AGILENT TECHNOLOGIES INC
Form 10-K
December 22, 2006

QuickLinks -- Click here to rapidly navigate through this document

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended October 31, 2006

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) 553-7777

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 ý No o

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 o No ý

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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer ý Accelerated filer o Non-Accelerated filer o

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

The aggregate market value of the registrant's common equity held by non-affiliates as of April 30, 2006, was approximately $16.359 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 15, 2006, there were 407,110,959 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 February 27, 2007, and to be filed pursuant to Regulation 14A within 120 days after registrant' s fiscal year ended October 31, 2006 are incorporated by reference into Part III of this Report	III

TABLE OF CONTENTS

Forward-Looking Statements

This report contains forward-looking statements including, without limitation, statements regarding trends, seasonality, cyclicality and growth in the markets we sell into, our strategic direction, our future effective tax rate and tax valuation allowance, earnings from our foreign subsidiaries, remediation activities, new product and service introductions, changes to our manufacturing processes, the use of contract manufacturers, the impact of local government regulations on our ability to pay vendors or conduct operations, our liquidity position, our ability to generate cash from continuing operations, growth in our businesses, our investments, the potential impact of adopting new accounting pronouncements, our financial results, our purchase commitments, our contributions to our pension plans, the selection of discount rates and recognition of any gains or losses for our benefit plans, our cost-control activities, savings and headcount reduction recognized from our restructuring programs and the divestiture of our semiconductor products and semiconductor test businesses, our stock repurchase program, our transition to lower-cost regions, the existence or length of an economic recovery 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 communications, electronics, life sciences and chemical analysis industries.

In August 2005, the Board of Directors of Agilent approved the divestiture of both our semiconductor products business and our semiconductor test solutions business. Both of these divestitures were completed during our most recent fiscal year. In December 2005, we completed the sale of our semiconductor products business to Avago Technologies Ltd. ("Avago") for approximately $2.6 billion in cash proceeds. On June 1, 2006, Agilent transferred substantially all of the assets and liabilities of its semiconductor test solutions business to a separate company, Verigy Ltd. ("Verigy"), then a wholly owned subsidiary of Agilent. In June and July 2006, Verigy sold approximately 8.7 million of its ordinary shares, or approximately 15 percent of its outstanding shares, in an initial public offering. On October 31, 2006, we distributed our remaining holding in Verigy to our stockholders.

We have reflected the semiconductor products business and the semiconductor test solutions business as discontinued operations for all periods presented in this Annual Report on Form 10-K. For further information, see Note 3, "Discontinued Operations of Our Semiconductor Products Business" and Note 4, "Discontinued Operations of Our Semiconductor Test Solutions Business", to our consolidated financial statements.

We currently have two businesses, the electronic measurement business and the bio-analytical measurement business. Our electronic measurement business focuses on growth opportunities in the communications and electronics industries, while our bio-analytical measurement business focuses on core business and growth opportunities in the life sciences industry and in the environmental, chemical, food and petrochemical industries. In addition to our two businesses, we conduct centralized research through Agilent Technologies Laboratories. Each of our businesses, including

Agilent Labs, is supported by our general infrastructure organization, which provides shared services in the areas of finance, information technology, legal, workplace services and human resources.

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 $4.97 billion for the fiscal year ended October 31, 2006, we generated 34 percent in the United States and 66 percent outside the U.S. As of October 31, 2006, we employed approximately 18,700 people worldwide. Our primary research, development and manufacturing sites are in California, Colorado, Delaware and Washington in the U.S. and in China, Germany, Japan, Malaysia, Singapore and the United Kingdom.

Net revenue for each of our businesses for the years ended October 31, 2006, 2005 and 2004 was:

	2006	2005	2004
		(in millions)	
Electronic Measurement	$ 3,419	$ 3,265	$ 3,225
Bio-analytical Measurement	1,554	1,421	1,333
Total Segment Revenue	$ 4,973	$ 4,686	$ 4,558

Electronic Measurement Business

Our electronic measurement business provides standard and customized electronic measurement instruments and systems, monitoring, management and optimization tools for communications networks and services, software design tools and related services that are used in the design, development, manufacture, installation, deployment and operation of electronics equipment and communications networks and services. 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 11,850 people as of October 31, 2006. We sell our electronic measurement products through direct sales, distributors, resellers, manufacturer's representatives, telesales and electronic commerce. Our electronic measurement business generated $3.4 billion in revenue in fiscal 2006, $3.3 billion in revenue in fiscal 2005 and $3.2 billion in revenue in fiscal 2004.

Electronic Measurement Markets

Our electronic measurement products compete in the communications test market and the general purpose test market.

The Communications Test Market

We market our communications test products and services to handset manufacturers, network equipment manufacturers ("NEMs") and communications service providers. 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 their networks and services to operate at ever-faster speeds, offer a growing range of services permits an

expanding capacity and provides quick feedback. To achieve this, communications service providers require a range of sophisticated test instruments and systems to evaluate network performance and to identify any sources of communications failure.

Agilent's communications service provider customers require advanced software and systems, known as operations support systems ("OSS"), to monitor and manage the network infrastructure and services on a continuous, proactive basis to achieve either regulated or customer-specified service levels.

The communications test market accounted for approximately 43 percent of revenue from our electronic measurement business in 2006.

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 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 communications devices, 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 software design tools in order to design products for efficient and cost-effective manufacturing and to validate product performance in a variety of configurations and environments. They also demand automated functional test systems, which test an electronic device as if it were in use in its final environment.

Customers use our general purpose test solutions in development and manufacturing a wide variety of electronic components and systems. These include testing multiple parameters of printed circuit boards used in almost every electronic application; testing the electrical parameters of wafers used in the semiconductor manufacturing process; and testing of flat panel displays.

The general purpose test market accounted for approximately 57 percent of revenue from our electronic measurement business in 2006.

Electronic Measurement Products

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

Communications Test Products

We sell communications test products and services for the following types of communications networks and systems: fiber optics networks, transport networks, broadband and data networks, wireless communications and microwave networks. In addition, we provide assistance with installation and maintenance of our products and operational support systems to enable network, service and customer assurance for network operators.

Our suite of fiber optic network test products measure and analyze a wide variety of critical optical and electrical parameters in fiber optic networks and their comprising components.

Components which can be tested include source lasers, optical amplifiers, filters and other passive components.

Our broadband and data network test products include our network analyzer and router testers. Our network analyzer product line helps to troubleshoot high-speed local area networks, wide area networks and asynchronous transfer mode networks. Router testers are used to develop and test the performance of enterprise and carrier-class routers.

Our wireless communications and microwave network products include radio frequency and microwave test instruments and electronic design automation software tools, which assist in the design and production of cellular handsets and base stations, as well as satellite and aerospace defense systems.

Our installation and maintenance assistance facilitates the installation, commission and activation of networks and services. We have a breadth of products for troubleshooting and maintaining optical, wireless, wireline and large-company networks.

Our operational support systems products manage performance and quality of network service and customer experience for broadband, data, wireless and converged networks and services.

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 design products, parametric test products, high frequency electronic design tools, electronics manufacturing test equipment and thin-film transistor array test equipment, nano-positioning systems, atomic-force microscopy and scanning probe microscopy.

General purpose instruments are used principally by engineers in research and development laboratories, manufacturing, calibration and service for measuring voltage, current, frequency, signal pulse width and other standard electronics measurements and include spectrum analyzers, network analyzers, signal generators, 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 design products are used by research and development engineers in the computer, communications and semiconductor industries to validate and verify the performance of digital product designs. These include simple digital control circuits, complex high-speed servers, high-performance oscilloscopes, logic analyzers, logic-signal sources and data generators. Digital product design opportunities include high-speed input/output connectivity in computer servers and hardware development for latest generation gaming consoles.

Our high-frequency electronic design automation software tools are used by radio frequency integrated circuit design engineers to model, simulate and analyze communications product designs at the circuit and system levels. The main products in this area represent well-established software platforms within the wireless and the aerospace and defense design industries. Our customers are also

applying this technology more frequently to model signal integrity problems in digital design applications.

Our parametric test instruments and systems combine hardware technology and customizable system software and are used primarily to examine semiconductor wafers during the semiconductor manufacturing process.

