected to moderate on decelerating smartphone capacity expansion and conservative spending in R&D.

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Gross Margin and Operating Margin

The following table shows the electronic measurement business's margins, expenses and income from operations for 2012 versus 2011 and 2011 versus 2010.

	Years Ended October 31,			2012 over 2011 Change	2011 over 2010 Change
	2012	2011	2010		
Total gross margin	56.9 %	58.4 %	58.4 %	(2) ppts	—
Operating margin	22.7 %	22.9 %	15.7 %	—	7 ppts
(in millions)					
Research and development	$375	$379	$391	(1)%	(3)%
Selling, general and administrative	$761	$798	$798	(5)%	—
Income from operations	$751	$760	$438	(1)%	74%

Gross margins declined 2 percentage points in 2012 compared to 2011 on flat revenue. The unfavorable impact of a higher proportion of lower gross margin wireless manufacturing business and slightly higher expenses were partially offset by lower variable and incentive pay. Gross margins were flat in 2011 compared to 2010 with the favorable impact of volume offset by the unfavorable impact of currency movements, unfavorable mix with a higher proportion of lower gross margin wireless manufacturing business, increased variable and incentive pay, and higher infrastructure costs.

Research and development expenses declined 1 percent in 2012 compared to 2011. Decreases in variable and incentive pay and infrastructure costs were partially offset by incremental spending associated with new acquisitions and wage increases. Research and development expenses declined 3 percent in 2011 compared to 2010. Lower infrastructure costs and spending reductions of which a portion related to the network solutions business divestiture were partially offset by higher variable and incentive pay and the unfavorable impact of currency movements.

Selling, general and administrative expenses decreased 5 percent in 2012 compared to 2011. Lower variable and incentive pay, infrastructure costs, and commissions were partially offset by wage increases. Selling, general and administrative expenses were flat in 2011 compared to 2010. Lower infrastructure costs and spending reductions partially related to the network solutions divestiture were offset by the unfavorable impact of currency movements and higher variable and incentive pay.

Operating margins were approximately the same in 2012 compared to 2011 on flat revenue; lower gross margins were mostly offset by reductions in operating expenses. Operating margins improved by 7 percentage points in 2011 compared to 2010. Higher revenue volume and lower infrastructure costs were partially offset by increased variable and incentive pay and the unfavorable impact of currency movements.

Income from Operations

Income from operations in 2012 decreased by $9 million or 1 percent compared to 2011 on flat revenue, reflecting the net impact of lower gross margins mostly offset by reductions in expenses. Income from operations in 2011 increased by $322 million or 74 percent compared to 2010 on a revenue increase of $532 million, a 61 percent year-over-year operating margin incremental that reflected the benefits of higher revenue volume and limited expense growth.

Financial Condition

Liquidity and Capital Resources

Our financial position as of October 31, 2012 consisted of cash and cash equivalents of $2,351 million as compared to $3,527 million as of October 31, 2011.

As of October 31, 2012, approximately $2,245 million of our cash and cash equivalents is held outside of the U.S. in our foreign subsidiaries. Most of the amounts held outside of the U.S. could be repatriated to the U.S. but, under current law, would be subject to U.S. federal and state income taxes, less applicable foreign tax credits. Agilent has accrued for U.S. federal and state

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tax liabilities on the earnings of its foreign subsidiaries except when the earnings are considered indefinitely reinvested outside of the U.S. Repatriation could result in additional material U.S. federal and state income tax payments in future years. We utilize a variety of funding strategies in an effort to ensure that our worldwide cash is available in the locations in which it is needed.

On June 21, 2012, we completed the acquisition of Dako A/S through the acquisition of 100% of the share capital of Dako A/S, a limited liability company incorporated under the laws of Denmark (“Dako”), under the share purchase agreement, dated May 16, 2012. As a result of the acquisition, Dako has become a wholly-owned subsidiary of Agilent. The consideration paid was approximately $2,143 million, $1,400 million was paid directly to the seller and $743 million was paid to satisfy the outstanding debt of Dako. Agilent funded the acquisition using our existing cash. The acquisition has been accounted for in accordance with the authoritative accounting guidance and the results of Dako are included in Agilent's consolidated financial statements from the date of acquisition.

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

Net Cash Provided by Operating Activities

Net cash provided by operating activities was $1,228 million in 2012 as compared to $1,260 million provided in 2011. We received $65 million in interest rate swap proceeds and $61 million in respect of a tax sharing settlement with Hewlett Packard Company during the year ended October 31, 2011. We paid approximately net $86 million in taxes in 2012 as compared to net $22 million in 2011. In 2010, we generated $718 million in net cash provided by operating activities.

In 2012, accounts receivable provided cash of $19 million, provided cash of $11 million in 2011 and used cash of $166 million in 2010. Days' sales outstanding were 47 days in 2012, 45 days in 2011 and 50 days in 2010. Accounts payable used cash of $31 million in 2012, used cash of $35 million in 2011 and provided cash of $113 million in 2010. Cash used in inventory was $52 million in 2012, $208 million in 2011 and $51 million in 2010. Inventory days on-hand increased to 108 days in 2012 compared to 100 days in 2011 and 87 days in 2010.

We contributed $30 million, $33 million and $30 million to our U.S. defined benefit plans in 2012, 2011 and 2010, respectively. We contributed $54 million, $59 million and $47 million to our non-U.S. defined benefit plans in 2012, 2011 and 2010, respectively. We did not contribute to our U.S. post-retirement benefit plans in 2012 or 2011 and contributed $1 million in 2010. Our non-U.S. defined benefit plans are generally funded ratably throughout the year. Total contributions in 2012 were $84 million or 9 percent less than 2011. Total contributions in 2011 were $14 million or 18 percent more than in 2010. Our annual contributions are highly dependent on the relative performance of our assets versus our projected liabilities, among other factors. We expect to contribute approximately $84 million to our U.S. and non-U.S. defined benefit plans and $2 million to our U.S. post-retirement benefit plans during 2013.

Net Cash Provided by/Used in Investing Activities

Net cash used in investing activities in 2012 was $2,372 million primarily due to acquisition of Dako and other smaller acquisitions as compared to net cash provided of $1,294 million in 2011. In 2010, we used $1,174 million of net cash in the investing activities of operations.

Investments in property, plant and equipment were $194 million in 2012, $188 million in 2011 and $121 million in 2010. Proceeds from sale of property, plant and equipment were zero in 2012, $18 million in 2011 and $7 million in 2010. In 2012, we invested $2,257 million in acquisitions of businesses and intangible assets compared to $98 million in 2011. In 2010, we invested $1,313 million in acquisitions of businesses and purchase of intangible assets which was primarily related to our acquisition of Varian. Proceeds from the sale of investment securities in 2012 were $5 million, $16 million in 2011 and $38 million in 2010. The amounts of and changes in restricted cash were not material for the fiscal year ended 2012. In 2011 restricted cash decreased $1,545 million mostly due to the reclassification of restricted cash to cash and cash equivalents following the settlement of the World Trade repurchase obligation. Proceeds from divestitures were zero in 2012, $1 million in 2011 and $205 million in 2010.

Net Cash Provided by/Used in Financing Activities

Net cash used in financing activities in 2012 was $31 million compared to $1,693 million in 2011 and $601 million net cash provided in 2010, respectively. We satisfied the $1,500 million financing obligation of World Trade in its entirety on December 10, 2010.

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Treasury stock repurchases and dividends

On November 19, 2009 our Board of Directors approved a share-repurchase program to reduce or eliminate dilution of basic outstanding shares in connection with issuances of stock under the company's equity incentive plans. The share-repurchase program does not require the company to acquire a specific number of shares and may be suspended or discontinued at any time. There is no fixed termination date for the new share-repurchase program. For the year ended October 31, 2012 we repurchased approximately 5 million shares for $172 million. For the year ended October 31, 2011 we repurchased 12 million shares for $497 million. For the year ended October 31, 2010 we repurchased 13 million shares for $411 million.

We paid our first quarterly dividend on April 25, 2012 to shareholders of record as of the close of business on April 3, 2012. During the year ended October 31, 2012, cash dividends of $0.30 per share, or $104 million were declared and paid on the company's outstanding common stock. On November 16, 2012, we declared a quarterly dividend of $0.10 per share of common stock, or approximately $35 million which will be paid on January 23, 2013 to shareholders of record as of close of business on December 31, 2012. The timing and amounts of any future dividends are subject to determination and approval by our board of directors.

Credit Facility

On October 20, 2011, we entered into a five-year credit agreement, which provides for a $400 million unsecured credit facility that will expire on October 20, 2016. The company may use amounts borrowed under the facility for general corporate purposes. As of October 31, 2012 the company has no borrowings outstanding under the facility. We were in compliance with the covenants for the credit facilities during the year ended October 31, 2012.

As a result of the Dako acquisition, we have a credit facility in Danish Krone equivalent of $9 million with a Danish financial institution. During the year ended October 31, 2012 $1 million was repaid and no borrowings were outstanding under the facility as of October 31, 2012.

Short-term debt

On September 9, 2009, the company issued an aggregate principal amount of $250 million in senior notes ("2012 senior notes"). The 2012 senior notes matured on September 14, 2012 and were fully redeemed.

In July 2010, the company issued an aggregate principal amount of $250 million in senior notes ("2013 senior notes"). The 2013 senior notes were issued at 99.82% of their principal amount. The notes will mature on July 15, 2013, and bear interest at a fixed rate of 2.50% per annum. The interest is payable semi-annually on January 15th and July 15th of each year, payments commenced on January 15, 2011. The 2013 senior notes are repayable within one year and have been classified to short-term as of October 31, 2012, see Note 18, "Short-term debt".

All notes issued are unsecured and rank equally in right of payment with all of Agilent's other senior unsecured indebtedness. The company incurred issuance costs of $2 million in connection with the 2013 senior notes. These costs were capitalized in other assets on the consolidated balance sheet and the costs are being amortized to interest expense over the term of the senior notes.

Long-term debt

On October 24, 2007, the company issued an aggregate principal amount of $600 million in senior notes maturing in 2017 ("2017 senior notes"). The 2017 senior notes were issued at 99.60% of their principal amount, bear interest at a

fixed rate of 6.50% per annum, and mature on November 1, 2017. Interest is payable semi-annually on May 1st and November 1st of each year and payments commenced on May 1, 2008.

On November 25, 2008, we terminated two interest rate swap contracts associated with our 2017 senior notes that represented the notional amount of $400 million. The asset value, including interest receivable, upon termination was approximately $43 million and the amount to be amortized at October 31, 2012 was $26 million. The gain is being deferred and amortized to interest expense over the remaining life of the 2017 senior notes.

On September 9, 2009, the company issued an aggregate principal amount of $500 million in senior notes maturing in 2015 ("2015 senior notes"). The 2015 senior notes were issued at 99.69% of their principal amount, bear interest at a fixed rate of 5.50% per annum, and mature on September 14, 2015. Interest is payable semi-annually on March 14th and September 14th of each year, and payments commenced on March 14, 2010.

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On June 6, 2011, we terminated our interest rate swap contracts related to our 2015 senior notes that represented the notional amount of $500 million. The asset value, including interest receivable, upon termination for these contracts was approximately $31 million and the amount to be amortized at October 31, 2012 was $18 million. The gain is being deferred and amortized to interest expense over the remaining life of the 2015 senior notes.

In July 2010, the company issued an aggregate principal amount of $500 million in senior notes ("2020 senior notes"). The 2020 senior notes were issued at 99.54% of their principal amount. The notes will mature on July 15, 2020, and bear interest at a fixed rate of 5.00% per annum. The interest is payable semi-annually on January 15th and July 15th of each year, payments commenced on January 15, 2011.

On August 9, 2011, we terminated our interest rate swap contracts related to our 2020 senior notes that represented the notional amount of $500 million. The asset value, including interest receivable, upon termination for these contracts was approximately $34 million and the amount to be amortized at October 31, 2012 was $29 million. The gain is being deferred and amortized to interest expense over the remaining life of the 2020 senior notes.

In September 2012, the company issued an aggregate principal amount of $400 million in senior notes ("2022 senior notes"). The senior notes were issued at 99.80% of their principal amount. The notes will mature on October 1, 2022, and bear interest at a fixed rate of 3.20% per annum. The interest is payable semi-annually on April 1st and October 1st of each year, payments commence on April 01, 2013. We used part of the proceeds from the issuance of the 2022 senior notes to redeem the 2012 senior notes.

All notes issued are unsecured and rank equally in right of payment with all of Agilent's other senior unsecured indebtedness. The company incurred issuance costs of $5 million in connection with the 2017 senior notes and incurred $3 million each in connection with the 2015, 2020 and 2022 senior notes. These costs were capitalized in other assets on the consolidated balance sheet and the costs are being amortized to interest expense over the term of the senior notes.

As of October 31, 2012, and as a result of the Dako acquisition, we have a mortgage debt, secured on buildings in Denmark, in Danish Krone equivalent of $44 million aggregate principal outstanding with a Danish financial institution. The loan has a variable interest rate based on 3 months Copenhagen Interbank Rate ("Cibor") and will mature on September 30, 2027. Interest payments are made in March, June, September and December of each year.

Off Balance Sheet Arrangements and Other

We have contractual commitments for non-cancelable operating leases. See Note 17 "Commitments and Contingencies", to our consolidated financial statements for further information on our non-cancelable operating leases.

