APPLERA CORP
Form 10-Q
November 09, 2005
Click here to Index

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2005

OR

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

Commission file number: 1-4389

APPLERA CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**06-1534213**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
301 Merritt 7, Norwalk, Connecticut	**06851-1070**
(Address of Principal Executive Offices)	**(Zip Code)**

(203) 840-2000
(Registrant s Telephone Number, Including Area Code)

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 No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of the close of business on November 3, 2005, there were 187,915,253 shares of Applera Corporation-Applied Biosystems Group Common Stock and 74,778,586 shares of Applera Corporation-Celera Genomics Group Common Stock outstanding.

Click here to Cover

APPLERA CORPORATION
INDEX

Back to Index

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

APPLERA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(Dollar amounts in thousands except per share amounts)

	Three Months Ended September 30,	
	2004	**2005**
Products	$ 318,883	**$ 338,529**
Services	46,535	**52,267**
Other	41,743	**31,432**
Total Net Revenues	407,161	**422,228**
Products	160,376	**168,488**
Services	21,881	**23,989**
Other	4,969	**3,634**
Total Cost of Sales	187,226	**196,111**
Gross Margin	219,935	**226,117**
Selling, general and administrative	123,570	**131,865**
Research, development and engineering	81,136	**69,730**
Amortization of intangible assets	725	**725**
Employee-related charges, asset impairments and other	10,219	**871**
Asset dispositions and legal settlements	(8,500)	**23,509**
Operating Income (Loss)	12,785	**(583)**
Gain on investments, net		**4,503**
Interest expense	(27)	**(87)**
Interest income	5,264	**9,757**
Other income (expense), net	2,133	**1,707**
Income before Income Taxes	20,155	**15,297**
Provision (benefit) for income taxes	4,062	**(9,882)**
Net Income	$ 16,093	**$ 25,179**
Applied Biosystems Group (see Note 3)		
Net Income per Share		
Basic	$ 0.19	**$ 0.21**
Diluted	$ 0.18	**$ 0.21**
Dividends Declared per Share	$ 0.0425	**$ 0.0425**
Celera Genomics Group (see Note 3)		
Net Loss per Share		
Basic and diluted	$ (0.28)	**$ (0.23)**

See accompanying notes to the Applera Corporation unaudited condensed consolidated financial statements.

Back to Index

APPLERA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(unaudited)
(Dollar amounts in thousands)

	At June 30, 2005	At September 30, 2005
Assets		
Current assets		
Cash and cash equivalents	$ 779,401	**$ 623,211**
Short-term investments	645,084	**629,880**
Accounts receivable, net	383,938	**329,870**
Inventories, net	126,541	**140,514**
Prepaid expenses and other current assets	152,645	**164,879**
Total current assets	2,087,609	**1,888,354**
Property, plant and equipment, net	438,398	**434,712**
Other long-term assets	638,178	**632,508**
Total Assets	$ 3,164,185	**$ 2,955,574**
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$ 174,022	**$ 158,312**
Accrued salaries and wages	91,188	**48,559**
Accrued taxes on income	77,327	**49,460**
Other accrued expenses	250,134	**265,826**
Total current liabilities	592,671	**522,157**
Other long-term liabilities	227,431	**235,218**
Total Liabilities	820,102	**757,375**
Stockholders Equity		
Capital stock		
Applera Corporation Applied Biosystems Group	2,130	**2,130**
Applera Corporation Celera Genomics Group	743	**747**
Capital in excess of par value	2,132,364	**2,139,227**
Retained earnings	558,065	**568,719**
Accumulated other comprehensive loss	(41,787)	**(41,837)**
Treasury stock, at cost	(307,432)	**(470,787)**
Total Stockholders Equity	2,344,083	**2,198,199**
Total Liabilities and Stockholders Equity	$ 3,164,185	**$ 2,955,574**

See accompanying notes to the Applera Corporation unaudited condensed consolidated financial statements.