Our electronic manufacturing test product categories are Automated Optical Inspection Products that enable automated visual inspection of printed circuit assemblies, Automated X-ray Inspection Products that provide a three-dimensional scan of printed circuit board assemblies to identify and isolate quality defects caused by the manufacturing process, Automated In-Circuit Testing Products that identify quality defects such as bad and incorrect parts that affect electrical performance and allow early repair of these defects, and Manufacturing Test System Software that provides common tools to enable customers to use information across the manufacturing line for effective process control, repair and test design.

Our thin-film transistor array tester products provide flat panel display (or FPD) manufacturers with test solutions in the rapidly growing FPD market. An array tester can provide significant cost savings by detecting defects early in the manufacturing process of FPDs.

Our nano-positioning products utilize very precise measurements (through laser interferometer technology) to ensure precise motion control and placement, used primarily in semiconductor manufacturing applications. Our products offer nanometer scale imaging and measurements in fluids, air and gases and are utilized in biotechnology, electrochemistry and materials science applications.

Electronic Measurement Customers

Agilent's electronic measurement customers include contract manufactures, handset manufacturers, network equipment manufacturers who design, develop, manufacture and install network equipment, and service providers who implement, maintain and manage communication networks and services. We also engage in collaborative relationships with contract manufacturers. Many of our customers purchase solutions across several of our major product lines for their different business units. As of the end of fiscal 2006, no single customer represented greater than 10 percent of the net revenue of the business.

The orders and revenues from many of the electronic measurement markets and product categories are seasonal, with our fourth quarter traditionally bringing larger volumes of business and our first quarter generally showing reduced volumes. This is especially true of products that we sell in the aerospace and defense industry as well as those that are linked to consumer spending, including some of our communications test equipment. However, the seasonal impact is tempered by the diversity of the electronic measurement business's 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 strengthen customer satisfaction. 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 OSS communications monitoring and management systems, where customers require intensive strategic consultation. Our sales force also specifically targets the contract

manufacturer market by collaborating with original equipment manufacturers to specify that contract manufacturers use our test equipment, 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 volume 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 for 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 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 general purpose test market, we compete against companies such as Applied Komatsu Technologies, Fluke Corporation (a subsidiary of Danaher Corporation), Keithley Instruments, Inc., LeCroy Corporation, National Instruments Corporation, Photon Dynamics, Inc., Shimadzu Corporation, Tektronix, Inc., Teradyne, Inc., and Wintest Corp. In the communications test market our primary competitors are Aeroflex Incorporated, Anritsu Corporation, Ansoft Corporation, APLAC Solutions Corporation, Applied Wave Research, Inc., EXFO Electro-Optical Engineering, Inc., a unit of IBM Software (formerly Micromuse, Inc.), Ixia, JDS Uniphase, Marconi Corporation plc, Rohde & Schwartz GmbH & Co. KG, Spirent plc and Tektronix, Inc.

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.

Bio-Analytical Measurement Business

Our bio-analytical measurement business provides application-focused solutions that include instruments, software, consumables and services that enable customers to identify, quantify and analyze the physical and biological properties of substances and products. Our seven key product

categories include: microarrays, microfluidics, gas chromatography, liquid chromatography, mass spectrometry, software and informatics, and related consumables and services.

We employed approximately 4,100 people as of October 31, 2006 in our bio-analytical measurement business. This business generated revenue of $1.6 billion in fiscal 2006, $1.4 billion in fiscal 2005, and $1.3 billion in fiscal 2004.

Bio-Analytical Measurement Markets

Primarily, our bio-analytical measurement business serves the following markets:

Life Sciences Markets

Our life science markets accounted for approximately 43 percent of revenue from our bio-analytical measurement business in 2006. Within the life sciences, we focus on the following three primary market categories:

The Pharma, Biotech, CRO & CMO Market. This market consists of "for-profit" companies who participate across the pharmaceutical value chain in the areas of: research, discovery & development, clinical trials, and manufacturing and quality assurance and quality control. One sub-segment of this market is the core and emerging pharmaceutical companies, or "Pharma". A second sub-segment includes biotechnology companies, or "biotech", contract research organizations, or "CROs", and contract manufacturing organizations, or "CMOs". Biotech 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 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, the focus is widening to include translational research multidisciplinary scientific efforts directed at "accelerating therapy development". Notable are efforts by the National Institute of Health, the National Cancer Institute, and EORTC (European Organization), EMBL (Europe), Singapore Genomics Institute, and National Translational Cancer Research Network (UK). In addition large donations by private foundations are also fueling growth in this key market segment.

The Clinical Diagnostic Market. The clinical diagnostic market is an emerging growth opportunity that could be addressed by leveraging existing platforms like microfluidics, microarrays, and liquid chromatography/mass spectrometry. The clinical diagnostic market is viewed by us as an area for strategic growth.

Chemical Analysis Markets

Our chemical analysis markets accounted for approximately 57 percent of revenue from the bio-analytical measurement business in 2006. Within chemical analysis, we focus primarily on the following areas: petrochemical, environmental, homeland security and forensics, and bioagriculture and food safety.

The Petroleum and Chemical 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. Solutions based on gas chromotography, liquid chromotography and mass spectrometry products are also used in the development, manufacturing and quality control of fine chemicals. Our gas chromatographs are also used to monitor consistent quality in the delivery of natural gas.

The Environmental Market. Our gas chromatography, liquid chromatography and mass spectrometry 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.

The Forensics and Homeland Security Market. Our liquid chromatography, gas chromatography, mass spectrometry and microfluidics solutions are used by health and forensics laboratories in the U.S. and abroad, particularly in the analysis of evidence associated with crime or with the detection and identification of biological and chemical warfare agents. This instrumentation is either used in static or mobile laboratories. Customers include local, state, federal, and international law enforcement agencies and health laboratories.

The Bioagriculture and Food Safety Market. Food safety industries apply the same general technologies for chemical analysis as the pharmaceutical and environmental markets, including gas and liquid chromatography and mass spectrometry. For example, our mass spectrometer portfolio, including recently introduced liquid chromatography mass spectrometers, are used to analyze residual pesticides in food. Additionally, bioagriculture industries seek to improve crops and foods by conducting research on these organisms, as well as testing for genetically modified content, using microarray and microfluidics solutions.

Bio-Analytical Measurement Products

A key factor in all of our bio-analytical 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.

Microarray Products

Since announcing the launch of our DNA microarray program for the life sciences in December 1999, we have become a leading supplier of microarray solutions which we sell primarily to pharmaceutical companies and biotechnology companies in our for-profit markets, as well as academic and government funded organizations in our not-for-profit markets. Using our refined inkjet manufacturing process, we make highly sensitive 60-mer oligonucleotide, or oligo, microarrays. This unique inkjet process is highly flexible and accurate, enabling the faster manufacture of high quality custom microarrays. In 2006, we expanded our line of microarrays to offer a new line of high-density arrays providing enhanced genomics solutions for a variety of applications.

Microfluidics Products

The Agilent 2100 bioanalyzer is the first commercial microfluidics product for the analysis of a wide range of biological molecules, including DNA, RNA, proteins and cells. The bioanalyzer chips allow sample quality assessment to be done in a fraction of the usual time using fewer samples and reagents than traditional gel electrophoresis. We also provide related software, which enables the bioanalyzer to be used for the development and manufacture of protein-based therapeutics. The bioanalyzer is commonly used in genomics laboratories and has enabled the standardization of RNA quality measurement.

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. We continue to expand the application space for our GCs with the development of new separation columns and product enhancements. Over the last three years, Agilent has introduced updated and advanced models of all of its major gas chromatography platforms.

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. Used when sample vaporization is not an option, LC also separates and detects compounds to determine molecular identity and quantity. Our LC instruments are modular in construction and can be configured to form instruments that perform specific analyses. Agilent's HPLC system, the Agilent 1100 Series, has sold over 60,000 systems since its introduction, and this year was replaced by its successor, the 1200 Series LC. The 1200 Series is an advanced version which enables true "fast chromatography" through both pressure and temperature control. As a leader in liquid chromatography, we continue to expand our application space with new HPLC columns and ongoing product enhancements. Our latest innovation, HPLC-Chip, is fully commercialized and creating demand for nano LC solutions across many markets.