Our liquidity is affected by many factors, some of which are based on normal ongoing operations of our business and some of which arise from fluctuations related to global economics and markets. Our cash balances are generated and held in many locations throughout the world. Local government regulations may restrict our ability to move cash balances to meet cash needs under certain circumstances. We do not currently expect such regulations and restrictions to impact our ability to pay vendors and conduct operations throughout our global organization.

Contractual Commitments

Our cash flows from operations are dependent on a number of factors, including fluctuations in our operating results, accounts receivable collections, inventory management, and the timing of tax and other payments. As a result, the

impact of contractual obligations on our liquidity and capital resources in future periods should be analyzed in conjunction with such factors.

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The following table summarizes our total contractual obligations at October 31, 2012 for operations and excludes amounts recorded in our consolidated balance sheet (in millions):

	Less than one year	One to three years	Three to five years	More than five years
Operating leases	$51	$79	$36	$16
Commitments to contract manufacturers and suppliers	771	47	9	—
Other purchase commitments	84	1	—	—
Retirement plans	86	—	—	—
Total	$992	$127	$45	$16

Operating leases. Commitments under operating leases relate primarily to leasehold property, see Note 17, "Commitments and Contingencies".

Commitments to contract manufacturers and suppliers. We purchase components from a variety of suppliers and use several contract manufacturers to provide manufacturing services for our products. During the normal course of business, we issue purchase orders with estimates of our requirements several months ahead of the delivery dates. However, our agreements with these suppliers usually provide us the option to cancel, reschedule, and adjust our requirements based on our business needs prior to firm orders being placed. Typically purchase orders outstanding with delivery dates within 30 days are non-cancelable. Therefore, only approximately 55 percent of our reported purchase commitments arising from these agreements are firm, non-cancelable, and unconditional commitments. We expect to fulfill most of our purchase commitments for inventory within one year.

In addition to the above mentioned commitments to contract manufacturers and suppliers, we record a liability for firm, non-cancelable and unconditional purchase commitments for quantities in excess of our future demand forecasts consistent with our policy relating to excess inventory. As of October 31, 2012, the liability for our firm, non-cancelable and unconditional purchase commitments was $5 million, compared to $5 million as of October 31, 2011. These amounts are included in other accrued liabilities in our consolidated balance sheet.

Other purchase commitments. We have categorized "other purchase commitments" related to contracts with professional services suppliers. Typically we can cancel these contracts within 90 days without penalties. For those contracts that are not cancelable within 90 days without penalties, we are disclosing the amounts we are obligated to pay to a supplier under each contract in that period before such contract can be cancelled. Our contractual obligations with these suppliers under "other purchase commitments" were approximately $84 million within the next year and $1 million thereafter.

Retirement Plans. Commitments under the retirement plans relate to expected contributions to be made to our U.S. and non-U.S. defined benefit plans and to our post-retirement medical plans for the next year only. Contributions after next year are impractical to estimate.

We had no material off-balance sheet arrangements as of October 31, 2012 or October 31, 2011.

On Balance Sheet Arrangements

The following table summarizes our total contractual obligations recorded in our consolidated balance sheet pertaining to our short-term and long-term debt as of October 31, 2012 (in millions):

	Less than one

	year	One to three years	Three to five years	More than five years
Senior notes	$250	$500	$600	$900
Other debt	—	—	—	44
Total	$250	$500	$600	$944

We have contractual obligations for interest payments on the above debts. Interest rates and payment dates are detailed in "Short-term debt" and "Long-term debt".

Other long-term liabilities include $320 million and $356 million of liabilities for uncertain tax positions as of October 31, 2012 and October 31, 2011, respectively. We are unable to accurately predict when these amounts will be realized or released.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Our operations generate non-functional currency cash flows such as revenues, third party vendor payments and inter-company payments. In anticipation of these foreign currency cash flows and in view of volatility of the currency market, we enter into such foreign exchange contracts as are described above to manage our currency risk. Approximately 63 percent of our revenues in 2012, 64 percent of our revenues in 2011 and 63 percent of our revenues in 2010 were generated in U.S. dollars.

We performed a sensitivity analysis assuming a hypothetical 10 percent adverse movement in foreign exchange rates to the hedging contracts and the underlying exposures described above. As of October 31, 2012 and 2011, the analysis indicated that these hypothetical market movements would not have a material effect on our consolidated financial position, results of operations or cash flows.

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

We performed a sensitivity analysis assuming a hypothetical 10 percent adverse movement in interest rates relating to the underlying fair value of our fixed rate debt. As of October 31, 2012 and 2011, the sensitivity analyses indicated that a hypothetical 10 percent adverse movement in interest rates would result in an immaterial impact to the fair value of our fixed interest rate debt.

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Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of Agilent Technologies, Inc.:
In our opinion, the consolidated financial statements listed in the index appearing under Item 8 present fairly, in all material respects, the financial position of Agilent Technologies, Inc. and its subsidiaries at October 31, 2012 and October 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of October 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control over Financial Reporting appearing under Item 9A, management has excluded Dako A/S (“Dako”) from its assessment of internal control over financial reporting as of October 31, 2012 because it was acquired by the Company in a purchase business combination during 2012. We have

also excluded Dako from our audit of internal control over financial reporting. Dako is a wholly-owned subsidiary of the Company whose total assets and total net revenue represent less than 3% and less than 2%, respectively, of the related consolidated financial statement amounts as of and for the year ended October 31, 2012.

/s/ PRICEWATERHOUSECOOPERS LLP

San Jose, California
December 20, 2012

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AGILENT TECHNOLOGIES, INC.
CONSOLIDATED STATEMENT OF OPERATIONS

	Years Ended October 31,		
	2012	2011	2010
	(in millions, except per share data)		
Net revenue:			
Products	$5,659	$5,482	$4,464
Services and other	1,199	1,133	980
Total net revenue	6,858	6,615	5,444
Costs and expenses:			
Cost of products	2,608	2,473	1,976
Cost of services and other	646	613	538
Total costs	3,254	3,086	2,514
Research and development	668	649	612
Selling, general and administrative	1,817	1,809	1,752
Total costs and expenses	5,739	5,544	4,878
Income from operations	1,119	1,071	566
Interest income	9	14	20
Interest expense	(101)	(86)	(96)
Gain on sale of network solutions business, net	—	—	132
Other income (expense), net	16	33	70
Income before taxes	1,043	1,032	692
Provision (benefit) for income taxes	(110)	20	8
Net income	$1,153	$1,012	$684
Net income per share:			
Basic	$3.31	$2.92	$1.97
Diluted	$3.27	$2.85	$1.94
Weighted average shares used in computing net income per share:			
Basic	348	347	347
Diluted	353	355	353
Cash dividends declared per common share	$0.30	—	—

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

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AGILENT TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEET

	October 31, 2012	2011
	(in millions, except par value and share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$2,351	$3,527
Accounts receivable, net	923	860
Inventory	1,014	898
Other current assets	341	284
Total current assets	4,629	5,569
Property, plant and equipment, net	1,164	1,006
Goodwill	3,025	1,567
Other intangible assets, net	1,086	429
Long-term investments	109	117
Other assets	523	369
Total assets	$10,536	$9,057
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$461	$472
Employee compensation and benefits	387	424
Deferred revenue	420	389
Short-term debt	250	253
Other accrued liabilities	375	299
Total current liabilities	1,893	1,837
Long-term debt	2,112	1,932
Retirement and post-retirement benefits	554	329
Other long-term liabilities	792	643
Total liabilities	5,351	4,741
Commitments and contingencies (Note 17)		
Total equity:		
Stockholders' equity:		
Preferred stock; $0.01 par value; 125 million shares authorized; none issued and outstanding	—	—
Common stock; $0.01 par value; 2 billion shares authorized; 595 million shares at October 31, 2012 and 591 million shares at October 31, 2011 issued	6	6
Treasury stock at cost; 249 million shares at October 31, 2012 and 244 million shares at October 31, 2011	(8,707)	(8,535)
Additional paid-in-capital	8,489	8,265
Retained earnings	5,505	4,456
Accumulated other comprehensive income (loss)	(111)	116
Total stockholders' equity	5,182	4,308
Non-controlling interest	3	8
Total equity	5,185	4,316
Total liabilities and equity	$10,536	$9,057

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

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AGILENT TECHNOLOGIES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Years Ended October 31,		
	2012	2011	2010
	(in millions)		
Cash flows from operating activities:			
Net income	$1,153	$1,012	$684
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	301	253	202
Share-based compensation	74	72	66
Deferred taxes	(158)	38	(109)
Excess and obsolete inventory and inventory related charges	30	30	30
Non-cash restructuring and asset impairment charges	1	10	26
Net gain on sale of investments	(4)	(6)	(2)
Net (gain) loss on sale of assets and divestitures	2	2	(127)
Other	5	8	—
Changes in assets and liabilities:			
Accounts receivable, net	19	11	(166)
Inventory	(52)	(208)	(51)
Accounts payable	(31)	(35)	113
Employee compensation and benefits	(54)	24	17
Interest rate swap proceeds	—	65	—
Other assets and liabilities	(58)	(16)	35
Net cash provided by operating activities	1,228	1,260	718
Cash flows from investing activities:			
Investments in property, plant and equipment	(194)	(188)	(121)
Proceeds from the sale of property, plant and equipment	—	18	7
Proceeds from lease receivable	80	—	—
Proceeds from the sale of investment securities	5	16	38
Proceeds from divestitures, net	—	1	205
Change in restricted cash, cash equivalents and investments, net	—	1,545	10
Purchase of non-controlling interest	(6)	—	—
Acquisitions of businesses and intangible assets, net of cash acquired	(2,257)	(98)	(1,313)
Net cash provided by (used in) investing activities	(2,372)	1,294	(1,174)
Cash flows from financing activities:			
Issuance of common stock under employee stock plans	100	304	299
Treasury stock repurchases	(172)	(497)	(411)
Payment of dividends	(104)	—	—
Issuance of senior notes	399	—	747
Debt issuance costs	(3)	—	(5)
Repayment of senior notes	(250)	—	—
Repayment of debts and credit facility	(1)	(1,500)	(29)
Net cash provided by (used in) financing activities	(31)	(1,693)	601
Effect of exchange rate movements	(1)	17	25
Net increase (decrease) in cash and cash equivalents	(1,176)	878	170
Cash and cash equivalents at beginning of year	3,527	2,649	2,479
Cash and cash equivalents at end of year	$2,351	$3,527	$2,649

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

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AGILENT TECHNOLOGIES, INC.
CONSOLIDATED STATEMENT OF EQUITY

	Common Stock			Treasury Stock			Accumulated Other			
	Number of Shares	Par Value	Additional Paid-in Capital	Number of Shares	Treasury Stock at Cost	Retained Earnings	Comprehensive Income/(Loss)	Total Stockholders' Equity	Non-Controlling Interests	Total Equity
	(in millions, except number of shares in thousands)									
Balance as of October 31, 2009	566,067	$ 6	$ 7,552	(219,919)	$(7,627)	$ 2,760	$ (185)	$ 2,506	$ 8	$ 2,514
Components of comprehensive income:										
Net income	—	—	—	—	—	684	—	684	—	684
Change in unrealized gain on investments	—	—	—	—	—	—	1	1	—	1
Change in unrealized loss on derivative instruments	—	—	—	—	—	—	4	4	—	4
Losses reclassified into earnings related to derivative instruments, net of tax of $1	—	—	—	—	—	—	(6)	(6)	—	(6)
Change in foreign currency translation	—	—	—	—	—	—	70	70	—	70
Change in net defined benefit pension and post retirement plan costs:										
Net gain, net of tax of $9	—	—	—	—	—	—	53	53	—	53
Net prior service cost	—	—	—	—	—	—	(25)	(25)	—	(25)
Total comprehensive income								781	—	781
Share-based awards issued	12,760	—	288	—	—	—	—	288	—	288
Repurchase of common stock	—	—	—	(12,764)	(411)	—	—	(411)	—	(411)
Share-based compensation	—	—	64	—	—	—	—	64	—	64
Balance as of October 31, 2010	578,827	6	7,904	(232,683)	(8,038)	3,444	(88)	3,228	8	3,236
Components of comprehensive income:										
Net income	—	—	—	—	—	1,012	—	1,012	—	1,012
Change in unrealized gain on investments	—	—	—	—	—	—	(4)	(4)	—	(4)
Losses reclassified into earnings related to derivative instruments, net of tax benefit of	—	—	—	—	—	—	3	3	—	3

$(2)										
Change in foreign currency translation	—	—	—	—	—	—	94	94	—	94
Change in net defined benefit pension and post retirement plan costs:										
Net loss, net of tax benefit of $(3)	—	—	—	—	—	—	(38)	(38)	—	(38)
Net prior service gain	—	—	—	—	—	—	149	149	—	149
Total comprehensive income								1,216	—	1,216
Share-based awards issued	11,841	—	289	—	—	—	—	289	—	289
Repurchase of common stock	—	—	—	(11,603)	(497)	—	—	(497)	—	(497)
Share-based compensation	—	—	72	—	—	—	—	72	—	72
Balance as of October 31, 2011	590,668	$6	$8,265	(244,286)	$(8,535)	$4,456	$116	$4,308	$8	$4,316

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AGILENT TECHNOLOGIES, INC.
CONSOLIDATED STATEMENT OF EQUITY — (Continued)