Back to Index

APPLERA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(Dollar amounts in thousands)

	Three months ended September 30,	
	2004	**2005**
Operating Activities of Continuing Operations		
Net income	$ 16,093	**$ 25,179**
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,871	**20,978**
Asset impairments	1,976	**1,090**
Employee-related charges and other	5,373	**(219)**
Share-based compensation programs	1,089	**1,651**
Sale of assets and legal settlements, net		**19,906**
Deferred income taxes	(2,290)	**(920)**
Changes in operating assets and liabilities:		
Accounts receivable	56,410	**52,415**
Inventories	(8,156)	**(13,070)**
Prepaid expenses and other assets	(11,657)	**3,795**
Accounts payable and other liabilities	(81,836)	**(104,286)**
Net Cash Provided by Operating Activities of Continuing Operations	2,873	**6,519**
Investing Activities of Continuing Operations		
Additions to property, plant and equipment, net	(10,216)	**(14,327)**
Proceeds from maturities of available-for-sale investments	716,602	**55,278**
Proceeds from sales of available-for-sale investments	293,433	**103,360**
Purchases of available-for-sale investments	(902,587)	**(144,254)**
Proceeds from the sale of assets, net		**4,503**
Net Cash Provided by Investing Activities of Continuing Operations	97,232	**4,560**
Net Cash Provided (Used) by Operating Activities of Discontinued Operations	533	**(50)**
Financing Activities		
Principal payments on debt	(6,000)	
Dividends	(8,322)	
Purchases of common stock for treasury		**(201,236)**
Proceeds from stock issued for stock plans and other	5,211	**36,289**
Net Cash Used by Financing Activities	(9,111)	**(164,947)**
Effect of Exchange Rate Changes on Cash	4,314	**(2,272)**
Net Change in Cash and Cash Equivalents	95,841	**(156,190)**
Cash and Cash Equivalents Beginning of Period	507,870	**779,401**
Cash and Cash Equivalents End of Period	$ 603,711	**$ 623,211**

See accompanying notes to the Applera Corporation unaudited condensed consolidated financial statements.

Back to Index

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Interim Condensed Consolidated Financial Statements

Basis of Presentation

We prepare our unaudited interim condensed consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America, or GAAP. In preparing these statements, we are required to use estimates and assumptions. While we believe we have considered all available information, actual results could affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The results for the interim periods are not necessarily indicative of trends or future financial results. When used in these notes, the terms Applera, Company, we, us, or our mean Applera Corporation and its subsidiaries.

We have reclassified some prior period amounts in the condensed consolidated financial statements and notes for comparative purposes.

During the third quarter of fiscal 2005, we reclassified costs supporting our patent related activities from R&D expenses to SG&A expenses. This reclassification had no impact on net income or earnings per share. The reclassified amount for the first quarter of fiscal 2005 was approximately $6 million.

Commencing in the third quarter of fiscal 2005, we began classifying all of our investments in auction rate securities as short-term investments. Prior to fiscal 2005, some of these securities were included in cash and cash equivalents. Short-term investments included approximately $46 million of auction rate securities at September 30, 2004. This reclassification had no impact on results of operations or previously reported cash flows from operations or financing activities.

We consistently applied the accounting policies described in our 2005 Annual Report to Stockholders in preparing these unaudited interim financial statements. In addition, we adopted Statement of Financial Accounting Standards (SFAS) No. 123, Share-Based Payment (revised 2004) in July 2005, as discussed in Note 4. We made all adjustments that are necessary, in our opinion, for a fair statement of the results for the interim periods. These adjustments are of a normal recurring nature. We condensed or omitted from these interim financial statements several notes and other information included in our 2005 Annual Report to Stockholders. You should read these unaudited interim condensed consolidated financial statements in conjunction with our consolidated financial statements presented in our 2005 Annual Report to Stockholders.

Note 2 Events Impacting Comparability

We are providing the following information on some actions taken by us or events that occurred in the periods indicated.