Mass Spectrometry Products

A mass spectrometer ("MS") identifies and quantifies chemicals based on a chemical's molecular mass and on characteristic patterns of fragment masses that result when a molecule is broken apart. Mass spectrometry is an important tool in analyzing proteins and other biological entities that undergo transformations because it enables the understanding and characterization of their many different states. MS systems are typically used in combination with gas or liquid chromatographs. In the past three years, Agilent significantly expanded its mass spectrometry portfolio with a focus on reliability, sensitivity and ease of use. This year, we introduced two new LC/MS platforms, the Agilent 6410 Triple Quadrapole MS and the 6510 Quadrapole-Time of Flight MS. These new platforms serve new and growing markets for Agilent.

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. In 2005, we completed the acquisitions of Scientific Software, Inc. and Silicon Genetics, Inc., expanding our portfolio of chromatography data systems and providing an entry into bioinformatics. The integration of these companies into Agilent has expanded our portfolio and market opportunities.

Consumables and Services

We also offer a broad range of consumable products, which support our LC, GC and MS technology platforms. These consumable products include chemical standards, instrument replacement parts, brand-specific chromatography columns and consumable supplies to meet our customers' analysis needs. All of our products, which include generic and proprietary supplies, are designed to work together.

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.

Bio-Analytical Measurement Customers

We have roughly 21,000 customers, and as of the end of fiscal 2006, no single customer represented greater than 10 percent of the net revenue of the business. The bio-analytical measurement business is susceptible to seasonality in its orders and revenues primarily based on U.S. government and large pharmaceutical company budgets. 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.

Bio-Analytical Measurement 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, food safety and pharmaceutical markets in the Asia-Pacific region.

We use direct sales to market our solutions to all of our pharmaceutical and biopharmaceutical accounts, 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 and electronic commerce.

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.

Bio-Analytical Measurement 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 manufacturing capabilities outside our core competencies, such as the manufacture of printed circuit assemblies and the delivery of shipment logistics. We have manufacturing facilities in California and Delaware in the U.S., China, Germany and Japan. We utilize just-in-time manufacturing and so typically do not maintain a high level of inventory.

Bio-Analytical Measurement 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: Affymetrix, Inc., Applied Biosystems Inc., GE Healthcare, Invitrogen Corp., Thermo Electron

Corp. and Waters Corp. Our principal competitors in the chemical analysis arena include: Applied Biosystems Inc., Perkin Elmer Corp., Shimadzu Corporation, Thermo Electron Corp. and Varian, Inc. Agilent competes on the basis of price, product performance, reliability, support quality, applications expertise and global channel coverage.

Bio-Analytical Measurement Government Regulation

The analysis products and related consumables marketed by our chemical analysis business are subject to regulation in the U.S. by the Environmental Protection Agency ("EPA") under the Toxic Substances Control Act and by government agencies in other countries under 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. Therefore, we must continually adapt our chemical analysis products to changing regulations. If we fail to comply with the notification, record-keeping and other requirements in the manufacture or distribution of our products, the EPA can obtain an order from a court that would prohibit the further distribution or marketing of a product that does not comply or we could face fines, civil penalties or criminal prosecution.

Agilent Technologies Laboratories

Agilent Labs is our central research organization based in Santa Clara, California, with satellite offices in Beijing, China; Everett, Washington; Leuven, Belgium; and South Queensferry, Scotland. Agilent Labs engages primarily in two types of research: 1) applied research that leads to technology that can be transferred to our existing businesses in communications, electronics, life sciences and chemical analysis, and 2) research that creates new businesses that are outside of our current markets but within our fields of interest. Agilent Labs also provides technology integration across our company.

Agilent Labs employs approximately 200 people. Agilent Labs' technical staff have advanced degrees that cover a wide range of scientific fields, such as biology, bioinformatics, chemistry, computer science, distributed measurement, electrical engineering, image processing, materials science, mathematics, measurement software, optics, physics, physiology, semiconductor device design and signal processing.

General Infrastructure Organization

We provide support to our businesses through our general infrastructure and shared services organization. This support includes services in the areas of finance, legal, workplace services, human resources and information technology. These organizations are generally headquartered in Santa Clara, California, with services provided worldwide. As of the end of October 2006, our general infrastructure and shared services organizations employed approximately 2,750 people, which includes 200 Agilent Labs 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 $655 million in 2006, $650 million in 2005 and $599 million in 2004, 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

At October 31, 2006, our unfilled orders for the electronic measurement business amounted to approximately $700 million, as compared to approximately $670 million at October 31, 2005. At October 31, 2006, our unfilled orders for the bio-analytical measurement business were approximately $260 million, as compared to approximately $180 million at October 31, 2005. We expect that a large majority of the unfilled orders for both businesses will be delivered to customers within nine months. On average, our unfilled orders represent approximately two months' worth of revenues. In light of this experience, 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

Our general policy has been to seek patent and other intellectual property protection for those inventions and improvements likely to be incorporated into our products and services or to give us a competitive advantage. While we believe that our licenses, patents and applications have value, in general no single patent or license is in itself material. In addition, there can be no assurance that any of our proprietary rights will not be challenged, invalidated or circumvented, or that our rights will provide significant competitive advantages.

Materials

Our manufacturing operations employ a wide variety of semiconductors, electromechanical components and assemblies and raw materials such as plastic resins and sheet metal. Both our electronic and bio-analytical measurement businesses purchase materials from thousands of suppliers on a global basis. No single supplier is material, although 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, redesign of products for alternative components. In addition, while we generally attempt to keep our inventory at minimal levels, we do purchase of incremental inventory for supply buffer 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 worker 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 worker 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. These laws are gradually becoming more stringent and may in the future cause us to incur significant expenditures.

Some of our operations are located on properties that are known to have subsurface contamination undergoing remediation by HP. As part of our spin-off from HP in 1999, HP has 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 any additional contamination caused by us 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. Remediation could also harm on-site operations and the future use and value of the properties.

In addition, some of these properties are undergoing remediation by HP under an order of an agency of the state in which the property is located. Although HP has agreed to indemnify us with respect to that 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 indemnifying HP for any liability associated with past non-compliance with environmental laws regulating ongoing operations 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 being assumed by us which are not subject to the indemnity.

International Operations

Our net revenue originating outside the U.S., as a percentage of our total net revenue, was approximately 66 percent in fiscal 2006, 64 percent in fiscal 2005 and 65 percent in fiscal 2004, the majority of which was from customers other than foreign governments. Approximately 13 percent of our annual revenues in each of the last three years 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 55 percent in fiscal year 2006, 50 percent in fiscal year 2005 and 54 percent in fiscal year 2004. Approximately 19, 17 and 16 percent of our long-lived assets were located in Japan in fiscal years 2006, 2005 and 2004, 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 and finance receivable portfolios we hold. The U.S. and international community's response to recent terrorist activities could exacerbate these risks. For example, there may be an increased risk of political unrest in regions where we have significant 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 23, "Segment Information", to our consolidated financial statements.

Acquisition and Disposal of Material Assets

On November 28, 2005, we completed the sale of our stake in Lumileds Lighting International, B.V. ("Lumileds") to Philips pursuant to a Share Purchase Agreement (the "Share Purchase Agreement") dated as of August 12, 2005 among Agilent, Agilent LED International, Philips Lumileds Holding B.V. and Philips. Under the terms of the Share Purchase Agreement, Agilent received $949 million in cash proceeds, as well as approximately $51 million in repayment of outstanding advances to Lumileds and interest due to Agilent.

In December 2005, we completed the sale of substantially all the assets of our semiconductor products business to Avago pursuant to an Asset Purchase Agreement dated as of August 14, 2005 and amended November 30, 2005 (the "Asset Purchase Agreement"). Under the terms of the Asset Purchase Agreement, Agilent received approximately $2.6 billion in cash proceeds.

On October 31, 2006, we distributed Agilent's equity interest in Verigy by means of a dividend to our stockholders. Prior to the distribution, on June 1, 2006, Agilent transferred substantially all of the assets and liabilities of its semiconductor test solutions business to Verigy, then a wholly owned subsidiary of Agilent. In June and July 2006, Verigy sold approximately 8.7 million of its ordinary shares, or approximately 15 percent of its outstanding shares, in an initial public offering. On October 31, 2006, the aggregate market value of the Verigy shares which were distributed was $840 million.