	Common Stock			Treasury Stock			Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity	Non-Controlling Interests	Total Equity
	Number of Shares	Par Value	Additional Paid-in Capital	Number of Shares	Treasury Stock at Cost	Retained Earnings				
	(in millions, except number of shares in thousands)									
Balance as of October 31, 2011	590,668	$6	$8,265	(244,286)	$(8,535)	$4,456	$116	$4,308	$8	$4,316
Components of comprehensive income:										
Net income	—	—	—	—	—	1,153	—	1,153	—	1,153
Change in unrealized gain on investments, net of tax benefit of $(8)	—	—	—	—	—	—	6	6	—	6
Change in unrealized gain on derivative instruments, net of tax of $1	—	—	—	—	—	—	9	9	—	9
Gains reclassified into earnings related to derivative instruments, net of tax of $0	—	—	—	—	—	—	(8)	(8)	—	(8)
Change in foreign currency translation	—	—	—	—	—	—	(28)	(28)	—	(28)
Change in net defined benefit pension and post retirement plan costs:										
Net loss, net of tax benefit of $(61)	—	—	—	—	—	—	(175)	(175)	—	(175)
Net prior service loss, net of tax benefit of $(17)	—	—	—	—	—	—	(31)	(31)	—	(31)
Total comprehensive income								926	—	926
Cash dividends declared ($0.30 per common share)	—	—	—	—	—	(104)	—	(104)	—	(104)
Change in non-controlling interest	—	—	—	—	—	—	—	—	(5)	(5)
Share-based awards issued	4,591	—	84	—	—	—	—	84	—	84
Cumulative excess tax benefits realized from share-based awards issued	—	—	66	—	—	—	—	66	—	66
	—	—	—	(4,500)	(172)	—	—	(172)	—	(172)

Repurchase of common stock										
Share-based compensation	—	—	74	—	—	—	—	74	—	74
Balance as of October 31, 2012	595,259	$6	$8,489	(248,786)	$(8,707)	$5,505	$(111)	$5,182	$3	$5,185

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Acquisition of Dako A/S. On June 21, 2012, we completed our acquisition of Dako A/S through the acquisition of 100% of the share capital of Dako A/S, a limited liability company incorporated under the laws of Denmark (“Dako”), under the share purchase agreement, dated May 16, 2012. Dako provides antibodies, reagents, scientific instruments and software primarily to customers in pathology laboratories. As a result of the acquisition, Dako became a wholly-owned subsidiary of Agilent. The consideration paid was approximately $2,143 million, of which $1,400 million was paid directly to the seller and $743 million was paid to satisfy the outstanding debt of Dako. Agilent funded the acquisition using existing cash. The acquisition has been accounted for in accordance with the authoritative accounting guidance and the results of Dako are included in Agilent's consolidated financial statements from the date of acquisition. The acquisition of Dako and its portfolio is another step to increase our growth in several rapidly expanding areas of diagnostics, including anatomic pathology and molecular diagnostics, as well as strengthen our existing offerings with a focus on product development to help in the fight against cancer. For additional details related to the acquisition of Dako, see Note 3, "Acquisitions".

Acquisition of Varian, Inc. On May 14, 2010, we completed our acquisition of Varian, Inc. ("Varian"), a leading supplier of scientific instrumentation and associated consumables for life science and chemical analysis market applications, by means of a merger of one of our wholly-owned subsidiaries with and into Varian such that Varian became a wholly-owned subsidiary of Agilent. The $1.5 billion total purchase price of Varian included $52 cash per share of Varian's outstanding common stock including vested and non-vested in-the-money stock options at $52 cash per share less their exercise price. We financed the purchase price of Varian using the proceeds from our September 2009 offering of senior notes and other existing cash. The Varian merger has been accounted for in accordance with the authoritative accounting guidance and the results of Varian are included in Agilent's consolidated financial statements from the date of merger. For additional details related to the acquisition of Varian, see Note 3, "Acquisitions ".

Sale of Network Solutions Division. On May 1, 2010, we completed the sale of the Network Solutions Division (“NSD”) of our electronic measurement business to JDS Uniphase Corporation (“JDSU”), a leading communications test and measurement company. JDSU paid Agilent $160 million and we recorded a net gain on the sale of NSD of $132 million in fiscal 2010. NSD includes Agilent's network assurance solutions, network protocol test and drive test products. The results of operations of NSD were not significant to the income from operations of Agilent for the year ended October 31, 2010.

Sale of Hycor Biomedical, Inc. On February 2, 2010, the company sold Hycor Biomedical Inc., a subsidiary of Agilent and part of our life sciences business, to Linden LLC, a Chicago-based healthcare private equity firm. Hycor is a global manufacturer and marketer of in-vitro diagnostics products.

Basis of presentation. The accompanying financial data has been prepared by us pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") and is in conformity with U.S. generally accepted accounting principles ("GAAP"). Our fiscal year end is October 31. Unless otherwise stated, all years and dates refer to our fiscal year.

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

Management is responsible for the fair presentation of the accompanying consolidated financial statements, prepared in accordance with U.S. GAAP, and has full responsibility for their integrity and accuracy. In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary to present fairly our consolidated balance sheet, statement of operations, statement of cash flows and statement of stockholders' equity for all periods presented.

Principles of consolidation. The consolidated financial statements include the accounts of the company and our 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 U.S. requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial

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statements and accompanying notes. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management's best knowledge of current events and actions that may impact the company in the future, actual results may be different from the estimates. Our critical accounting policies are those that affect our financial statements materially and involve difficult, subjective or complex judgments by management. Those policies are revenue recognition, inventory valuation, share-based compensation, retirement and post-retirement plan assumptions, valuation of goodwill and purchased intangible assets and accounting for income taxes.

Revenue recognition. We enter into agreements to sell products (hardware and/or software), services and other arrangements (multiple element arrangements) that include combinations of products and services.

We recognize revenue, net of trade discounts and allowances, provided that (1) persuasive evidence of an arrangement exists, (2) delivery has occurred, (3) the price is fixed or determinable and (4) collectibility is reasonably assured. Delivery is considered to have occurred when title and risk of loss have transferred to the customer, for products, or when the service has been provided. We consider the price to be fixed or determinable when the price is not subject to refund or adjustments. We consider arrangements with extended payment terms not to be fixed or determinable, and accordingly we defer revenue until amounts become due. At the time of the transaction, we evaluate the creditworthiness of our customers to determine the appropriate timing of revenue recognition.

Product revenue. Our product revenue is generated predominantly from the sales of various types of test equipment. Product revenue, including sales to resellers and distributors, is reduced for estimated returns, when appropriate. For sales or arrangements that include customer-specified acceptance criteria, including those where acceptance is required upon achievement of performance milestones, revenue is recognized after the acceptance criteria have been met. For products that include installation, if the installation meets the criteria to be considered a separate element, product revenue is recognized upon delivery, and recognition of installation revenue is delayed until the installation is complete. Otherwise, neither the product nor the installation revenue is recognized until the installation is complete.

Where software is licensed separately, revenue is recognized when the software is delivered and has been transferred to the customer or, in the case of electronic delivery of software, when the customer is given access to the licensed software programs. We also evaluate whether collection of the receivable is probable, the fee is fixed or determinable and whether any other undelivered elements of the arrangement exist on which a portion of the total fee would be allocated based on vendor-specific objective evidence.

Service revenue. Revenue from services includes extended warranty, customer support, consulting, training and education. Service revenue is deferred and recognized over the contractual period or as services are rendered and accepted by the customer. For example, customer support contracts are recognized ratably over the contractual period, while training revenue is recognized as the training is provided to the customer. In addition the four revenue recognition criteria described above must be met before service revenue is recognized.

Revenue Recognition for Arrangements with Multiple Deliverables. Our multiple-element arrangements are generally comprised of a combination of measurement instruments, installation or other start-up services and/or software and/or support or services. Hardware and software elements are typically delivered at the same time and revenue is recognized upon delivery once title and risk of loss pass to the customer. Delivery of installation, start-up services and other services varies based on the complexity of the equipment, staffing levels in a geographic location and customer preferences, and can range from a few days to a few months. Service revenue is deferred and recognized over the contractual period or as services are rendered and accepted by the customer. Revenue from the sale of software products that are not required to deliver the tangible product's essential functionality are accounted for under software revenue recognition rules which require vendor specific objective evidence ("VSOE") of fair value to allocate revenue in a multiple element arrangement. Our arrangements generally do not include any provisions for

cancellation, termination, or refunds that would significantly impact recognized revenue.

We have evaluated the deliverables in our multiple-element arrangements and concluded that they are separate units of accounting if the delivered item or items have value to the customer on a standalone basis and for an arrangement that includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in our control. We allocate revenue to each element in our multiple-element arrangements based upon their relative selling prices. We determine the selling price for each deliverable based on a selling price hierarchy. The selling price for a deliverable is based on VSOE if available, third-party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE nor TPE is available. Revenue allocated to each element is then recognized when the basic revenue recognition criteria for that element have been met.

We use VSOE of selling price in the selling price allocation in all instances where it exists. VSOE of selling price for

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products and services is determined when a substantial majority of the selling prices fall within a reasonable range when sold separately. TPE of selling price can be established by evaluating largely interchangeable competitor products or services in standalone sales to similarly situated customers. As our products contain a significant element of proprietary technology and the solution offered differs substantially from that of competitors, it is difficult to obtain the reliable standalone competitive pricing necessary to establish TPE. ESP represents the best estimate of the price at which we would transact a sale if the product or service were sold on a standalone basis. We determine ESP for a product or service by using historical selling prices which reflect multiple factors including, but not limited to customer type, geography, market conditions, competitive landscape, gross margin objectives and pricing practices. The determination of ESP is made through consultation with and approval by management. We may modify or develop new pricing practices and strategies in the future. As these pricing strategies evolve, we may modify our pricing practices in the future, which may result in changes in ESP. The aforementioned factors may result in a different allocation of revenue to the deliverables in multiple element arrangements, which may change the pattern and timing of revenue recognition for these elements but will not change the total revenue recognized for the arrangement.

Deferred revenue. Deferred revenue represents the amount that is allocated to undelivered elements in multiple element arrangements. We limit the revenue recognized to the amount that is not contingent on the future delivery of products or services or meeting other specified performance conditions.

Accounts receivable, net. Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Such accounts receivable has been reduced by an allowance for doubtful accounts, which is our best estimate of the amount of probable credit losses in our existing accounts receivable. We determine the allowance based on customer specific experience and the aging of such receivables, among other factors. The allowance for doubtful accounts as of October 31, 2012 and 2011 was not material. We do not have any off-balance-sheet credit exposure related to our customers. Accounts receivable are also recorded net of product returns.

Share-based compensation. For the years ended 2012, 2011 and 2010, we accounted for share-based awards made to our employees and directors including employee stock option awards, restricted stock units, employee stock purchases made under our Employee Stock Purchase Plan ("ESPP") and performance share awards under Agilent Technologies, Inc. Long-Term Performance Program ("LTPP") using the estimated grant date fair value method of accounting. Under the fair value method, we recorded compensation expense for all share-based awards of $76 million in 2012, $73 million in 2011 and $66 million in 2010.

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. We assess the valuation of our inventory on a periodic basis and make adjustments to the value for estimated excess and obsolete inventory based on estimates about future demand. The excess balance determined by this analysis becomes the basis for our excess inventory charge. Our excess inventory review process includes analysis of sales forecasts, managing product rollovers and working with manufacturing to maximize recovery of excess inventory.

Warranty. Our standard warranty terms typically extend for one year from the date of delivery. We accrue for standard warranty costs based on historical trends in warranty charges as a percentage of net product revenue. The accrual is reviewed regularly and periodically adjusted to reflect changes in warranty cost estimates. Estimated warranty charges are recorded within cost of products at the time products are sold. See Note 16, "Guarantees".

Taxes on income. Income tax expense or benefit is based on income or loss 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.

Shipping and handling costs. Our shipping and handling costs charged to customers are included in net revenue, and the associated expense is recorded in cost of products for all periods presented.

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

The revised guidance includes examples of events and circumstances that might indicate that a reporting unit's fair value is less than its carrying amount. These include macro-economic conditions such as deterioration in the entity's operating environment

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or industry or market considerations; entity-specific events such as increasing costs, declining financial performance, or loss of key personnel; or other events such as an expectation that a reporting unit will be sold or a sustained decrease in the stock price on either an absolute basis or relative to peers. Agilent opted to early adopt this guidance for the year ended October 31, 2011.

If it is determined, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the provisions of authoritative guidance require that we perform a two-step impairment test on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. The second step (if necessary) measures the amount of impairment by applying fair-value-based tests to the individual assets and liabilities within each reporting unit. As defined in the authoritative guidance, a reporting unit is an operating segment, or one level below an operating segment. We aggregated components of an operating segment that have similar economic characteristics into our reporting units. Subsequent to October 31, 2011, we formed a fourth segment, diagnostics and genomics, from a portion of our life sciences segment. As a result, Agilent now has four segments, life sciences, chemical analysis, diagnostics and genomics and electronic measurement, which are the same as our reporting units. In fiscal year 2012, we assessed goodwill impairment for our reporting units; life sciences, chemical analysis, diagnostics and genomics, and electronic measurement. Based on our results of our qualitative test for goodwill impairment, by reporting unit, as of September 30, 2012, we believe that it is more-likely-than-not that the fair value of each of our reporting units, life sciences, chemical analysis, diagnostics and genomics and electronic measurement is greater than their respective carrying values. There was no impairment of goodwill during the years ended October 31, 2012, 2011 and 2010.