	Three months ended September 30,	
(Dollar amounts in millions)	**2004**	**2005**
Severance and benefit costs	$ (8.5)	**$**
Excess lease space	(1.5)	
Asset impairments	(0.2)	**(1.1)**
Reduction of expected costs		**0.2**
Total employee-related charges, asset impairments and other	$ (10.2)	**$ (0.9)**
Other events impacting comparability:		
Impairment of inventory recorded in cost of sales	$ (1.7)	**$**
Asset dispositions and legal settlements	8.5	**(23.5)**
Investment gains		**4.5**
Resolution of outstanding foreign tax matters		**13.5**

Back to Index

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Employee-Related Charges, Asset Impairments and Other

Applied Biosystems group
Fiscal 2005
In the first quarter of fiscal 2005, the Applied Biosystems group recorded a pre-tax charge of $7.4 million in employee-related charges, asset impairments and other for severance charges related primarily to staff reductions intended to better align the Applied Biosystems group s resources with anticipated business opportunities and to integrate the Applied Biosystems MALDI Time-of-Flight product line into the Applied Biosystems/MDS Sciex Instruments joint venture with MDS Inc. The positions eliminated were primarily in the areas of research, manufacturing, sales and administration.

As of June 30, 2005, all of the affected employees had been terminated and substantially all cash payments related to the terminations had been made. The cash expenditures were funded by cash provided by operating activities.

Fiscal 2006
In the first quarter of fiscal 2006, the Applied Biosystems group recorded a pre-tax benefit of $0.2 million for a reduction in anticipated employee-related costs associated with a severance and benefit charge recorded in fiscal 2005.

In the fourth quarter of fiscal 2005, the Applied Biosystems group decided to pursue the sale of its San Jose, California facility and recorded a pre-tax impairment charge of $1.7 million related to that decision. In the first quarter of fiscal 2006, the Applied Biosystems group recorded an additional $1.1 million pre-tax impairment charge to write-down the carrying amount of the facility to its current estimated market value less estimated selling costs. Refer to Note 7 for additional information.

Other
During the first quarter of fiscal 2006, the Applied Biosystems group made cash payments of $7.7 million for severance and employee benefits and office closures related to charges recorded prior to fiscal 2006. The following table summarizes the remaining cash payments by event and the expected payment dates as of September 30, 2005.

(Dollar amounts in millions)	Remaining cash payments	Expected payment dates
Fiscal 2003 employee-related charge	$ 0.5	Fiscal 2006 Fiscal 2007
Fiscal 2005 employee-related charge	3.5	2nd and 3rd Quarters of Fiscal 2006
Fiscal 2005 excess lease space and other charges	3.0	Fiscal 2006 Fiscal 2011
	$ 7.0	

Celera Genomics group
During the first quarter of fiscal 2005, the Celera Genomics group recorded pre-tax charges totaling $4.5 million related to our decision to discontinue promotion of products and most operations of Paracel, Inc., a business we acquired in fiscal 2000. Paracel developed high-performance genomic data and text analysis systems for the pharmaceutical, biotechnology, information services, and government markets. Since the focus of the Celera Genomics group had shifted to therapeutic discovery and development, Paracel was no longer deemed strategic to the overall business. The $4.5 million charge consisted of $2.8 million in employee-related charges, asset impairments and other, of which $1.1 million was for severance and benefit costs and $1.7 million was for excess facility lease expenses and asset impairments. The Celera Genomics group recorded the remaining $1.7 million in cost of sales for the impairment of Paracel inventory. The charge for excess facility lease expenses and asset impairments was primarily for a revision to an accrual initially recorded in fiscal 2002 for the estimated cost of excess facility space for a lease that extends through fiscal 2011 and to write off related fixed assets.

As of March 31, 2005, the majority of the affected Paracel employees had been terminated. Substantially all cash payments related to these terminations were made as of June 30, 2005. During the first quarter of fiscal 2006, we made cash payments of $0.9 million related to the excess lease space charge. The cash expenditures were funded by available

Back to Index

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

cash. The remaining cash expenditures, of approximately $4.3 million related to excess lease space, are expected to be disbursed by fiscal 2011.

Other
In the fourth quarter of fiscal 2005, the Celera Genomics group recorded a pre-tax charge of $3.4 million related to discontinuation of the Online/Information Business, an information products and service business. This charge consisted of $1.8 million for severance and benefit costs and $1.6 million for asset impairments, primarily related to information-technology leases. During the first quarter of fiscal 2006, the Celera Genomics group made cash payments of $1.4 million for severance and employee benefits and $1.4 million primarily for information technology leases related to this charge. The cash expenditures were funded by available cash. As of September 30, 2005, all affected employees had been terminated. The remaining cash expenditures related to this action of approximately $0.4 million are expected to be disbursed by the end of December 2005.