Executive Officers of the Registrant

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

Patrick J. Byrne, 46, has served as our Senior Vice President and President of the Electronic Measurement Group since February 2005. Prior to assuming this position, Mr. Byrne served as Vice President and General Manager for the Electronic Products and Solutions Group's Wireless Business Unit from September 2001 to February 2005. Mr. Byrne served as Vice President for the Electronic Products and Solutions Group's Product Generation Units from 1999 to 2001. Mr. Byrne held a number of management positions at Hewlett-Packard Company and Agilent Technologies, Inc.

Adrian T. Dillon, 52, has served as our Executive Vice President, Finance and Administration, Chief Financial Officer since March 2005. Mr. Dillon served as our Executive Vice President and Chief Financial Officer from December 2001 to March 2005. Prior to joining Agilent, Mr. Dillon served as Executive Vice President and Chief Financial and Planning Officer of Eaton Corporation from April 1997 to December 2001. Mr. Dillon held various management positions at Eaton Corporation from 1979 to 1997. Mr. Dillon is a member of the Board of Directors of Williams-Sonoma, Inc., where he is Chairman of the Audit and Finance Committee, and is Chairman of the Board of Directors of Verigy Ltd.

Jean M. Halloran, 54, has served as our Senior Vice President, Human Resources since 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.

D. Craig Nordlund, 57, was named our Senior Vice President, General Counsel and Secretary in May 1999 and serves as an officer or director for a variety of Agilent subsidiaries. He is also a director of the Addison Avenue Federal Credit Union. Mr. Nordlund served as Associate General Counsel and Secretary of Hewlett-Packard Company from 1987 to 1999.

William P. Sullivan, 57, has served as Agilent's President, Chief Executive Officer and a Director since March 2005. 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.

Christopher van Ingen, 60, has served as Senior Vice President of Agilent Technologies, Inc. and President of the Life Sciences and Chemical Analysis Group since May 2001. Prior to assuming this position, Mr. van Ingen held a number of positions at Hewlett-Packard Company, including Chemical Analysis Group Sales and Marketing Manager from 1996 to April 2001, the Americas Marketing Center Manager from 1989 to 1996, Product Marketing Manager at Little Falls Division from 1986 to 1989, and Sales Support Manager at Little Falls Division from 1984 to 1986.

Investor Information

We are subject to the informational requirements of the Securities Exchange Act of 1934 (the "Exchange Act"). Therefore, we file periodic reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). Such reports, proxy statements and other information may be obtained by visiting the Public Reference Room of the SEC at 100 F Street N.E., Washington, D.C. 20549 or 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, controller 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.

Item 1A. ***Risk Factors***

Risks, Uncertainties and Other Factors That May Affect Future Results

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

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

We may not be successful in our efforts to maintain a reduced cost structure, and the actions that we take in order to reduce costs could have long-term adverse effects on our business.

We have taken, and continue to take, various actions to transition our company to a reduced cost structure. For example, in fiscal year 2005, we announced the restructuring of our global infrastructure organization to reduce costs by $450 million. This program has not yet been completed.

There are several risks inherent in our efforts to maintain a reduced cost structure. These include the risks that we will not be able to reduce expenditures quickly enough and hold them at a level necessary to sustain or increase profitability and that we may have to undertake further restructuring initiatives that would entail additional charges. For example, a reduced cost structure could lead to increases in demand for items like travel, training, consultants, manufacturing and operating supplies, as we experienced in parts of 2004. As we transform our infrastructure, we expect to face ongoing pressure to control expenses. If we are not able to hold down expenses we may have to further reduce our workforce. There is also the risk that cost-cutting initiatives will impair our ability to effectively develop and market products, to remain competitive in the industries in which we compete and to operate effectively. Each of the above measures could have long-term effects on our business by reducing our pool of talent, decreasing or slowing improvements in our products, making it more

difficult for us to respond to customers, limiting our ability to increase production quickly if and when the demand for our products increases and limiting our ability to hire and retain key personnel. These circumstances could cause our income to be lower than it otherwise might be, which would adversely affect our stock price.

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

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

properly identify customer needs;

innovate and develop new technologies, services and applications;

successfully commercialize new technologies in a timely manner;

manufacture and deliver our products in sufficient volumes on time;

differentiate our offerings from our competitors' offerings;

price our products competitively;

anticipate our competitors' development of new products, services or technological innovations; and

control product quality in our manufacturing process.

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

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

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

Our income could be harmed if we are unable to adjust our purchases to market fluctuations, including those caused by the seasonal or cyclical nature of the markets in which we operate. The sale of our products and services are dependent, to a large degree, on customers whose industries are

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

Our income may suffer if our manufacturing capacity does not match our demand.

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. This inability could materially and adversely limit our ability to improve our results. By contrast, if during an economic downturn we had excess manufacturing capacity, then our fixed costs associated with excess manufacturing capacity would adversely affect our income.

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

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

interruption to transportation flows for delivery of parts to us and finished goods to our customers;

changes in foreign currency exchange rates;

changes in a specific country's or region's political, economic or other conditions;

trade protection measures and import or export licensing requirements;

negative consequences from changes in tax laws;

difficulty in staffing and managing widespread operations;

differing labor regulations;

differing protection of intellectual property;

unexpected changes in regulatory requirements; and

geopolitical turmoil, including terrorism and war.

We centralized most of our accounting processes to two locations: India and Malaysia. These processes include general accounting, cost accounting, accounts payable and accounts receivables

functions. If conditions change in those countries, it may adversely affect operations, including impairing our ability to pay our suppliers and collect our receivables. Our results of operations, as well as our liquidity, may be adversely affected and possible delays may occur in reporting financial results.

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.

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, in the fiscal year ended October 31, 2006, we completed the divestiture of our semiconductor products business and spin-off of Verigy. During the same period, we completed 4 acquisitions of companies or businesses. As a result of such transactions, our financial results may differ from our own or the investment community's expectations in a given 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, or the financial results of which can be difficult to predict. In addition, acquisitions and strategic alliances may require us to integrate a different company culture, management team and business infrastructure. We may have difficulty developing, manufacturing and marketing the products of a newly acquired company in a way that enhances the performance of our combined businesses or product lines to realize the value from expected synergies. Depending on the size and complexity of an acquisition, our successful integration of the entity depends on a variety of factors, including:

the retention of key employees;

the management of facilities and employees in different geographic areas;

the retention of key customers;

the compatibility of our sales programs and facilities within those of the acquired company; and

the compatibility of our existing infrastructure with that of an acquired company.

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

effectively transfer liabilities, contracts, facilities and employees to the purchaser;

identify and separate the intellectual property to be divested from the intellectual property that we wish to keep; and

reduce fixed costs previously associated with the divested assets or business.

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

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

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

Some of our properties are undergoing remediation by Hewlett-Packard 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. The determination of the existence and cost of any additional contamination caused by us could involve costly and time-consuming negotiations and litigation. In addition, 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.

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

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

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

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

addition, because many of our products are regulated or sold into regulated industries, we must comply with additional regulations in marketing our products.

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

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

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

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

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.

While we do not believe that any of our products infringe the valid intellectual property rights of third parties, we may be unaware of intellectual property rights of others that may cover some of our technology, products or services. Any litigation regarding patents or other intellectual property could be costly and time-consuming and could divert our management and key personnel from our business operations. The complexity of the technology involved and the uncertainty of intellectual property litigation increase these risks. Claims of intellectual property infringement might also require us to enter into costly license agreements, and we may not be able to obtain license agreements on terms acceptable to us, or at all. We also may be subject to significant damages or injunctions against development and sale of certain of our products.

We often rely on licenses of intellectual property useful for our businesses. We cannot ensure that these licenses will be available in the future on favorable terms or at all. Our intellectual property portfolio, which we use in negotiating licenses and asserting counterclaims, has changed as a result of our divestitures and the Verigy spin-off. Portions of that portfolio relevant to the buyer of our semiconductor products business or to Verigy are no longer available for our use except for a very limited ability to sublicense the divested and spun off intellectual property. We expect the IP portfolio to continue to change as we review and adjust our IP holdings consistent with our business strategies. Accordingly, the amount of intellectual property that we may use in our defense or for negotiations has decreased and will continue to change. We may be unable to obtain agreements on terms as favorable

as we may have been able to obtain if we could have included in our defense or negotiations the divested and spun off intellectual property.