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

In July 2012, the FASB simplified the guidance for testing for impairment of indefinite-lived intangible assets other than goodwill. The changes are intended to reduce compliance costs. Agilent's indefinite-lived intangible assets are in the IPR&D intangible assets. The revised guidance allows a qualitative approach for testing indefinite-lived intangible assets for impairment, similar to the recently issued impairment testing guidance for goodwill and allows the option to first assess qualitative factors (events and circumstances) that could have affected the significant inputs used in determining the fair value of the indefinite-lived intangible asset to determine whether it is more likely than not (meaning a likelihood of more than 50 percent) that the indefinite-lived intangible asset is impaired. An organization may choose to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to calculating its fair value. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. Agilent adopted this guidance for the year ended October 31, 2012. We recorded an impairment of $1 million in 2012, relating to an IPR&D project that was abandoned. No impairments were recorded in 2011 and 2010.

Advertising. Advertising costs are expensed as incurred and amounted to $50 million in 2012, $55 million in 2011 and $45 million in 2010.

Research and development. Costs related to research, design and development of our products are charged to research and development expense as they are incurred.

Sales Taxes. Sales taxes collected from customers and remitted to governmental authorities are not included in our revenue.

Net income per share. Basic net income per share is computed by dividing net income - the numerator - by the weighted average number of common shares outstanding - the denominator - during the period excluding the dilutive effect of stock options and other employee stock plans. Diluted net income per share gives effect to all potentially dilutive common stock equivalents outstanding during the period. The dilutive effect of share-based awards is reflected in diluted net income per share by application of the treasury stock method, which includes consideration of unamortized share-based compensation expense, the tax shortfalls charged to additional paid-in capital and the dilutive effect of in-the-money options and non-vested restricted stock units. Under the treasury stock method, the amount the employee must pay for exercising stock options and unamortized share-based compensation expense less tax shortfalls is assumed proceeds to be used to repurchase hypothetical shares. See Note 6, "Net Income Per Share".

Cash, cash equivalents and short term investments. We classify investments as cash equivalents if their original or remaining maturity is three months or less at the date of purchase. Cash equivalents are stated at cost, which approximates fair value.

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As of October 31, 2012, approximately $2.2 billion of our cash and cash equivalents is held outside of the U.S. in our foreign subsidiaries. Under current tax laws, most of the cash could be repatriated to the U.S. but it would be subject to U.S. federal and state income taxes, less applicable foreign tax credits. Our cash and cash equivalents mainly consist of short term deposits held at major global financial institutions, institutional money market funds, and similar short duration instruments with original maturities of 90 days or less. We continuously monitor the creditworthiness of the financial institutions and institutional money market funds in which we invest our funds.

We classify investments as short-term investments if their original maturities are greater than three months and their remaining maturities are one year or less.

Fair Value of Financial Instruments. The carrying values of certain of our financial instruments including cash and cash equivalents, accounts receivable, accounts payable, accrued compensation and other accrued liabilities approximate fair value because of their short maturities. The fair value of long-term equity investments is determined using quoted market prices for those securities when available. For those long-term equity investments accounted for under the cost method, their carrying value approximates their estimated fair value. The fair value of our short-term and long-term debt, calculated from quoted prices which are primarily Level 1 inputs under the accounting guidance fair value hierarchy, exceeds the carrying value by approximately $4 million and $210 million, respectively, as of October 31, 2012. The fair value of foreign currency contracts used for hedging purposes is estimated internally by using inputs tied to active markets. These inputs, for example, interest rate yield curves, foreign exchange rates, and forward and spot prices for currencies are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. See also Note 12, "Fair Value Measurements" for additional information on the fair value of financial instruments.

Concentration of credit risk. Financial instruments that potentially subject Agilent to significant concentration of credit risk include money market fund investments, time deposits and demand deposit balances. These investments are categorized as cash and cash equivalents and long-term investments. In addition, Agilent has credit risk from derivative financial instruments used in hedging activities and accounts receivable. We invest in a variety of financial instruments and limit the amount of credit exposure with any one financial institution. We have a comprehensive credit policy in place and credit exposure is monitored on an ongoing basis.

Credit risk with respect to our accounts receivable is diversified due to the large number of entities comprising our customer base and their dispersion across many different industries and geographies. Credit evaluations are performed on customers requiring credit over a certain amount and we sell the majority of our products through our direct sales force. Credit risk is mitigated through collateral such as letter of credit, bank guarantees or payment terms like cash in advance. Credit evaluation is performed by an independent team to ensure proper segregation of duties. No single customer accounted for more than 10 percent of combined accounts receivable as of October 31, 2012, or 2011.

Derivative instruments. Agilent is exposed to global foreign currency exchange rate and interest rate risks in the normal course of business. We enter into foreign exchange hedging contracts, primarily forward contracts and purchased options and, in the past, interest rate swaps to manage financial exposures resulting from changes in foreign currency exchange rates and interest rates. In the vast majority of cases, these contracts are designated at inception as hedges of the related foreign currency or interest exposures. Foreign currency exposures include committed and anticipated revenue and expense transactions and assets and liabilities that are denominated in currencies other than the functional currency of the subsidiary. Interest rate exposures are associated with the company's fixed-rate debt. For option contracts, we exclude time value from the measurement of effectiveness. To qualify for hedge accounting, contracts must reduce the foreign currency exchange rate and interest rate risk otherwise inherent in the amount and duration of the hedged exposures and comply with established risk management policies; foreign exchange hedging contracts generally mature within twelve months and interest rate swaps mature at the same time as the maturity of the

debt. In order to manage foreign currency exposures in a few limited jurisdictions, such as China, we may enter into foreign exchange contracts that do not qualify for hedge accounting. In such circumstances, the local foreign currency exposure is offset by contracts owned by the parent company. We do not use derivative financial instruments for speculative trading purposes.

All derivatives are recognized on the balance sheet at their fair values. For derivative instruments that are designated and qualify as a fair value hedge, changes in value of the derivative are recognized in the consolidated statement of operations in the current period, along with the offsetting gain or loss on the hedged item attributable to the hedged risk. For derivative instruments that are designated and qualify as a cash flow hedges, changes in the value of the effective portion of the derivative instrument is recognized in accumulated comprehensive income, a component of stockholders' equity. Amounts associated with cash flow hedges are reclassified and recognized in income when either the forecasted transaction occurs or it becomes probable the forecasted transaction will not occur. Derivatives not designated as hedging instruments are recorded on the balance sheet at their fair value

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and changes in the fair values are recorded in the income statement in the current period. Derivative instruments are subject to master netting arrangements and qualify for net presentation in the balance sheet. Changes in the fair value of the ineffective portion of derivative instruments are recognized in earnings in the current period. Ineffectiveness in 2012, 2011 and 2010 was not significant.

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 our general ledger, and the resulting gain or loss is reflected in the consolidated statement of operations. Buildings and improvements are depreciated over the lesser of their useful lives or the remaining term of the lease and machinery and equipment over three to ten years. We use the straight-line method to depreciate assets.

Leases. We lease buildings, machinery and equipment under operating leases for original terms ranging generally from 1 year to 20 years. Certain leases contain renewal options for periods up to 6 years.

Capitalized software. We capitalize certain internal and external costs incurred to acquire or create internal use software. Capitalized software is included in property, plant and equipment and is depreciated over three to five years once development is complete.

Impairment of long-lived assets. We continually monitor 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 occur, we assess the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the undiscounted future cash flows is less than the carrying amount of those assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets.

Restructuring and asset impairment charges. The four main components of past restructuring plans are related to workforce reductions, the consolidation of excess facilities, asset impairments and special charges related to inventory. Workforce reduction charges are accrued when it is determined that a liability has been incurred, which is generally after individuals have been notified of their termination dates and expected severance payments. Plans to consolidate excess facilities result in charges for lease termination fees and future commitments to pay lease charges, net of estimated future sublease income. We recognize charges for consolidation of excess facilities generally when we have vacated the premises. These estimates were derived using the authoritative accounting guidance. We have also assessed the recoverability of our long-lived assets, by determining whether the carrying value of such assets will be recovered through undiscounted future cash flows. Asset impairments primarily consist of property, plant and equipment and are based on an estimate of the amounts and timing of future cash flows related to the expected future remaining use and ultimate sale or disposal of buildings and equipment net of costs to sell. The charges related to inventory include estimated future inventory disposal payments that we are contractually obliged to make to our suppliers and reserves taken against inventory on hand. If the amounts and timing of cash flows from restructuring activities are significantly different from what we have estimated, the actual amount of restructuring and asset impairment charges could be materially different, either higher or lower, than those we have recorded.

Employee compensation and benefits. Amounts owed to employees, such as accrued salary, bonuses and vacation benefits are accounted for within employee compensation and benefits. The total amount of accrued vacation benefit was $156 million and $144 million as of October 31, 2012, and 2011, respectively.

Foreign currency translation. We translate and remeasure balance sheet and income statement items into U.S. dollars. For those subsidiaries that operate in a local currency functional environment, all assets and liabilities are translated into U.S. dollars using current exchange rates at the balance sheet date; revenue and expenses are translated

using monthly exchange rates which approximate to average exchange rates in effect during each period. Resulting translation adjustments are reported as a separate component of accumulated comprehensive loss in stockholders' equity.

For those subsidiaries that operate in a U.S. dollar functional environment, foreign currency assets and liabilities are remeasured into U.S. dollars at current exchange rates except for nonmonetary assets and capital accounts which are remeasured at historical exchange rates. Revenue and expenses are generally remeasured at monthly exchange rates which approximate average exchange rates in effect during each period. Gains or losses from foreign currency remeasurement are included in consolidated net income. Net gains or losses resulting from foreign currency transactions, including hedging gains and losses, are reported in other income (expense), net and was $19 million loss for fiscal year 2012 and $1 million loss for both fiscal years 2011 and 2010. The loss recorded for fiscal year 2012 includes $14 million of loss associated with the settlement of currency contracts entered into for the purchase of Dako.

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2. NEW ACCOUNTING PRONOUNCEMENTS

In January 2010, the Financial Accounting Standards Board ("FASB") issued guidance that requires new disclosures for fair value measurements and provides clarification for existing disclosure requirements. The guidance is effective for interim and annual periods beginning after December 15, 2009, except for gross presentation of activity in level 3 which is effective for annual periods beginning after December 15, 2010, and for interim periods in those years. We adopted the guidance for new disclosures for fair value measurements and clarification for existing disclosure requirements as of February 1, 2010 and there was no material impact on our consolidated financial statements. Additionally, we adopted the guidance regarding level 3 activity on November 1, 2011 and there was no material impact to our consolidated financial statements. See Note 12-, "Fair Value Measurements" for additional information on the fair value of financial instruments.

In May 2011, the FASB amended fair value measurement and disclosure guidance to achieve convergence with International Financial Reporting Standards ("IFRS"). The amended guidance modifies the measurement of fair value, clarifies verbiage, and changes disclosure or other requirements in US GAAP and IFRS. The guidance is effective during interim and annual periods beginning after December 15, 2011. We adopted the guidance as of February 1, 2012 and there was no material impact on our consolidated financial statements.

In June 2011, the FASB issued guidance related to the presentation of comprehensive income. The guidance aims to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We expect to make presentational changes to our consolidated financial statements beginning fiscal year 2013 upon adoption of this guidance. This guidance impacts financial statement presentation requirements only; its adoption will not have a material impact on our consolidated financial statements.

In December 2011, the FASB issued guidance related to the enhanced disclosures that will enable the users of financial statements to evaluate the effect or potential effect of netting arrangements of an entity's financial position. The amendments require improved information about financial instruments and derivative instruments that are either offset or subject to enforceable master netting arrangements or similar agreement. The guidance is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. We do not expect a material impact to our consolidated financial statements due to the adoption of this guidance.

In July 2012, the FASB simplified the guidance for testing for impairment of indefinite-lived intangible assets other than goodwill. The changes are intended to reduce compliance costs. Agilent's indefinite-lived intangible assets are in-process research and development intangible assets. The revised guidance allows a qualitative approach for testing indefinite-lived intangible assets for impairment, similar to the recently issued impairment testing guidance for goodwill and allows the option to first assess qualitative factors (events and circumstances) that could have affected the significant inputs used in determining the fair value of the indefinite-lived intangible asset to determine whether it is more likely than not (meaning a likelihood of more than 50 percent) that the indefinite-lived intangible asset is impaired. An organization may choose to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to calculating its fair value. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. Agilent early adopted this guidance for the year ended October 31, 2012. There was no material impact on our consolidated financial statements due to the adoption of this guidance.

3. ACQUISITIONS

Acquisition of Dako

On June 21, 2012, we completed the acquisition of Dako through the acquisition of 100% of share capital of Dako, a limited liability company incorporated under the laws of Denmark, under the share purchase agreement, dated May 16, 2012. As a result of the acquisition, Dako has become a wholly-owned subsidiary of Agilent. Accordingly, the results of Dako are included in Agilent's consolidated financial statements from the date of the acquisition. For the period from June 22, 2012 to October 31, 2012, Dako's net revenue was $126 million and net loss was $37 million. The acquisition of Dako and its portfolio is another step to increase our growth in several rapidly expanding areas of diagnostics, including anatomic pathology and molecular diagnostics, as well as strengthen our existing offerings with a focus on product development to help in the fight against cancer.