Other Events Impacting Comparability

Asset dispositions and legal settlements
The following items have been recorded in the condensed consolidated statements of operations in asset dispositions and legal settlements.

In the first quarter of fiscal 2006, we recorded a $23.5 million pre-tax charge related to an outstanding litigation matter and arbitration settlement. We recorded the pre-tax charge as follows: $22.8 million at the Applied Biosystems group, $0.5 million at the Celera Genomics group, and $0.2 million at Celera Diagnostics. The charge includes an estimate of the liability that will be incurred by us to resolve the litigation matter and the arbitration settlement described below.

With regard to the arbitration matter, on November 1, 2005, an arbitrator issued his decision in a proceeding filed by Amersham Biosciences, now GE Healthcare. The matter involved the interpretation of a license agreement relating to DNA sequencing reagents and kits. Amersham had alleged, among other things, that the Applied Biosystems group had underpaid royalties under the license agreement. The arbitrator awarded Amersham past damages based on an increase in royalty rates for some of its DNA sequencing enzymes and kits that contain those enzymes, plus interest, fees, and other costs in an amount to be determined. As a result of this decision, the Applied Biosystems group recorded a pre-tax charge of $20.4 million in the first quarter of fiscal 2006, $19.5 million of which was recorded in asset dispositions and legal settlements.

In the first quarter of fiscal 2005, the Applied Biosystems group received a payment of $8.5 million from Illumina, Inc. in connection with the termination of a joint development agreement and settlement of a patent infringement claim and a breach of contract claim.

Investments
The Celera Genomics group recorded a pre-tax gain of $4.5 million in the condensed consolidated statements of operations in gain on investments, net in the first quarter of fiscal 2006 from the sale of a non-strategic minority equity investment.

Resolution of outstanding foreign tax matters
During the first quarter of fiscal 2006, the Applied Biosystems group recorded a tax benefit of $13.5 million related to the resolution of transfer pricing matters in Japan.

Back to Index

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Note 3 Earnings (Loss) per Share

The following table presents a reconciliation of basic and diluted earnings (loss) per share for the three months ended September 30:

	Applied Biosystems Group		Celera Genomics Group	
(Dollar amounts in millions, except per share amounts)	**2004**	**2005**	**2004**	**2005**
Net income (loss)	$ 37.1	**$ 43.1**	$ (20.3)	**$ (16.7)**
Allocated intercompany sales of assets	(0.1)			
Allocated interperiod taxes	(0.6)	**(1.2)**		
Total net income (loss) allocated	36.4	**41.9**	(20.3)	**(16.7)**
Less dividends declared on common stock	8.3	**8.3**		
Undistributed earnings (loss)	$ 28.1	**$ 33.6**	$ (20.3)	**$ (16.7)**
Allocation of basic earnings (loss) per share				
Basic distributed earnings per share[1]	$ 0.04	**$ 0.04**	$	**$**
Basic undistributed earnings (loss) per share	0.15	**0.17**	(0.28)	**(0.23)**
Total basic earnings (loss) per share	$ 0.19	**$ 0.21**	$ (0.28)	**$ (0.23)**
Allocation of diluted earnings (loss) per share				
Diluted distributed earnings per share[1]	$ 0.04	**$ 0.04**	$	**$**
Diluted undistributed earnings (loss) per share	0.14	**0.17**	(0.28)	**(0.23)**
Total diluted earnings (loss) per share	$ 0.18	**$ 0.21**	$ (0.28)	**$ (0.23)**
Weighted average number of common shares				
Basic	195.5	**195.5**	73.0	**74.4**
Common stock equivalents	2.8	**2.4**		
Diluted	198.3	**197.9**	73.0	**74.4**

[1] Amounts represent actual dividend per share distributed.