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

Our success depends in large part on our proprietary technology. We rely on a combination of patents, copyrights, trademarks, trade secrets, confidentiality provisions and licensing arrangements to establish and protect our proprietary rights. If we fail to successfully enforce our intellectual property rights, our competitive position could suffer, which could harm our operating results.

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

We may be required to spend significant resources to monitor and police our intellectual property rights. We may not be able to detect infringement and our competitive position may be harmed before we do so. In addition, competitors may design around our intellectual property rights or develop competing technologies. Intellectual property rights and our ability to enforce them may also be unavailable or limited in some foreign countries, which could make it easier for competitors to capture market share and result in lost revenues. Furthermore, some intellectual property rights are licensed to other companies, allowing them to compete with us using that intellectual property.

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

Our operations are subject to income and transaction taxes in the U.S. and in multiple foreign jurisdictions. These taxes are subject to review or audit by the Internal Revenue Service (IRS) and state, local and foreign tax authorities. In connection with an IRS audit of our U.S. federal income tax returns for 2000 through 2002, in October 2006, we received a Notice of Proposed Adjustment (NOPA) in which the IRS claims significant increases to our U.S. taxable income which could result in a commensurate increase in our U.S. income taxes payable. This claim relates to the use of Agilent's brand name by our foreign affiliates. We expect to receive a Revenue Agent's Report with respect to this claim in due course in which we anticipate the IRS will assert a significant aggregate tax deficiency, plus interest and possible penalties. We believe that the claimed IRS adjustments are inconsistent with applicable tax laws. Accordingly, we will oppose the claimed adjustments vigorously. However, there can be no assurance that we will prevail, and, if this matter is decided adversely to us and we are required to pay a significant amount of additional U.S. taxes (and applicable interest and possible penalties) for these years, our results of operations and financial condition would be materially and adversely affected.

If we suffer 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 Washington and Japan, are all located in areas with above-average seismic activity. If any of these facilities were to experience a catastrophic loss, it could disrupt our operations, delay production, shipments and revenue and result in large expenses to repair or replace the facility. In addition, since

we have recently 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.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud, which could harm our brands and operating results.

Effective internal controls are necessary for us to provide reliable and accurate financial reports and effectively prevent fraud. We have devoted significant resources and time to comply with the internal control over financial reporting requirements of the Sarbanes-Oxley Act of 2002. In addition, Section 404 under the Sarbanes-Oxley Act of 2002 requires that we assess and our auditors attest to the design and operating effectiveness of our controls over financial reporting. Our compliance with the annual internal control report requirement for each fiscal year will depend on the effectiveness of our financial reporting and data systems and controls across our operating subsidiaries. Furthermore, an important part of our growth strategy has been, and will likely continue to be, the acquisition of complementary businesses, and we expect these systems and controls to become increasingly complex to the extent that we integrate acquisitions and our business grows. Likewise, the complexity of our systems and controls may become more difficult to manage as we transform our operating structure and continue to reduce infrastructure costs. To effectively manage these changes, we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. We cannot be certain that these measures will ensure that we design, implement and maintain adequate controls over our financial processes and reporting in the future, especially in light of likely future acquisitions of companies that are not in compliance with Section 404 of Sarbanes-Oxley Act of 2002. Any failure to implement required new or improved controls, difficulties encountered in their implementation or operation, or difficulties in the assimilation of acquired businesses into our control system could harm our operating results or cause it 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.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

Our corporate headquarters and Agilent Technologies Laboratories are located in Santa Clara, California. In total, we have 13 primary sites. Of these primary sites, 5 are located in the U.S. and the

remaining 8 are located in China, Germany, India, Japan, Malaysia, Singapore and the United Kingdom. Nearly all of our primary functions are conducted at multi-building campuses.

Site	Major Activity	Owned/Leased
Santa Clara, CA, U.S.	Corporate Headquarters, Manufacturing, R&D, Marketing, and Sales and Administration	Owned
Santa Rosa, CA, U.S.	Manufacturing, R&D	Owned
Colorado Springs, CO, U.S.	Manufacturing, R&D, Marketing, and Sales and Administration	Owned
Wilmington, DE, U.S. (Little Falls Area)	Manufacturing, R&D, and Administration	Owned
Spokane, WA, U.S.	Manufacturing, R&D, and Marketing	Owned
Shanghai, China	Manufacturing, R&D	Leased
Boeblingen, Germany	Manufacturing, R&D, and Marketing	Leased
Waldbronn, Germany	Manufacturing, R&D	Owned
Hachioji, Japan	Manufacturing, R&D, Marketing, and Sales and Administration	Owned
Penang, Malaysia	Manufacturing, R&D	Owned
Yishun, Singapore	Manufacturing, R&D, Marketing, Sales and Administration	Primarily Owned
Gurgaon, India	R&D, Marketing, Sales and Administration	Leased
South Queensferry, United Kingdom	Manufacturing, R&D	Owned

As of October 31, 2006, we owned or leased a total of approximately 11.2 million square feet of space worldwide. Of that, we owned approximately 7.4 million square feet and leased the remaining 3.8 million square feet. Our sales and support facilities occupied a total of approximately 1.8 million square feet. Our manufacturing plants, R&D facilities and warehouse and administrative facilities occupied approximately 9.4 million square feet. Information about each of our businesses appears below:

Electronic Measurement. Our electronic measurement business has manufacturing and R&D facilities in Australia, Canada, China, Germany, Japan, Malaysia, Singapore, the United Kingdom and the U.S. Additionally, we have marketing centers in Germany, Hong Kong, Japan, the United Kingdom, and the U.S., and sales offices throughout the world.

Bio-Analytical Measurement. Our bio-analytical measurement business has manufacturing and R&D facilities in China, Germany, Japan and the U.S. Additionally, we have marketing centers in Germany, Japan, Singapore and the U.S., and sales offices throughout the world.

Item 3. ***Legal Proceedings***

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

denied Agilent's motion to dismiss the claims based on Section 11 of the Securities Act. Agilent and more than 200 other issuer defendants have reached an agreement in principle for a settlement with plaintiffs. Under the settlement, plaintiffs' claims against Agilent and its directors and officers would be released, in exchange for a contingent payment (which, if made, would be paid by Agilent's insurer) and an assignment of certain potential claims. On June 14, 2004, papers formalizing the settlement among the plaintiffs, issuer defendants and insurers were presented to the Court in New York. On February 15, 2005, the Court granted preliminary approval of the settlement conditioned upon the parties' modification of a proposed bar order contained in the settlement. On August 31, 2005, the Court confirmed its preliminary approval of the settlement. On April 24, 2006, the Court held a fairness hearing in connection with the motion for final approval of the settlement. The Court did not issue a ruling on the motion for final approval at the fairness hearing. On December 5, 2006, the Court of Appeals for the Second Circuit reversed the Court's order certifying a class in several "test cases" that had been selected by the underwriter defendants and plaintiffs in the coordinated proceeding in re Initial Public Offering Securities Litigation. The settlement remains subject to a number of conditions, including final approval of the Court. Plaintiffs continue to prosecute their claims against the underwriter defendants, and discovery is now underway. Under our separation agreements with HP, HP agreed to indemnify us for a substantial portion of IPO-related liabilities. If the settlement does not occur, and the litigation against the company continues, Agilent believes it has meritorious defenses and intends to defend the case vigorously. In light of the pending settlement, we do not expect this case to be material.

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

Item 4. ***Submission of Matters to a Vote of Security Holders***

During the fourth quarter of fiscal 2006, there were no matters submitted to a vote of securities holders, through the solicitation of proxies or otherwise.

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". For the 2005 and 2006 fiscal years, the New York Stock Exchange reported the high and low sale prices per quarter as follows:

Fiscal 2005	**High**	**Low**
First Quarter (ended January 31, 2005)	$ 25.90	$ 21.43
Second Quarter (ended April 30, 2005)	$ 24.99	$ 20.11
Third Quarter (ended July 31, 2005)	$ 26.63	$ 20.72
Fourth Quarter (ended October 31, 2005)	$ 34.45	$ 25.18
Fiscal 2006	**High**	**Low**
First Quarter (ended January 31, 2006)	$ 36.10	$ 31.90
Second Quarter (ended April 30, 2006)	$ 39.54	$ 33.52
Third Quarter (ended July 31, 2006)	$ 39.45	$ 27.47
Fourth Quarter (ended October 31, 2006)	$ 35.81	$ 26.96

As of October 31, 2006, there were 50,558 stockholders of record of common stock. The closing share price for our common stock on October 31, 2006, as reported by the New York Stock Exchange, was $35.60.