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The consideration paid was approximately $2,143 million, of which $1,400 million was paid directly to the seller and $743 million was paid to satisfy outstanding debt. Agilent funded the acquisition using our existing cash. In connection with the acquisition of Dako, Agilent entered into several foreign currency forward contracts to mitigate the currency exchange risk associated with the payment of the purchase price in Danish Krone and the repayment of debt in multiple currencies. The aggregate notional amount of the currencies hedged was $1.7 billion. These foreign exchange contracts did not qualify for hedge accounting treatment and were not designated as hedging instruments. The resulting loss on settlement, on the date of acquisition, was $14 million and was recorded in other income (expense) in the consolidated statement of operations for the year ended October 31, 2012.

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

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

A portion of the overall purchase price was allocated to acquired intangible assets. Amortization expense associated with acquired intangible assets is not deductible for tax purposes. Therefore, approximately $185 million was established as a deferred tax liability for the future amortization of these intangibles and is included in "other long-term liabilities" in the table below.

The following table summarizes the allocation of the purchase price to the estimated fair values of the assets acquired and liabilities assumed on the closing date of June 21, 2012 (in millions):

Cash and cash equivalents	$11
Accounts receivable	96
Inventories	90
Other current assets	5
Property, plant and equipment	146
Long term investments	11
Intangible assets	738
Other assets	13
Goodwill	1,382
Total assets acquired	2,492
Accounts payable	(24)
Employee compensation and benefits	(24)
Other accrued liabilities	(47)
Long-term debt	(43)
Other long-term liabilities	(211)

Net assets acquired	$2,143

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

The fair values for acquired inventory, property, plant and equipment, and intangible assets were determined with the

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input from third party valuation specialists.

The fair values of certain other assets, investments, long-term debt, and certain other long-term liabilities were determined internally using historical carrying values and estimates made by management.

Valuations of intangible assets acquired

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

	Fair Value	Estimated Useful Life
Developed product technology	$287	8 - 9 yrs
Customer relationships	140	4 yrs
Tradenames and trademarks	128	12 yrs
Total intangible assets subject to amortization	555	
In-process research and development	183	
Total intangible assets	$738	

As noted above, the intangible assets, including in-process research and development, were valued with input from valuation specialists. The In-Process Research and Development was valued using the multi-period excess earnings method under the income approach by discounting forecasted cash flows directly related to the products expecting to result from the projects, net of returns on contributory assets. The primary in-process project acquired relates to a major new product platform which will be released in the near future. Total costs to complete for all Dako In- Process Research and Development were estimated at approximately $49 million over time as of the close date.

Acquisition and integration costs directly related to the Dako acquisition totaled $15 million for the year ended October 31, 2012 and were recorded in selling, general and administrative expenses. Such costs are expensed in accordance with the authoritative accounting guidance.

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

	2012	2011
Net revenue	$7,100	$6,976
Net income	$1,145	$909
Net income per share — basic	$3.29	$2.62
Net income per share — diluted	$3.24	$2.56

The pro forma financial information assumes that the companies were combined as of November 1, 2010 and include business combination accounting effects from the acquisition including amortization charges from acquired intangible assets, the impact on cost of sales due to the respective estimated fair value adjustments to inventory, changes to interest income for cash used in the acquisition, interest expense and currency losses associated with debt paid in connection with the acquisition and acquisition related transaction costs and tax related effects. The pro forma information as presented above is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of fiscal 2011.

The unaudited pro forma financial information for the year ended October 31, 2012 combines the historical results of Agilent for the year ended October 31, 2012 (which includes Dako after the acquisition date) and for Dako for the six months ended March 31, 2012 and the two months ended May 31, 2012.

The unaudited pro forma financial information for the year ended October 31, 2011 combines the historical results of Agilent for the year ended October 31, 2011 and for Dako the year ended December 31, 2011 (due to differences in reporting periods).

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The unaudited pro financial information for the years ended October 31, 2012 and 2011 includes the fourth quarter of Dako's calendar reporting period, October 1, 2011 to December 31, 2011, in both years.

Acquisition of Varian

On May 14, 2010, we completed the acquisition of Varian through the merger of Varian and Cobalt Acquisition Corp., a direct wholly-owned subsidiary of Agilent under the Merger Agreement, dated July 26, 2009. As a result of the merger, Varian became a wholly-owned subsidiary of Agilent. Accordingly, the results of Varian are included in Agilent's consolidated financial statements from the date of the merger. For the period from May 15, 2010 to October 31, 2010, Varian's net revenue was $320 million.

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

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

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

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

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

Cash and cash equivalents	$226
Accounts receivable	138
Inventories	170
Other current assets	47
Property, plant and equipment	126
Intangible assets	417
Other assets	13
Goodwill	787
Total assets acquired	1,924
Accounts payable	(65)
Employee compensation and benefits	(43)
Deferred revenue	(30)
Other accrued liabilities	(72)
Long-term debt	(15)
Retirement and post-retirement benefits	(18)
Other long-term liabilities	(157)
Net assets acquired	$1,524

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

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

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

The company has completed its business combination accounting as of May 14, 2010.

Valuations of intangible assets acquired

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

	Fair Value	Estimated Useful Life
Developed product technology	$221	1-7 yrs
Customer relationships	157	2-10 yrs
Tradenames and trademarks	10	1.5 yrs
Order backlog	9	0.5-1 yr
Total intangible assets subject to amortization	397	
In-process research and development	20	
Total intangible assets	$417	

Acquisition and integration costs directly related to the Varian merger totaled $102 million for the year ended October 31, 2010. These costs were substantially recorded in selling, general and administrative expenses. Such costs are expensed in accordance with the authoritative accounting guidance.

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

	2010
Net revenue	$5,871
Net income	$648
Net income per share — basic	$1.87
Net income per share — diluted	$1.84

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

The unaudited pro forma financial information for the year ended October 31, 2010 combines the historical results of Agilent for the year ended October 31, 2010 and the historical results of Varian for the six months ended April 2, 2010 and the period May 1, 2010 to May 14, 2010.

4. SHARE-BASED COMPENSATION

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

Description of Share-Based Plans

Employee stock purchase plan. Effective November 1, 2000, we adopted the ESPP. The ESPP allows eligible employees to contribute up to ten percent of their base compensation to purchase shares of our common stock at 85 percent of the purchase price, but only uses the purchase date to establish the fair market value. Shares authorized for issuance in connection with the ESPP are subject to an automatic annual increase of the lesser of one percent of the outstanding shares of common stock of Agilent on November 1, or an amount determined by the Compensation Committee of our Board of Directors. Under the terms of the ESPP, in no event shall the number of shares issued under the ESPP exceed 75 million shares.

Under our ESPP, employees purchased 1,405,774 shares for $47 million in 2012, 1,205,431 shares for $43 million in 2011 and 1,577,388 shares for $40 million in 2010. As of October 31, 2012, the number of shares of common stock authorized and available for issuance under our ESPP was 35,605,229. This excludes the number of shares of common stock to be issued to participants in consideration of the aggregate participant contributions totaling $24 million as of October 31, 2012.

Incentive compensation plans. On November 19, 2008 and March 11, 2009, the Compensation Committee of Board of Directors and the stockholders, respectively, approved the Agilent Technologies, Inc. 2009 Stock Plan (the "2009 Stock Plan") to replace the Company's 1999 Stock Plan and 1999 Stock Non-Employee Director Stock Plan and

subsequently reserved 25 million shares of Company common stock that may be issued under the 2009 Plan, plus any shares forfeited or cancelled under the 1999 Stock Plan. The 2009 Stock Plan provides for the grant of awards in the form of stock options, stock appreciation rights ("SARs"), restricted stock, restricted stock units ("RSUs"), performance shares and performance units with performance-based conditions on vesting or exercisability, and cash awards. The 2009 Plan has a term of ten years. As of October 31, 2012, 16,712,461 shares were available for future awards under the 2009 Stock Plan.

Stock options granted under the 2009 Stock Plans 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 and generally have a maximum contractual term of ten years. The exercise price for stock options is generally not less than 100 percent of the fair market value of our common stock on the date the stock award is granted.

Effective November 1, 2003, the Compensation Committee of the Board of Directors approved the LTPP, which is a

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performance stock award program administered under the 1999 and 2009 Stock Plans, for the company's executive officers and other key employees. Participants in this program are entitled to receive unrestricted shares of the company's stock after the end of a three-year period, if specified performance targets are met. LTPP awards are generally designed to meet the criteria of a performance award with the performance metrics and peer group comparison set at the beginning of the performance period. Based on the performance metrics the final award may vary from zero to 200 percent of the target award. The maximum contractual term for awards under the LTPP program is three years. We consider the dilutive impact of this program in our diluted net income per share calculation only to the extent that the performance conditions are met.

In March 2007, we began to issue restricted stock units under our share-based plans. The estimated fair value of the restricted stock unit awards granted under the Stock Plans is determined based on the market price of Agilent's common stock on the date of grant. Restricted stock units generally vest, with some exceptions, at a rate of 25 percent per year over a period of four years from the date of grant.

Impact of Share-based Compensation Awards

We have recognized compensation expense based on the estimated grant date fair value method under the authoritative guidance. For all share-based awards we have recognized compensation expense using a straight-line amortization method. As the guidance requires that share-based compensation expense be based on awards that are ultimately expected to vest, estimated share-based compensation has been reduced for estimated forfeitures.

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

	Years Ended October 31,		
	2012	2011	2010
	(in millions)		
Cost of products and services	$16	$16	$14
Research and development	10	10	10
Selling, general and administrative	50	47	42
Total share-based compensation expense	$76	$73	$66

At October 31, 2012 and 2011 there was no share-based compensation capitalized within inventory. Income tax benefit recognized in 2012, 2011 and 2010 in the statement of operations for share-based compensation was not material. The weighted average grant date fair value of options, granted in 2012, 2011 and 2010 was $13.69, $12.48 and $9.81 per share, respectively.

Included in the 2010 expense is incremental expense for acceleration of share-based compensation related to the announced workforce reduction plan of $2 million. In 2012 and 2011 the expense for the acceleration of share-based compensation related to the announced workforce reduction plan was immaterial. Upon termination of the employees impacted by workforce reduction, the non-vested Agilent awards held by these employees immediately vests. Employees have a period of up to three months in which to exercise the Agilent options before such options are cancelled. In addition, in 2010, we reversed approximately $3 million of expense for the cancellation of non-vested awards related to the separation of a senior executive.

Valuation Assumptions

For all periods presented, the fair value of share based awards for employee stock option awards was estimated using the Black-Scholes option pricing model. For all periods presented, shares granted under the LTPP were valued using a Monte Carlo simulation. The estimated fair value of restricted stock unit awards was determined based on the market

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

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

	Years Ended October 31,		
	2012	2011	2010
Stock Option Plans:			
Weighted average risk-free interest rate	0.88%	1.49%	2.19%
Dividend yield	0%	0%	0%
Weighted average volatility	38%	35%	37%
Expected life	5.8 years	5.8 years	4.4 years
LTPP:			
Volatility of Agilent shares	41%	40%	39%
Volatility of selected peer-company shares	17%-75%	20%-76%	20%-80%
Price-wise correlation with selected peers	62%	55%	53%

Both the Black-Scholes and Monte Carlo simulation fair value models require the use of highly subjective and complex assumptions, including the option's expected life and the price volatility of the underlying stock. For all the years presented, the expected stock price volatility assumption was determined using the historical volatility of Agilent's stock options over the most recent historical period equivalent to the expected life.

In 2010, the expected life of our employee stock options was 4.4 years. In the first quarter of 2011, we revised our estimate of the expected life of our employee stock options from 4.4 to 5.8 years. For the grants awarded under the 2009 stock plan after November 1, 2010, we increased the period available to retirement eligible employees to exercise their options from three years at retirement date to the full contractual term of ten years. In developing our estimated life of our employee stock options of 5.8 years, we considered the historical option exercise behavior of our executive employees who were granted the majority of the options in the annual grants made which we believe is representative of future behavior. There was no change to the expected life of our employee stock options in 2012.

Share-based Payment Award Activity

Employee Stock Options

The following table summarizes employee stock option award activity made to our employees and directors for 2012:

	Options Outstanding	Weighted Average Exercise Price
	(in thousands)	
Outstanding at October 31, 2011	13,071	$28
Granted	1,381	$37
Exercised	(2,214)	$23
Cancelled/Forfeited/Expired	(161)	$29
Outstanding at October 31, 2012	12,077	$30

Forfeited and expired options from total cancellations in 2012 were as follows:

	Options Cancelled	Weighted Average Exercise Price
	(in thousands)	

Forfeited	88	$32
Expired	73	$25
Total Options Cancelled during 2012	161	$29

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The options outstanding and exercisable for equity share-based payment awards at October 31, 2012 were as follows:

	Options Outstanding				Options Exercisable			
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number Exercisable	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
	(in thousands)	(in years)		(in thousands)	(in thousands)	(in years)		(in thousands)
$0 - 25	2,878	3.3	$20	$46,693	2,487	2.9	$20	$40,046
$25.01 - 30	1,411	6.6	$29	9,358	669	6.2	$29	4,516
$30.01 - 40	7,782	4.8	$34	18,245	5,449	3.2	$33	17,470
$40.01 & over	6	9.4	$45	—	—	—	$—	—
	12,077	4.7	$30	$74,296	8,605	3.3	$29	$62,032

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value, based on the company's closing stock price of $35.99 at October 31, 2012, which would have been received by award holders had all award holders exercised their awards that were in-the-money as of that date. The total number of in-the-money awards exercisable at October 31, 2012 was approximately 8 million.