We have not paid any cash dividends to date, and we currently intend to retain any future income to fund the development and growth of our business and fund stock repurchases from time to time. Our management and Board of Directors continually evaluate our capitalization strategy.

ISSUER PURCHASES OF EQUITY SECURITIES

The table below summarizes information about the Company's purchases of its equity securities registered pursuant to Section 12 of the Exchange Act during the quarterly period ended October 31, 2006. In the addition to the purchases in the most recent quarter described below, the Company purchased a total of 116,159,065 shares of its common stock under its prior stock repurchase plan during the 9 month period ended August 31, 2006. The total number of shares of common stock purchased by the company during the year ended October 31, 2006 is 117,854,265.

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, 2006 through Aug. 31, 2006				
Sep. 1, 2006 through Sep. 30, 2006	610,200	$ 32.74	610,200	$ 1,980
Oct. 1, 2006 through Oct. 31, 2006	1,085,000	$ 33.16	1,085,000	$ 1,944
Total	1,695,200	$ 33.01	1,695,200	$ 1,944

(1) On September 20, 2006, the Company announced its intention to repurchase up to $2.0 billion of its common stock through any one or a combination of a variety of methods, including open-market purchases, block trades, self tenders, accelerated share repurchase transactions or otherwise.

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

EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes information about our equity compensation plans as of October 31, 2006. All outstanding awards relate to our common stock.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders (1)(2)	56,751,583	$ 29	59,981,491
Equity compensation plans not approved by security holders			
Total	56,751,583	$ 29	59,981,491

(1) The number of securities remaining available for future issuance in column (c) includes 23,341,919 shares of common stock authorized and available for issuance under the Agilent Technologies, Inc. Employee Stock Purchase Plan (the "423(b) Plan"). The number of shares authorized for issuance under the 423(b) Plan are subject to an automatic annual increase of the lesser of one percent of the outstanding common stock of Agilent or an amount determined by the Compensation Committee of our Board of Directors. Under the terms of the 423(b) Plan, in no event shall the aggregate number of shares issued under the Plan exceed 75 million shares. The number of securities to be issued upon exercise of outstanding options, warrants and rights in column (a) does not include shares of common stock issued to participants in consideration of the aggregate participant contributions under the 423(b) Plan totaling $31.9 million as of October 31, 2006.

(2) We issue securities under our equity compensation plans in forms other than options, warrants or rights. Under the Agilent Technologies, Inc. 1999 Stock Plan, (the "Stock Plan"), we may issue Stock Awards, including but not limited to restricted stock and restricted stock units, as that term is defined in the Stock Plan. Under the terms of the Stock Plan, no more than 10 percent of the total shares available for issuance under the Stock Plan will constitute restricted stock awards. Under the Agilent Technologies, Inc. 1999 Non-Employee Director Stock Plan (the "1999 Non-Employee Director Stock Plan"), we may issue Special Compensation, as that term is defined in Section 7 of the 1999 Non-Employee Director Stock Plan.

Item 6. ***Selected Financial Data***

SELECTED FINANCIAL DATA
(Unaudited)

	Years Ended October 31,				
	2006	2005	2004	2003	2002
	(in millions, except per share data)				
Consolidated Statement of Operations Data (1, 2):					
Net revenue	$ 4,973	$ 4,685	$ 4,556	$ 3,930	$ 3,957
Income (loss) from continuing operations before taxes and equity income	$ 627	$ 291	$ 87	$ (746)	$ (1,566)
Income (loss) from continuing operations	$ 1,437	$ 191	$ 59	$ (1,822)	$ (976)
Income (loss) from and gain on sale of discontinued operations of our semiconductor products business, net of taxes	1,816	186	242	(13)	(27)
Gain (loss) from the sale of discontinued operations of our healthcare solutions business, net of taxes					(10)
Income (loss) from discontinued operations of our semiconductor test solutions business, net of taxes	54	(50)	68	45	(19)
Income (loss) before cumulative effect of accounting changes	3,307	327	369	(1,790)	(1,032)
Cumulative effect of adopting SFAS No. 142				(268)	
Net income (loss)	$ 3,307	$ 327	$ 369	$ (2,058)	$ (1,032)
Net income (loss) per share Basic:					
Income (loss) from continuing operations	$ 3.33	$ 0.38	$ 0.12	$ (3.85)	$ (2.10)
Income (loss) from and gain on sale of discontinued operations of our semiconductor products business, net of taxes	4.21	0.38	0.50	(0.03)	(0.06)
Loss on sale of discontinued operations of our healthcare solutions business, net of taxes					(0.02)
Income (loss) from discontinued operations of our semiconductor test solutions business, net of taxes	0.13	(0.10)	0.14	0.10	(0.04)
Cumulative effect of adopting SFAS No. 142				(0.57)	
Net income (loss) per share	$ 7.67	$ 0.66	$ 0.76	$ (4.35)	$ (2.22)
Net income (loss) per share Diluted:					
Income (loss) from continuing operations	$ 3.26	$ 0.38	$ 0.12	$ (3.85)	$ (2.10)
Income (loss) from and gain on sale of discontinued operations of our semiconductor products business, net of taxes	4.12	0.37	0.49	(0.03)	(0.06)
Loss on sale of discontinued operations of our healthcare solutions business, net of taxes					(0.02)
Income (loss) from discontinued operations of our semiconductor test solutions business, net of taxes	0.12	(0.10)	0.14	0.10	(0.04)
Cumulative effect of adopting SFAS No. 142				(0.57)	
Net income (loss) per share	$ 7.50	$ 0.65	$ 0.75	$ (4.35)	$ (2.22)
	431	494	483	473	465

	Years Ended October 31,				
Weighted average shares used in computing basic net income (loss) per share					
Weighted average shares used in computing diluted net income (loss) per share	441	500	490	473	465

	October 31,				
	2006	2005	2004	2003	2002
	(in millions)				
Consolidated Balance Sheet Data (1, 3):					
Cash and cash equivalents and short-term investments	$ 2,262	$ 2,251	$ 2,315	$ 1,607	$ 1,844
Working capital	$ 2,420	$ 2,511	$ 2,891	$ 1,983	$ 2,699
Restricted cash and cash equivalents	$ 1,606	$ 22			
Total assets	$ 7,369	$ 6,751	$ 7,144	$ 6,297	$ 8,203
Long-Term Debt	$ 1,500		$ 1,150	$ 1,150	$ 1,150
Stockholders' equity	$ 3,648	$ 4,081	$ 3,569	$ 2,824	$ 4,627

(1)

Consolidated financial data and notes for all periods present our semiconductor test solutions, semiconductor products and healthcare solutions businesses as discontinued operations.

(2)

Net income in 2006 includes a pre-tax restructuring charge of $186 million, including a pre-tax asset impairment charge of $42 million. Net income in 2005 includes a pre-tax restructuring charge of $123 million, including a pre-tax asset impairment charge of $7 million. Net income in 2004 includes a pre-tax restructuring charge of $161 million, including a pre-tax asset impairment charge of $25 million. Net loss in 2003 includes a pre-tax restructuring charge of $372 million, including a pre-tax asset impairment charge of $53 million and a non-cash charge recorded during the third quarter of 2003 to establish a tax valuation allowance of $1.4 billion. The $1.4 billion included $0.4 billion of tax benefits recorded during the first six months of 2003 resulting in approximately $1.0 billion net tax provision recorded within provision for taxes for the year ended October 31, 2003; the valuation allowance essentially eliminated our net deferred tax assets. Net loss in 2002 includes a pre-tax restructuring charge of $474 million including a pre-tax asset impairment charge of $163 million.

(3)

We have reclassified the restricted cash and cash equivalents balance sheet data item in prior years to conform to the current years' presentation.

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 the markets we sell into, our strategic direction, our future effective tax rate and tax valuation allowance, earnings from our foreign subsidiaries, remediation activities, new product and service introductions, changes to our manufacturing processes, the use of contract manufacturers, the impact of local government regulations on our ability to pay vendors or conduct operations, our liquidity position, our ability to generate cash from continuing operations, growth in our businesses, our investments, the potential impact of adopting new accounting pronouncements, our financial results, our purchase commitments, our contributions to our pension plans, the selection of discount rates and recognition of any gains or losses for our benefit plans, our cost-control activities, savings and headcount reduction recognized from our restructuring programs and the divestiture of our semiconductor products and semiconductor test businesses, our stock repurchase program, our transition to lower-cost regions, the existence or length of an economic recovery 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.

Reclassifications

Amounts in the consolidated financial statements as of and for the years ended October 31, 2005 and October 31, 2004 have been reclassified to conform to the presentation used in 2006. See Note 3, "Discontinued Operations of our Semiconductor Products Business" and Note 4, "Discontinued Operations of our Semiconductor Test Solutions Business", to our consolidated financial statements for further information regarding the reclassification of financial information for discontinued operations. See Note 7, "Equity in Net Income of Unconsolidated Affiliate and Gain on Sale Lumileds" to our consolidated financial statements for reclassification of equity in net income.

Overview and Executive Summary

Agilent, incorporated in Delaware in May 1999, is the world's premier measurement company, providing core bio-analytical and electronic measurement solutions to the communications, electronics, life sciences and chemical analysis industries. Prior to our initial public offering of 16 percent of our stock in November 1999, we were a wholly-owned subsidiary of Hewlett-Packard Company ("HP"). HP distributed the remaining 84 percent of our stock to its stockholders on June 2, 2000 in the form of a stock dividend.

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

Agilent currently has two businesses focused on bio-analytical measurement and electronic measurement. During the past year, we divested two of our historical businesses, the semiconductor products business and the semiconductor test solutions business. In December 2005, we sold the semiconductor products business and recorded a gain of approximately $1.8 billion. In October 2006, we completed the distribution to our stockholders of our semiconductor test solutions business. We have reflected both the semiconductor products business and the semiconductor test solutions business as discontinued operations for all periods presented in this Annual Report on Form 10-K.

Agilent's net revenue from continuing operations in 2006 was $4,973 million, an increase of 6 percent in comparison to 2005. In our bio-analytical business, net revenue in 2006 increased 9 percent in comparison to 2005. Demand increased across all markets in bio-analytical measurement with strongest growth occurring in biotechnology solutions. In our electronic measurement business, net revenue in 2006 increased 5 percent in comparison to 2005. The electronic measurement business saw growth in our general purpose segments, led by aerospace /defense and semiconductor design and manufacturing. Agilent's total net revenue in 2005 increased 3 percent in comparison to 2004.

Net income in 2006 was $3,307 million, which included the income from and gain on sale of our semiconductor products business for $1,816 million and the sale of our investment in Lumileds for a gain of $901 million. Net income in 2005 was $327 million, a decrease of 11 percent in comparison to $369 million in 2004. The decrease in total net income for 2005 was driven by a $174 million decrease in net income associated with discontinued operations offset by a $132 million increase in net income from continuing operations.

In 2006, we generated operating cash flows of $431 million and had a cash and cash equivalent balance as of October 31, 2006 of $2,262 million. In 2005, we generated operating cash flows of $656 million and had a cash and cash equivalent balance as of October 31, 2005 of $2,226 million.

The following significant events were accomplished in fiscal year 2006:

In November 2005, we finalized the sale of our investment in Lumileds to Philips for $949 million plus the repayment of $51 million of the outstanding principal debt and interest due to us.

In December 2005, we sold our semiconductor products business to Avago. We received approximately $2.6 billion in cash proceeds.

In October 2006, we completed the spin-off of our semiconductor test solutions business. The aggregate market value of ordinary shares distributed to Agilent stockholders was approximately $840 million.

In June 2006, we completed a stock repurchase program of $4.466 billion of our common stock and in September 2006 we commenced another stock repurchase program for up to $2.0 billion dollars, to be completed over the next 2 years.

We completed the actions necessary to reduce our infrastructure costs by approximately $450 million.

Having completed the disposal of two semiconductor-related businesses, Agilent is less exposed to the highly cyclical semiconductor market. Therefore, we expect that Agilent's current operating model will experience lower cyclicality in revenue and costs than we experienced in prior years. Looking forward, we are mindful of the economic uncertainties in the year ahead and Agilent's focus is to leverage, through higher sustainable growth, the more stable operating model we've built. Our goal is to grow our revenue at a faster rate than the electronic measurement and bio-analytical measurement markets, primarily through increasing market share and complementary acquisitions which will add to our top line growth.

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. 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, restructuring and asset impairment charges, inventory valuation, investment impairments, share-based compensation, retirement and post-retirement plan assumptions, valuation of long-lived 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 collectibility 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. When arrangements include multiple elements, we use objective evidence of fair value to allocate revenue to the elements and recognize revenue when the criteria for revenue recognition have been met for each element. The amount of product revenue recognized is affected by our judgments as to whether an arrangement includes multiple elements and if so, whether vendor-specific objective evidence of fair value exists for those elements. Changes to the elements in an arrangement and the ability to establish vendor-specific objective evidence for those elements could affect the timing of the revenue recognition. Most of these conditions are subjective and actual results could vary from the estimated outcome, requiring future adjustments to revenue.

Restructuring and asset impairment charges. The three main components of our restructuring plans are related to workforce reductions, the consolidation of excess facilities and asset impairments. 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 when we have vacated the premises. These estimates were derived using the guidance of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), Staff Accounting Bulletin 100, "Restructuring and Impairment Charges" ("SAB 100"), Emerging Issues Task Force 94-3, "Liability Recognition for Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)" ("EITF 94-3") and lastly, SFAS No. 146 "Accounting for Exit or Disposal Activities" ("SFAS No. 146"). 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.

Inventory valuation. We assess the valuation of our inventory on a quarterly basis and periodically write down 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 marketing department plays a key role in our excess inventory review process by providing updated 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.

Investment impairments. We recognize an impairment charge when the decline in the fair value of our publicly traded equity securities and our cost-method investments below their cost basis are judged to be other-than-temporary. Significant judgment is used to identify events or circumstances that would likely have a significant adverse effect on the future use 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.

Share-based compensation. We account for share-based awards in accordance with Statement of Financial Accounting Standards No. 123(R), Shared-Based Payment ("SFAS No. 123(R)") which was effective November 1, 2005 for Agilent. Under the new standard, share-based compensation expense is primarily based on estimated grant date fair value which is generally using the Black-Scholes option pricing model and is recognized on a straight-line basis for awards granted after November 1, 2005 over the vesting period of the award. For awards issued prior to November 1, 2005, we recognize share-based compensation expense based on FASB Interpretation 28 "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans an interpretation of APB Opinions No. 15 and 25", which provides for accelerated expensing. Our estimate of share-based compensation expense requires a number of complex and subjective assumptions including our stock price volatility, employee exercise patterns (expected life of the options), future forfeitures and related tax effects. We consider several factors in estimating the expected life of our options granted, including the expected lives used by a peer group of companies and the historical option exercise behavior of our employees, which we believe are representative of future behavior. We estimate the stock price volatility using the implied volatility of Agilent's publicly traded stock options. We have determined that implied volatility is more reflective of market conditions and a better indicator of expected volatility than a combined method of determining volatility. 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 the health care cost trend rate, 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 U.S. plans and September 30 for non-U.S plans. For U.S. plans, the discount rate was determined by matching the expected plan benefit payments against the cash flows from a hypothetically constructed portfolio of high quality corporate bonds. The average yield of this hypothetical bond portfolio was used as a proxy for setting the discount rate. The discount rate increased slightly over the prior year to 6.0 percent. Lower discount rates increase present values and subsequent year pension expense; higher discount rates decrease present values and subsequent year pension expense. The discount rate for non-U.S. plans was generally based on published rates for high quality corporate bonds. In recent years, decreasing interest rates, particularly outside the U.S., have increased our benefit obligations and our net plan costs. These increases have been in large part offset by a declining number of plan participants as a result of our various restructuring programs. The entire impact of declining discount rates is not recognized immediately under current accounting standards. As of October 31, 2006, delayed recognition of the impact of declining discount rates was the primary factor in approximately $297 million in unrecognized actuarial losses for non-U.S. plans. These losses are being recognized over the expected average future service lives of plan participants ranging from 12 to 18 years depending on the plan.