The following table summarizes the aggregate intrinsic value of options exercised and the fair value of options granted in 2012, 2011 and 2010:

	Aggregate Intrinsic Value	Weighted Average Exercise Price	Value Using Black-Scholes Model
	(in thousands)		
Options exercised in fiscal 2010	$72,325	$25	
Black-Scholes value of options granted during fiscal 2010			$10
Options exercised in fiscal 2011	$164,738	$27	
Black-Scholes value of options granted during fiscal 2011			$12
Options exercised in fiscal 2012	$38,188	$23	
Black-Scholes value of options granted during fiscal 2012			$14

As of October 31, 2012, the unrecognized share-based compensation costs for outstanding stock option awards, net of expected forfeitures, was approximately $13 million which is expected to be amortized over a weighted average period of 2.3 years. The amount of cash received from the exercise of share-based awards granted was $100 million in 2012, $304 million in 2011 and $299 million in 2010. See Note 5, "Income Taxes" for the tax impact on share-based award exercises.

Non-vested Awards

The following table summarizes non-vested award activity in 2012 primarily for our LTPP and restricted stock unit awards:

	Shares	Weighted Average

	(in thousands)	Grant Price
Non-vested at October 31, 2011	3,604	$31
Granted	1,496	$38
Vested	(1,568)	$34
Forfeited	(106)	$35
FY2009 LTPP Incremental Issuance	88	$39
Non-vested at October 31, 2012	3,514	$35

As of October 31, 2012, the unrecognized share-based compensation costs for non-vested restricted stock awards, net of expected forfeitures, was approximately $58 million which is expected to be amortized over a weighted average period of 2.3 years. The total fair value of restricted stock awards vested was $54 million for 2012, $43 million for 2011 and $35 million for 2010.

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5. INCOME TAXES

The domestic and foreign components of income before taxes are:

	Years Ended October 31,		
	2012	2011	2010
	(in millions)		
U.S. operations	$45	$88	$163
Non-U.S. operations	998	944	529
Total income before taxes	$1,043	$1,032	$692

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

	Years Ended October 31,		
	2012	2011	2010
	(in millions)		
U.S. federal taxes:			
Current	$6	$(1)	$(40)
Deferred	(144)	—	37
Non-U.S. taxes:			
Current	41	(6)	145
Deferred	(22)	28	(141)
State taxes, net of federal benefit:			
Current	1	(11)	12
Deferred	8	10	(5)
Total provision	$(110)	$20	$8

The income tax provision does not reflect potential future tax savings resulting from excess deductions associated with our various share-based award plans.

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The significant components of deferred tax assets and deferred tax liabilities included on the consolidated balance sheet are:

	October 31, 2012		2011	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
	(in millions)			
Inventory	$24	$—	$30	$—
Intangibles	—	239	—	82
Property, plant and equipment	11	—	—	32
Warranty reserves	21	—	16	—
Retiree medical benefits	5	—	14	—
Pension benefits	136	—	110	—
Employee benefits, other than retirement	60	—	84	—
Net operating loss, capital loss, and credit carryforwards	293	—	272	—
Unrealized gains/losses on investments	26	—	47	—
Unremitted earnings of foreign subsidiaries	—	88	—	—
Share-based compensation	57	—	48	—
Deferred revenue	27	—	18	—
Other	51	1	56	36
Subtotal	711	328	695	150
Tax valuation allowance	(93)	—	(369)	—
Total deferred tax assets or deferred tax liabilities	$618	$328	$326	$150

The significant increase in 2012 as compared to 2011 for the deferred tax liability relating to intangible assets is due primarily to acquired intangible assets from Dako. The amortization expenses associated with acquired intangible assets is not deductible for tax purposes. Accordingly, approximately $185 million was established as a deferred tax liability for the future amortization of these intangibles as a part of the accounting for business combinations of Dako.

Agilent records U.S. income taxes on the undistributed earnings of foreign subsidiaries unless the subsidiaries' earnings are considered indefinitely reinvested outside the U.S. As of October 31, 2012 the Company recognized an $88 million deferred tax liability for the overall residual tax expected to be imposed upon the repatriation of unremitted foreign earnings that are not considered permanently reinvested. The increase in 2012 as compared to 2011 primarily relates to a non-recurring distribution of previously considered permanently reinvested earnings. During the fourth quarter of 2012, the Company assessed the forecasted cash needs and the overall financial position of its foreign subsidiaries and determined that a portion of previously permanently reinvested earnings would no longer be reinvested overseas. As of October 31, 2012, the cumulative amount of undistributed earnings considered indefinitely reinvested is $5.2 billion. Because of the availability of U.S. foreign tax credits, the determination of the unrecognized deferred tax liability on these earnings is not practicable.

The breakdown between current and long-term deferred tax assets and deferred tax liabilities was as follows for the years 2012 and 2011:

	October 31, 2012	2011
	(in millions)	
Current deferred tax assets (included within other current assets)	$95	$54

Long-term deferred tax assets (included within other assets)	400	168
Current deferred tax liabilities (included within other accrued liabilities)	(2)	(4)
Long-term deferred tax liabilities (included within other long-term liabilities)	(203)	(42)
Total	$290	$176

Valuation allowances require an assessment of both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable. Such assessment is required on a jurisdiction by jurisdiction basis. In the fourth quarter of 2012, management concluded that the valuation allowance for most of Agilent's U.S. federal and state deferred tax assets is no longer needed primarily due to the emergence from cumulative losses in recent years, the return to sustainable

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U.S. operating profits and the expectation of sustainable profitability in future periods. As of October 31, 2012, the cumulative positive evidence outweighed the negative evidence regarding the likelihood that most of the deferred tax asset for Agilent's U.S. consolidated income tax group will be realized. Accordingly, we recognized a non-recurring tax benefit of $280 million relating to the valuation allowance reversal. As of October 31, 2012, we continued to maintain a valuation allowance of $93 million for certain U.S. state and foreign deferred tax assets until sufficient positive evidence exists to support reversal.

At October 31, 2012, we had federal net operating loss carryforwards of approximately $23 million and tax credit carryforwards of approximately $129 million. The federal net operating losses expire in years beginning 2021 through 2026, and the federal tax credits begin to expire in 2018, if not utilized. At October 31, 2012, we had state net operating loss carryforwards of approximately $214 million which expire in years beginning 2013 through 2031, if not utilized. In addition, we had net state tax credit carryforwards of $28 million that do not expire. All of the federal and some of the state net operating loss carryforwards are subject to change of ownership limitations provided by the Internal Revenue Code and similar state provisions. These annual loss limitations may result in the expiration or reduced utilization of the net operating losses. At October 31, 2012, we also had foreign net operating loss carryforwards of approximately $478 million. Of this foreign loss, $276 million will expire in years beginning 2013 through 2022, if not utilized. The remaining $202 million has an indefinite life. Some of the foreign losses are subject to annual loss limitation rules.

The authoritative guidance prohibits recognition of a deferred tax asset for excess tax benefits related to stock and stock option plans that have not yet been realized through reduction in income taxes payable. Such unrecognized deferred tax benefits totals $140 million as of October 31, 2012 and will be accounted for as a credit to shareholders' equity, if and when realized through a reduction in income taxes payable. During the fourth quarter of 2012, due to the reversal of the U.S. valuation allowance, the Company recognized approximately $66 million as a credit to shareholders' equity for cumulative excess tax benefits related to stock and stock option plans that have been realized as of October 31, 2012.

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

	Years Ended October 31,		
	2012	2011	2010
	(in millions)		
Profit before tax times statutory rate	$365	$361	$242
State income taxes, net of federal benefit	8	(1)	4
Non-U.S. income taxed at different rates	(144)	(153)	(98)
Change in unrecognized non-U.S. tax benefits	(68)	(97)	32
Hewlett Packard tax sharing agreement adjustment	—	(3)	(17)
Valuation allowances	(280)	(84)	(162)
Other, net	9	(3)	7
Provision for income taxes	$(110)	$20	$8
Effective tax rate	(11)%	2 %	1 %

Agilent enjoys tax holidays in several different jurisdictions, most significantly in Singapore and Malaysia. The tax holidays provide lower rates of taxation on certain classes of income and require various thresholds of investments and employment or specific types of income in those jurisdictions. The tax holidays are due for renewal between 2015 and 2023. As a result of the incentives, the impact of the tax holidays decreased income taxes by $122 million, $127 million, and $62 million in 2012, 2011, and 2010, respectively. The benefit of the tax holidays on net income per share (diluted) was approximately $0.35, $0.36, and $0.18 in 2012, 2011 and 2010, respectively.

For 2012, the effective tax rate reflects a favorable benefit of 11 percent. The 11 percent effective tax rate benefit reflects tax on earnings in jurisdictions that have low effective tax rates and includes a $280 million tax benefit due to the reversal of a valuation allowance for most U.S. federal and state deferred tax assets. Valuation allowances require an assessment of both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable. Such assessment is required on a jurisdiction by jurisdiction basis. In the fourth quarter of 2012, management concluded that the valuation allowance for most of Agilent's U.S. federal and state deferred tax assets is no longer needed primarily due to the emergence from cumulative losses in recent years, the return to sustainable U.S. operating profits and the expectation of sustainable profitability in future periods. As of October 31, 2012, the cumulative positive evidence outweighed the negative evidence regarding the likelihood that most of the deferred tax asset for Agilent's U.S. consolidated income tax group will be realized. Accordingly, the Company recognized a non-recurring tax benefit of $280 million relating to the valuation allowance reversal. The effective tax rate also includes a non-recurring tax expense of $88 million relating to an increase in the overall residual U.S. tax expected to be imposed

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upon the repatriation of unremitted foreign earnings previously considered permanently reinvested. During the fourth quarter of 2012, the Company assessed the forecasted cash needs and the overall financial position of its foreign subsidiaries and determined that a portion of previously permanently reinvested earnings would no longer be reinvested overseas. The effective tax rate is also reduced by a $68 million tax benefit primarily associated with the recognition of previously unrecognized tax benefits and the reversal of the related interest accruals due to the reassessment of certain uncertain tax positions relating to foreign jurisdictions.

For 2011, the effective tax rate was 2 percent. The 2 percent effective tax rate reflected tax on earnings in jurisdictions that had low effective tax rates and included a $97 million net tax benefit primarily associated with a refund in Canada and the recognition of previously unrecognized tax benefits and the reversal of the related interest accruals due to the reassessment of certain uncertain tax positions. The income tax provision also included a $26 million out of period adjustment to reduce the carrying value of certain U.K. deferred tax assets for which the majority was recorded in the quarter ended April 30, 2011. The overstatement of these deferred tax assets resulted in an overstatement of the U.K. valuation allowance release in the fourth quarter of 2010. For the full year, this out of period adjustment was substantially offset by other out of period adjustments. The net impact of all out of period adjustments on the effective tax rate was immaterial. Without considering interest and penalties, the effective rate reflected taxes in all jurisdictions except the U.S. and certain foreign jurisdictions in which income tax expense or benefit continued to be offset by adjustments to valuation allowances.

For 2010, the effective tax rate was 1 percent. The 1 percent effective tax rate includes a $101 million beneficial release of the U.K. valuation allowance, a $32 million current year increase in prior year tax reserves, and tax on earnings in jurisdictions that had low effective tax rates. Also included is a $17 million tax benefit related to a $54 million non-taxable settlement payment received in connection with a tax sharing agreement between Agilent and Hewlett Packard Company. Without considering interest and penalties, the effective rate reflected taxes in all jurisdictions except the U.S. and certain foreign jurisdictions in which income tax expense or benefit continued to be offset by adjustments to valuation allowances.

The breakdown between current and long-term income tax assets and liabilities, excluding deferred tax assets and liabilities, was as follows for the years 2012 and 2011:

	October 31,	
	2012	2011
	(in millions)	
Current income tax assets (included within other current assets)	$65	$42
Long-term income tax assets (included within other assets)	49	30
Current income tax liabilities(included within other accrued liabilities)	(115)	(62)
Long-term income tax liabilities (included within other long-term liabilities)	(320)	(356)
Total	$(321)	$(346)

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

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The aggregate changes in the balances of our unrecognized tax benefits including all federal, state and foreign tax jurisdictions is as follows:

	2012	2011	2010
	(in millions)		
Balance, beginning of year	$469	$656	$930
Additions for acquisitions	—	—	15
Additions for tax positions related to the current year	56	41	46
Additions for tax positions from prior years	40	18	75
Reductions for tax positions from prior years	(90)	(170)	(284)
Settlements with taxing authorities	(2)	(67)	(119)
Statute of limitations expirations	(9)	(9)	(7)
Balance, end of year	$464	$469	$656

As of October 31, 2012, we had $464 million of unrecognized tax benefits of which $450 million, if recognized, would affect our effective tax rate.

We recognized a tax benefit of $4 million, a tax benefit of $14 million and a tax expense of $5 million of interest and penalties related to unrecognized tax benefits in 2012, 2011 and 2010, respectively. Interest and penalties accrued as of October 31, 2012 and 2011 were $34 million and $38 million, respectively.

In the U.S., tax years remain open back to the year 2006 for federal income tax purposes and the year 2000 for significant states. In 2011, Agilent and the Internal Revenue Service (“IRS”) reached an agreement on transfer pricing issues covering years 2003 - 2007. Tax adjustments resulting from these agreements were offset with net operating losses and tax credit carryforwards. Agilent's U.S. federal income tax returns for 2006 through 2007 are currently under audit by the IRS. During the three months ended July 31, 2012, we received a Revenue Agents Report (“RAR”) for these years and filed a protest to dispute certain adjustments, the most significant of which pertains to the amount of a gain from the disposition of a business that was allocated to the U.S. for income tax purposes. There can be no assurance that the outcome of this dispute will not have a material adverse effect on our operating results or financial condition. In other major jurisdictions where we conduct business, the tax years generally remain open back to the year 2003. With these jurisdictions and the U.S., it is reasonably possible that there could be significant changes to our unrecognized tax benefits in the next twelve months due to either the expiration of a statute of limitation or a tax audit settlement. Given the number of years and numerous matters that remain subject to examination in various tax jurisdictions, we are unable to estimate the range of possible changes to the balance of our unrecognized tax benefits.

6. NET INCOME PER SHARE

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

	Years Ended October 31,		
	2012	2011	2010
	(in millions)		
Numerator:			
Net income	$1,153	$1,012	$684
Denominators:			
Basic weighted average shares	348	347	347
Potentially dilutive common stock equivalents — stock options and other employee stock plans	5	8	6
Diluted weighted average shares	353	355	353

The dilutive effect of share-based awards is reflected in diluted net income per share by application of the treasury stock method, which includes consideration of unamortized share-based compensation expense, the tax shortfalls charged to additional paid-in capital and the dilutive effect of in-the-money options and non-vested restricted stock units. Under the treasury stock method, the amount the employee must pay for exercising stock options and unamortized share-based compensation expense less tax shortfalls is assumed proceeds to be used to repurchase hypothetical shares. An increase in the fair market value of the company's common stock can result in a greater dilutive effect from potentially dilutive awards. The total number of share-based awards issued in 2012, 2011 and 2010 were 5 million, 12 million and 13 million, respectively.

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

	Years Ended October 31,		
	2012	2011	2010
Options to purchase shares of common stock (in millions)	—	1	11

7. SUPPLEMENTAL CASH FLOW INFORMATION

Net cash paid for income taxes was $86 million in 2012, $22 million in 2011, and $48 million in 2010. Cash paid for interest was $111 million in 2012, $95 million in 2011 and $89 million in 2010.

8. INVENTORY

	October 31,	
	2012	2011
	(in millions)	
Finished goods	$509	$452
Purchased parts and fabricated assemblies	505	446
Inventory	$1,014	$898

Inventory-related excess and obsolescence charges of $30 million each were recorded in total cost of products in 2012, 2011 and 2010, respectively. We record excess and obsolete inventory charges for both inventory on our site as well as inventory at our contract manufacturers and suppliers where we have non-cancellable purchase commitments.

9. PROPERTY, PLANT AND EQUIPMENT, NET

	October 31,	
	2012	2011
	(in millions)	
Land	$142	$138
Buildings and leasehold improvements	1,475	1,271
Machinery and equipment	882	833
Software	383	370
Total property, plant and equipment	2,882	2,612
Accumulated depreciation and amortization	(1,718)	(1,606)
Property, plant and equipment, net	$1,164	$1,006

Asset impairments other than restructuring were zero in 2012 and $7 million in 2011 and in 2010. Depreciation expenses were $171 million in 2012, $142 million in 2011 and $124 million in 2010. For the year ended October 31, 2012 we recorded $15 million of accelerated depreciation related to a building classified as held and used. In accordance with the accounting guidance, it was determined that the building had been abandoned and an assessment was made of the remaining useful life of the building. The building was written down to its appropriate fair value.

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10. GOODWILL AND OTHER INTANGIBLE ASSETS

The goodwill balances at October 31, 2012, 2011 and 2010 and the movements in 2012 and 2011 for each of our reportable segments are shown in the table below:

	Life Sciences	Chemical Analysis	Diagnostics and Genomics	Electronic Measurement	Total
	(in millions)				
Goodwill as of October 31, 2010	$270	$747	$41	$398	$1,456
Foreign currency translation impact and other adjustments	3	7	—	37	47
Goodwill arising from acquisitions	46	11	7	—	64
Goodwill as of October 31, 2011	$319	$765	$48	$435	$1,567
Foreign currency translation impact	(4)	(10)	29	(9)	6
Goodwill arising from acquisitions	32	1	1,387	32	1,452
Goodwill as of October 31, 2012	$347	$756	$1,464	$458	$3,025

In the third quarter of 2012, we formed a fourth segment, diagnostics and genomics segment, from a portion of our life sciences segment plus the Dako acquisition discussed in Note 3, "Acquisitions". As a result, Agilent has four segments: life sciences, chemical analysis, diagnostics and genomics and electronic measurement, which are the same as our reporting units for the years presented above. We assigned a portion of goodwill from our life sciences segment to our diagnostics and genomics segment. As of September 30, 2012, we assessed goodwill impairment for our four reporting units: life sciences, chemical analysis, diagnostics and genomics, and electronic measurement and no impairment of goodwill was indicated.

The component parts of other intangible assets at October 31, 2012 and 2011 are shown in the table below:

	Other Intangible Assets		
	Gross Carrying Amount	Accumulated Amortization and Impairments	Net Book Value
	(in millions)		
As of October 31, 2011:			
Purchased technology	$510	$246	$264
Backlog	12	12	—
Trademark/Tradename	40	20	20
Customer relationships	249	114	135
Total amortizable intangible assets	$811	$392	$419
In-Process R&D	10	—	10
Total	$821	$392	$429
As of October 31, 2012:			
Purchased technology	$849	$333	$516
Backlog	14	14	—
Trademark/Tradename	168	27	141
Customer relationships	391	155	236
Total amortizable intangible assets	$1,422	$529	$893
In-Process R&D	193	—	193

Total	$1,615	$529	$1,086

In 2012, we recorded additions to goodwill of $1,452 million related to ten businesses including the Dako acquisition discussed in Note 3, "Acquisitions". During the year, we also recorded additions to other intangibles of $786 million, including $183 million of Dako in-process research and development, related to the same ten businesses. We recorded $8 million of foreign exchange translation impact to other intangibles in 2012.

In 2011, recorded additions to goodwill of $64 million relating to the purchase of three businesses. We also recorded a $27 million addition to goodwill during the year in the electronic measurement segment relating to deferred taxes from a prior

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acquisition. In 2011, we recorded additions to other intangibles of $42 million related to the purchase of three businesses. We also recorded $7 million of foreign exchange translation impact to other intangibles for the year. In 2011, in-process research and development decreased $9 million from the prior year as amounts for completed projects were reclassified to purchased technology and we began amortization.

Amortization of intangible assets was $136 million in 2012, $111 million in 2011, and $76 million in 2010. In addition, we recorded $1 million of impairments of other intangibles related to the cancellation of an in-process research and development project during 2012. Future amortization expense related to existing purchased intangible assets is estimated to be $188 million in 2013, $174 million for 2014, $154 million for 2015, $125 million for 2016, $78 million for 2017, and $367 million thereafter.

11. INVESTMENTS

Equity Investments

The following table summarizes the company's equity investments as of October 31, 2012 and 2011 (net book value):

	October 31, 2012	2011
	(in millions)	
Short-Term		
Cost method investments	$11	—
Long-Term		
Cost method investments	$59	$65
Trading securities	50	49
Available-for-sale investments	—	3
Total	$109	$117

Cost method investments consist of non-marketable equity securities and two funds and are accounted for at historical cost. Short-term cost method investments are in the process of being sold, as of October 31, 2012 and are included in other current assets in the consolidated balance sheet as of October 31, 2012. Trading securities are reported at fair value, with gains or losses resulting from changes in fair value recognized currently in earnings. As of October 31, 2011 investments designated as available-for-sale were reported at fair value, with unrealized gains and losses, net of tax, included in stockholders' equity.

All investments in available-for-sale securities were sold during the year ended October 31, 2012. Investments in available-for-sale securities at estimated fair value were as follows as of October 31, 2011:

	October 31, 2011			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in millions)			
Equity securities	1	2	—	3
	$1	$2	$—	$3

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

effect on the future value of the investment. We consider various factors in determining whether an impairment is other-than-temporary, including the severity and duration of the impairment, forecasted recovery, the financial condition and near-term prospects of the investee, and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

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Amounts included in other income (expense), net for realized gains and losses on the sale of available-for-sale securities and other than temporary impairments were as follows:

	Years Ended October 31,		
	2012	2011	2010
	(in millions)		
Available-for-sale investments — realized gain	$2	$6	$2
Other than temporary impairment on investments	$—	$—	$—

Net unrealized gains and losses on our trading securities portfolio were $5 million of unrealized gains in 2012, $1 million of unrealized gains in 2011 and $6 million of unrealized losses in 2010.

Realized gains from the sale of cost method securities were $2 million for 2012 and zero for 2011 and 2010.

Investments in Leases

In February 2001, we sold a parcel of surplus land in San Jose, California for $287 million in cash. In August 2001, we acquired a long-term leasehold interest in several municipal properties in southern California. In 2002, we received $237 million in non-refundable prepaid rent related to the leasehold interests described above.

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

12. FAIR VALUE MEASUREMENTS

The authoritative guidance defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, we consider the principal or most advantageous market and assumptions that market participants would use when pricing the asset or liability.

Fair Value Hierarchy

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

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

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

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

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

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

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

Financial assets and liabilities measured at fair value on a recurring basis as of October 31, 2011 were as follows:

	October 31, 2011	Fair Value Measurement at October 31, 2011 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in millions)			
Assets:				
Short-term				
Cash equivalents (money market funds)	$1,972	$1,972	$—	$—
Derivative instruments (foreign exchange and interest rate swap contracts)	37	—	37	—
Long-term				
Trading securities	49	49	—	—
Available-for-sale investments	3	3	—	—
Total assets measured at fair value	$2,061	$2,024	$37	$—
Liabilities:				
Short-term				

Derivative instruments (foreign exchange contracts)	$11	$—	$11	$—
Long-term				
Deferred compensation liability	46	—	46	—
Total liabilities measured at fair value	$57	$—	$57	$—

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

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

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

Long-Lived Assets

For assets measured at fair value on a non-recurring basis, the following table summarizes the impairments included in net income for the years ended October 31, 2012 and 2011:

	Years Ended October 31,	
	2012	2011
	(in millions)	
Long-lived assets held and used	$1	$7
Long-lived assets held for sale	$—	$1

Long-lived assets held and used with a carrying amount of $1 million were written down to their fair value of zero, resulting in an impairment charge of $1 million, which was included in net income for 2012.

Long-lived assets held and used with a carrying amount of $8 million were written down to their fair value of $1 million, resulting in an impairment charge of $7 million, which was included in net income for 2011. Long-lived assets held for sale with a carrying amount of $4 million were written down to their fair value of $3 million, resulting in an impairment charge of $1 million which was included in net income for 2011.

Fair values for the impaired long-lived assets were measured using level 2 inputs.

13. DERIVATIVES

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

Fair Value Hedges

We are exposed to interest rate risk due to the mismatch between the interest expense we pay on our loans at fixed rates and the variable rates of interest we receive from cash, cash equivalents and other short-term investments. We have issued long-term debt in U.S. dollars at fixed interest rates based on the market conditions at the time of financing. The fair value of our fixed rate debt changes when the underlying market rates of interest change, and, in the past, we have used interest rate swaps to change our fixed interest rate payments to U.S. dollar LIBOR-based variable interest expense to match the floating interest income from our cash, cash equivalents and other short term investments. As of October 31, 2012, all interest rate swap contracts had either been terminated or had expired.

On November 25, 2008, we terminated two interest rate swap contracts associated with our 2017 senior notes that represented the notional amount of $400 million. The asset value, including interest receivable, upon termination was

approximately $43 million and the amount to be amortized at October 31, 2012 was $26 million. On June 6, 2011, we also terminated five interest rate swap contracts associated with our 2015 senior notes that represented the notional amount of $500 million. The asset value, including interest accrual, upon termination was approximately $31 million and the amount to be amortized at October 31, 2012 was $18 million. On August 9, 2011, we terminated five interest rate swap contracts related to our 2020 senior notes that represented the notional amount of $500 million. The asset value, including interest receivable, upon termination for these contracts was approximately $34 million and the amount to be amortized at October 31, 2012 was $29 million. The proceeds from all such terminated interest rate swaps are recorded as operating cash flows and the gain is being deferred and amortized over the remaining life of the respective senior notes.

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Cash Flow Hedges

We enter into foreign exchange contracts to hedge our forecasted operational cash flow exposures resulting from changes in foreign currency exchange rates. These foreign exchange contracts, carried at fair value, have maturities between one and twelve months. These derivative instruments are designated and qualify as cash flow hedges under the criteria prescribed in the authoritative guidance. The changes in the value of the effective portion of the derivative instrument are recognized in accumulated other comprehensive income. Amounts associated with cash flow hedges are reclassified to cost of sales in the consolidated statement of operations when either the forecasted transaction occurs or it becomes probable that the forecasted transaction will not occur. Changes in the fair value of the ineffective portion of derivative instruments are recognized in earnings in the consolidated statement of operations in the current period. Ineffectiveness in 2012, 2011 and 2010 was not significant. For the year ended October 31, 2012, we recognized a gain of less than $1 million in earnings in respect of cash flow hedge contracts which were de-designated. For the years ended October 31, 2011 and 2010 gains and losses recognized in earnings due to de-designation of cash flow hedge contracts were not significant.