The expected long-term return on plan assets is estimated using current and expected asset allocations, as well as historical and expected returns. As of October 31, 2006, delayed recognition of better than expected investment performance was a significant factor in $63 million of unrecognized actuarial gains for U.S. plans. These gains will be recognized over approximately 12 years or the expected average future service life for U.S. plan participants. A one percent change in the estimated long-term return on plan assets for 2006 would result in a $6 million impact on U.S. pension expense and a $15 million impact on non-U.S. pension expense.

The net periodic pension and post-retirement benefit costs recorded in continuing operations were $81 million in 2006, $106 million in 2005 and $122 million in 2004. Due to final payouts from our Excess Plan in the U.S. in the first quarter of 2007, we expect a settlement under SFAS No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits. We cannot currently estimate this impact.

Valuation of long-lived assets. We performed our annual goodwill impairment analysis in the fourth quarter of 2006. Based on our estimates of forecasted discounted cash flows and our market capitalization at that time, we concluded that our goodwill was not impaired. 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. During 2006, we incurred $42 million of asset impairment charges, which includes approximately $3 million recorded in discontinued operations. In addition, we recorded $1 million of investment impairment charges during 2006.

The process of evaluating the potential impairment of goodwill and other intangibles is highly subjective and requires significant judgment. We estimate expected future cash flows of our various businesses, which operate in a number of markets and geographical regions. We then determine the carrying value of these businesses. We exercise judgment in assigning and allocating certain assets and liabilities to these businesses. We then compare the carrying value including goodwill and other intangibles to the discounted future cash flows. If the total of future cash flows is less than the carrying amount of the assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets. Estimates of the future cash flows associated with the assets are critical to

these assessments. Changes in these estimates based on changed economic conditions or business strategies could result in material impairment charges in future periods.

The process of evaluating the potential impairment of long-lived assets such as our property, plant and equipment is also highly subjective and requires significant judgment. In order to estimate the fair value of long-lived assets, we typically make various assumptions about the future prospects for the business that the asset relates to, consider market factors specific to that business and estimate future cash flows to be generated by that business. Based on these assumptions and estimates, we determine whether we need to take an impairment charge to reduce the value of the asset stated on our balance sheet to reflect its estimated fair value. Assumptions and estimates about future values and remaining useful lives are complex and often subjective. They can be affected by a variety of factors, including external factors such as the real estate market, industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, changes in assumptions and estimates could materially impact our reported financial results.

Accounting for income taxes. Significant management judgment is required in determining our provision for income taxes and 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. Realization is based on our ability to generate sufficient future taxable income. During 2003, we established valuation allowances for the deferred tax assets of the U.S. and selected entities in foreign jurisdictions. The valuation allowance was determined in accordance with the provisions of SFAS No. 109 which requires 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. Cumulative losses incurred in the U.S. and selected entities in foreign jurisdictions in recent years represented sufficient negative evidence, which made it difficult for positive evidence to overcome. Accordingly, a full valuation allowance was recorded in all instances. We intend to maintain a full valuation allowance until sufficient positive evidence exists to support reversal of the valuation allowance. Profits or losses incurred in the U.S. and selected entities in foreign jurisdictions affect the ongoing amount of the valuation allowance. We expect that the effective tax rate applied to our pre-tax income in fiscal 2007 will be lower than it otherwise would be because future income taxes in the U.S. and selected entities in foreign jurisdictions will be offset by adjustments to the valuation allowance to effectively eliminate any tax expense or benefit in those jurisdictions. Income taxes will continue to be recorded for various jurisdictions subject to the need for valuation allowances in those jurisdictions.

We have not provided for U.S. federal income and foreign withholding taxes on the undistributed earnings 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 may 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. We recognize potential liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions 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.

Restructuring and Asset Impairment

We initiated several restructuring plans in prior periods: the 2001 Plan, the 2002 Plan and the 2003 Plan ("Prior Plans"). The workforce reduction portion of the Prior Plans was completed during fiscal year 2005. In the fourth quarter of fiscal year 2005, due to the then pending divestitures of our semiconductor products and semiconductor test businesses, we launched a new restructuring plan ("2005 Plan") to reduce our workforce and facility footprint to match a smaller organizational size.

In 2006 we continued execution of the 2005 plan and recorded restructuring and asset impairment charges of $186 million, of which $111 million was for workforce reduction expenses and the remainder for facility impairment and lease termination expenses. As of October 31, 2006, our accrual for pending workforce reduction costs was $13 million, which is down from the $44 million balance from the prior year as the workforce reduction program winds down. Our accrual for the consolidation of excess facilities, however, increased $9 million from the prior year due to significant facility consolidation efforts that were initiated during the past year. The workforce reduction portion of the 2005 plan is expected to be substantially completed in fiscal year 2007, but we will continue to make lease payments on some of our excess facility space for approximately the next five years.

The restructuring accrual is recorded in other accrued liabilities and other long-term liabilities on the consolidated balance sheet. For further details on our restructuring plans, see Note 19, "Restructuring and Asset Impairment", to our consolidated financial statements.

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 (rolling twelve month period). Therefore, we are exposed to currency fluctuations over the longer term. For example, over the last three years the U.S dollar has weakened against the Euro and the British pound and although we successfully hedged currency movements in those currencies each year, we have experienced a net increase in reported expenses in Europe as a result of currency fluctuations over this time period.

Results from Continuing Operations

The following discussion excludes our semiconductor products business and our semiconductor test solutions business as their results are reported as discontinued operations for all periods presented in this Annual Report on Form 10-K.

Income from continuing operations in 2006 was $1,437 million, which included the gain on sale of our Lumileds investment of $901 million. In 2005, we recorded $191 million in income from continuing operations compared to $59 million recorded in 2004.

Orders and Net Revenue

	Years Ended October 31,				
	2006	2005	2004	2006 over 2005 % Change	2005 over 2004 % Change
	(in millions)				
Orders	$ 5,075	$ 4,773	$ 4,512	6%	6%
Net revenue:					
Products	$ 4,125	$ 3,854	$ 3,783	7%	2%
Services and other	848	831	773	2%	8%
Total net revenue	$ 4,973	$ 4,685	$ 4,556	6%	3%

	Years Ended October 31,				
	2006	2005	2004	2006 over 2005 Ppts Change	2005 over 2004 Ppts Change
% of total net revenue:					
Products	83%	82%	83%	1 ppt	(1) ppt
Services and other	17%	18%	17%	(1) ppt	1 ppt
Total	100%	100%	100%		

Net revenue in 2006 was $4,973 million, a 6 percent increase over the $4,685 million net revenue recorded in 2005. Net revenue in 2005 was $4,685 million, a 3 percent increase over the $4,556 million net revenue recorded in 2004.

Bio-analytical measurement results were consistent with our normal seasonal pattern and reflected increased demand across virtually all of our markets. Our bio-analytical business is comprised of two areas, life science and chemical analysis. In life science, growth was due to demand from biotechnology customers and the impact of new product introduction in LC, LCMS and microarrays. In chemical analysis growth was driven by demand for environmental and food testing solutions.. Our electronic measurement business saw a 5 percent revenue growth, solid profitability, and good return on invested capital. Growth was driven by underlying customer demand in several key markets, including semiconductor design and verification, and consumer electronics design and manufacturing. However, growth was negatively impacted because of two factors: First, capital spending in the wireline segment was constrained by mergers in the customer base (both NEMs and communication service providers) as well as uncertainty in service providers' investments as they transition from fixed-line to IP-based networks and services. Second, we had a slowdown in our wireless monitoring business, as the industry transitions from 2G to 3G networks amid stronger competition.

Services and other revenue includes revenue generated from servicing our installed base of products, warranty extensions and consulting. In 2006 and 2005, services and other revenue increased over the prior years as our installed base of products increased and a change in standard warranty from three years to one year drove a higher volume of extended warranty business.

Costs and Expenses

	Years Ended October 31,				
	2006	2005	2004	2006 over 2005 Change	2005 over 2004 Change
Gross margin on products	56%	53%	49%	3 ppts	4 ppts
Gross margin on services and other	39%	39%	41%		(2) ppts
Total gross margin	53%	50%	47%	3 ppts	3 ppts
Operating margin	9%	5%	1%	4 ppts	4 ppts
Research and development	$ 655	$ 650	$ 599	1%	9%
Selling, general and administrative	$ 1,660	$ 1,498	$ 1,502	11%	