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

Other Hedges

Additionally, we enter into foreign exchange contracts to hedge monetary assets and liabilities that are denominated in currencies other than the functional currency of our subsidiaries. These foreign exchange contracts are carried at fair value and do not qualify for hedge accounting treatment and are not designated as hedging instruments. Changes in value of the derivative are recognized in other income (expense) in the consolidated statement of operations, in the current period, along with the offsetting foreign currency gain or loss on the underlying assets or liabilities.

In connection with the acquisition of Dako, Agilent entered into several foreign currency forward contracts to mitigate the currency exchange risk associated with the payment of the purchase price in Danish Krone and the repayment of debt in multiple currencies. The aggregate notional amount of the currencies hedged was $1.7 billion. These foreign exchange contracts did not qualify for hedge accounting treatment and were not designated as hedging instruments. The resulting loss on settlement, on the date of acquisition, was $14 million and was recorded in other income (expense) in the consolidated statement of operations for the year ended October 31, 2012.

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

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

The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position as of October 31, 2012, was $4 million. The credit-risk-related contingent features underlying these agreements had not been triggered as of October 31, 2012.

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There were 108 foreign exchange forward contracts and 8 foreign exchange option contracts open as of October 31, 2012 and designated as cash flow hedges. There were 180 foreign exchange forward contracts open as of October 31, 2012 not designated as hedging instruments. The aggregated U.S. Dollar notional amounts by currency and designation as of October 31, 2012 were as follows:

	Derivatives in Cash Flow Hedging Relationships		Derivatives Not Designated as Hedging Instruments
Currency	Forward Contracts Buy/(Sell)	Option Contracts Buy/(Sell)	Forward Contracts Buy/(Sell)
	(in millions)		
Euro	$(38)	$—	$273
British Pound	—	—	53
Canadian Dollar	(46)	—	—
Australian Dollars	—	—	59
Malaysian Ringgit	128	—	25
Japanese Yen	(29)	(111)	103
Other	(9)	—	(24)
	$6	$(111)	$489

The gross fair values and balance sheet location of derivative instruments held in the consolidated balance sheet as of October 31, 2012 and 2011 were as follows:

Fair Values of Derivative Instruments

Asset Derivatives			Liability Derivatives		
Balance Sheet Location	Fair Value October 31, 2012	October 31, 2011	Balance Sheet Location	Fair Value October 31, 2012	October 31, 2011
	(in millions)				
Derivatives designated as hedging instruments:					
Fair value hedges					
Interest rate contracts					
Other current assets	$—	$3	Other accrued liabilities	$—	$—
Other assets	$—	$—	Other long-term liabilities	$—	$—
Cash flow hedges					
Foreign exchange contracts					
Other current assets	$4	$7	Other accrued liabilities	$2	$3
	$4	$10		$2	$3
Derivatives not designated as hedging instruments:					
Foreign exchange contracts					
Other current assets	$3	$27	Other accrued liabilities	$4	$8
Total derivatives	$7	$37		$6	$11

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

	2012	2011	2010
	(in millions)		
Derivatives designated as hedging instruments:			
Fair Value Hedges			
Gain on interest rate swap contracts, including interest accrual, recognized in interest expense	$—	$27	$78
Gain (loss) on hedged item, recognized in interest expense	$3	$(3)	$(57)
Cash Flow Hedges			
Gain recognized in accumulated other comprehensive income	$7	$—	$4
Gain (loss) reclassified from accumulated other comprehensive income into cost of sales	$8	$(5)	$7
Treasury Lock Agreements			
Gain recognized in accumulated other comprehensive income	$3	$—	$—
Derivatives not designated as hedging instruments:			
Gain (loss) recognized in other income (expense), net	$(34)	$13	$(14)

The estimated net amount of existing gain at October 31, 2012 that is expected to be reclassified from other comprehensive income to the cost of sales within the next twelve months is $2 million.

14. RESTRUCTURING COSTS, ASSET IMPAIRMENTS AND OTHER SPECIAL CHARGES

Our 2009 restructuring program, the ("FY 2009 Plan"), announced in the first half of 2009, was conceived in response to deteriorating economic conditions and was designed to deliver sufficient savings to enable our businesses to reach their profitability targets throughout the cycle. Workforce reduction payments, primarily severance, were largely complete in fiscal year 2010. Lease payments should primarily be complete by the end of fiscal 2014.

A summary of total restructuring activity and other special charges is shown in the table below:

	Workforce Reduction	Consolidation of Excess Facilities	Impairment of Building and Purchased Intangible Assets	Special Charges related to Inventory	Total
	(in millions)				
Balance as of October 31, 2009	$49	$19	$—	$1	$69
Income statement expense	39	19	6	—	64
Asset impairments/inventory charges	—	—	(6)	—	(6)
Cash payments	(80)	(12)	—	—	(92)
Balance as of October 31, 2010	$8	$26	$—	$1	$35
Income statement expense	1	1	—	—	2
Asset impairments/inventory charges	—	—	—	—	—
Cash payments	(9)	(12)	—	(1)	(22)

Balance as of October 31, 2011	$—	$15	$—	$—	$15
Income statement expense	—	—	—	—	—
Asset impairments/inventory charges	—	—	—	—	—
Cash payments	—	(4)	—		(4)
Balance as of October 31, 2012	$—	$11	$—	$—	$11

The restructuring and other special accruals for all plans, which totaled $11 million at October 31, 2012, are recorded in other accrued liabilities and other long-term liabilities on the consolidated balance sheet. These balances reflect estimated future cash outlays.

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

	Years Ended October 31, 2012	2011	2010
	(in millions)		
Cost of products and services	$—	$—	$8
Research and development	—	—	3
Selling, general and administrative	—	2	53
Total restructuring, asset impairments and other special charges	$—	$2	$64

15. RETIREMENT PLANS AND POST RETIREMENT PENSION PLANS

General. Substantially all of our employees are covered under various defined benefit and/or defined contribution retirement plans. Additionally, we sponsor post-retirement health care benefits for our eligible U.S. employees.

Agilent provides U.S. employees, who meet eligibility criteria under the Agilent Technologies, Inc. Retirement Plan ("RP"), defined benefits which are based on an employee's base or target pay during the years of employment and on length of service. For eligible service through October 31, 1993, the benefit payable under the Agilent Retirement Plan is reduced by any amounts due to the eligible employee under our defined contribution Deferred Profit-Sharing Plan ("DPSP"), which was closed to new participants as of November 1993.

In addition, in the U.S., Agilent maintains the Supplemental Benefits Retirement Plan ("SBRP"), a supplemental unfunded non-qualified defined benefit plan to provide benefits that would be provided under the RP but for limitations imposed by the Internal Revenue Code. The RP and the SBRP comprise the "U.S. Plans".

As of October 31, 2012 and 2011, the fair value of plan assets of the DPSP for U.S. Agilent Employees was $534 million and $515 million, respectively. Note that the projected benefit obligation for the DPSP equals the fair value of plan assets.

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

401(k) defined contribution plan. Eligible U.S. employees may participate in the Agilent Technologies, Inc. 401(k) Plan (the "401(k) Plan"). Enrollment in the 401(k) Plan is automatic for employees who meet eligibility requirements unless they decline participation. Under the 401(k) Plan, we provide matching contributions to employees up to a maximum of 4 percent of an employee's annual eligible compensation. The maximum contribution to the 401(k) Plan is 50 percent of an employee's annual eligible compensation, subject to regulatory limitations. The 401(k) Plan employer expense included in income from operations was $25 million in 2012, $24 million in 2011 and $21 million in 2010.

Post-retirement medical benefit plans. In addition to receiving retirement benefits, U.S. employees who meet eligibility requirements as of their termination date may participate in the Agilent Technologies, Inc. Health Plan for Retirees. Eligible retirees who were less than age 50 as of January 1, 2005 and who retire after age 55 with 15 or more years of service are eligible for a fixed amount which can be utilized to pay for either Agilent sponsored plans and/or individual medicare plans. Eligible retirees who were at least age 50 as of January 1, 2005 and who retire after age 55 with 15 or more years of service currently choose from managed-care, indemnity options or individual medicare

plans, with the company subsidization level or stipend dependent on a number of factors including eligibility and length of service. See Plan Amendments below for changes to these benefits.

Plan Amendments. On April 1, 2011, changes to the Agilent Technologies, Inc. Health Plan for Retirees were approved. Effective January 1, 2012, employees who were at least age 50 as of January 1, 2005 and who retire after age 55 with 15 or more years of service are eligible for fixed dollar subsidies and stipends. Grandfathered retirees receive a fixed monthly subsidy toward pre-65 premium costs (subsidy capped at 2011 levels) and a fixed monthly stipend post-65. The subsidy amounts will not increase. In connection with these changes, we reduced our Accumulated Prospective Benefit Obligation by $194 million with the offset going to accumulated other comprehensive income.

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Components of net periodic cost. The company uses alternate methods of amortization as allowed by the authoritative guidance which amortizes the actuarial gains and losses on a consistent basis for the years presented. For U.S. Plans, gains and losses are amortized over the average future working lifetime. For most Non-U.S. Plans and U.S. Post-Retirement Benefit Plans, gains and losses are amortized using a separate layer for each year's gains and losses. For the years ended October 31, 2012, 2011 and 2010, components of net periodic benefit cost and other amounts recognized in other comprehensive income were comprised of:

	Pensions						U.S. Post-Retirement Benefit Plans		
	U.S. Plans			Non-U.S. Plans					
	2012	2011	2010	2012	2011	2010	2012	2011	2010
	(in millions)								
Net periodic benefit cost (benefit)									
Service cost — benefits earned during the period	$40	$42	$41	$33	$32	$30	$3	$3	$3
Interest cost on benefit obligation	27	28	27	74	72	72	15	21	26
Expected return on plan assets	(46)	(44)	(41)	(92)	(94)	(87)	(19)	(21)	(20)
Amortization of net actuarial loss	7	4	7	42	40	35	16	14	16
Amortization of prior service benefit	(12)	(12)	(12)	(1)	(1)	(1)	(35)	(26)	(14)
Net periodic benefit cost (benefit)	16	18	22	56	49	49	(20)	(9)	11
Curtailments and settlements	—	(1)	—	—	—	—	—	—	—
Total periodic benefit cost (benefit)	$16	$17	$22	$56	$49	$49	$(20)	$(9)	$11
Other changes in plan assets and benefit obligations recognized in other comprehensive (income) loss									
Net actuarial (gain) loss	$69	$31	$(25)	$214	$40	$42	$22	$12	$(10)
Amortization of net actuarial loss	(7)	(4)	(7)	(42)	(40)	(35)	(16)	(14)	(16)
Prior service cost (benefit)	—	—	—	—	6	—	—	(194)	—
Amortization of prior service benefit	12	12	12	1	1	1	35	26	14
Foreign currency	—	—	—	(5)	11	11	—	—	—
Total recognized in other comprehensive (income) loss	$74	$39	$(20)	$168	$18	$19	$41	$(170)	$(12)
Total recognized in net periodic benefit cost (benefit) and other comprehensive (income) loss	$90	$56	$2	$224	$67	$68	$21	$(179)	$(1)

In 2010, due to reductions in workforce which impacted two non-U.S. plans, we recorded curtailment losses as required by authoritative guidance with no impact to the income statement.

In 2011, due to payments exceeding the sum of service cost plus interest cost in the U.S. Supplemental Benefits Retirement Plan, we recorded a $1 million settlement gain in the income statement as required by authoritative guidance.

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Funded status. As of October 31, 2012 and 2011, the funded status of the defined benefit and post-retirement benefit plans was:

	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		U.S. Post-Retirement Benefit Plans	
	2012	2011	2012	2011	2012	2011
	(in millions)					
Change in fair value of plan assets:						
Fair value — beginning of year	$578	$538	$1,684	$1,598	$258	$263
Actual return on plan assets	65	37	158	35	25	18
Employer contributions	30	30	54	59	—	—
Participants' contributions	—	—	—	7	—	—
Benefits paid	(19)	(27)	(46)	(46)	(22)	(23)
Currency impact	—	—	(49)	31	—	—
Fair value — end of year	$654	$578	$1,801	$1,684	$261	$258
Change in benefit obligation:						
Benefit obligation — beginning of year	$637	$575	$1,830	$1,742	$319	$502
Service cost	40	42	33	32	3	3
Interest cost	27	28	74	72	15	21
Participants' contributions	—	—	—	7	—	—
Plan amendment	—	—	—	6	—	(194)
Actuarial (gain) loss	87	21	280	(20)	28	8
Benefits paid	(20)	(29)	(46)	(46)	(22)	(21)
Curtailments	—	—	—	—		—
Currency impact	—	—	(54)	37	—	—
Benefit obligation — end of year	$771	$637	$2,117	$1,830	$343	$319
Overfunded (underfunded) status of PBO	$(117)	$(59)	$(316)	$(146)	$(82)	$(61)
Amounts recognized in the consolidated balance sheet consist of:						
Other assets	$—	$—	$—	$18	$—	$—
Employee compensation and benefits	(2)	(2)				