Options to purchase stock at exercise prices greater than the average market prices of our common stocks were excluded from the computation of diluted earnings per share because the effect would have been antidilutive. Additionally, options and warrants to purchase shares of Applera Corporation-Celera Genomics Group Common Stock (Applera-Celera Genomics stock) were excluded from the computation of diluted loss per share because the effect was antidilutive. The following table presents the number of shares excluded from the diluted earnings and loss per share computations for the three months ended September 30:

(Shares in millions)	2004	2005
Applera Corporation-Applied Biosystems Group Common Stock	26.7	**15.0**
Applera-Celera Genomics stock	12.5	**11.2**

Note 4 Share-Based Compensation

SFAS No. 123R requires entities to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. We adopted SFAS No. 123R using the modified prospective method of transition. This method required us to apply the provisions of SFAS No. 123R to new awards and to any awards that were unvested as of our adoption date and did not require us to restate prior periods.

Back to Index

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

We sponsor stock option plans, employee stock purchase plans, and restricted stock plans. At September 30, 2005, 45.6 million shares of Applera-Applied Biosystems stock and 20.2 million shares of Applera-Celera Genomics stock were authorized for grants of our share-based plans. The following is a brief description of our share-based plans. For additional information on our share-based plans, refer to Note 6 to our consolidated financial statements included in our 2005 Annual Report to Stockholders.

Stock Incentive Plans - Under our stock option plans, we grant stock options to employees that allow them to purchase shares in both classes of our common stock. In addition, members of our board of directors receive stock options for their service on our board. We generally issue options at their fair market value at the date of grant and most options vest in equal annual installments over a four-year service period and expire ten years from the grant date.

Employee Stock Purchase Plans (ESPP) Our ESPP offer U.S. and some non-U.S. employees the right to purchase shares of Applera Corporation-Applied Biosystems Group Common Stock (Applera-Applied Biosystems stock) and/or Applera-Celera Genomics stock. Employees are eligible to participate through payroll deductions of up to 10% of their eligible compensation. In the U.S., shares are purchased at 85% of the lower of the average market price at the beginning or the end of each three-month offering period. Outside of the U.S., the terms and conditions vary in some countries primarily based on local legal and tax considerations.

Restricted Stock Plans As part of our stock incentive plans, employees and non-employee directors have been granted shares of restricted stock in both classes of our common stock that vest when various continuous employment/service restrictions and/or specified performance goals are achieved.

We recognize share-based compensation costs on a straight-line basis over the requisite service period for the entire grant. For the first quarter of fiscal 2006, we recorded a pre-tax charge of $1.5 million ($1.0 million net of tax) in our condensed consolidated statements of operations for compensation costs related to our share-based plans. This amount includes a pre-tax charge of $0.7 million for our restricted stock plans, which would have been recorded as compensation expense under Accounting Principles Board Opinion No. (APB Opinion No.) 25, Accounting for Stock Issued to Employees . Cash received from option exercises under these plans was $36.3 million and the total intrinsic value of options exercised was $6.7 million in the first quarter of fiscal 2006. In connection with these exercises, we realized a tax benefit of $2.2 million in the first quarter of fiscal 2006.

We settle employee stock option exercises primarily with treasury shares, if available. As of September 30, 2005, we had 22.2 million treasury shares of Applera-Applied Biosystems stock. Our board of directors has adopted standing resolutions which authorize repurchases of Applera-Applied Biosystems stock and Applera-Celera Genomics stock from time to time to replenish shares issued under our various share-based plans.

The following table summarizes option activity under our stock options plans during the first quarter of fiscal 2006:

	Applera-Applied Biosystems Stock			
	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at June 30, 2005	35,348,668	$ 30.91		
Options granted	**193,350**	**20.62**		
Options exercised	**(1,689,595)**	**18.43**		
Options cancelled	**(1,562,213)**	**44.67**		
Outstanding at September	**32,290,210**	**30.98**	**6.15**	**$ 382.4 million**

30, 2005				
Exercisable at September 30, 2005	**31,730,552**	**$ 31.19**	**6.11**	**372.0 million**

Back to Index

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

	Applera-Celera Genomics Stock			
	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at June 30, 2005	10,412,800	$ 19.02		
Options granted	**26,900**	**11.20**		
Options exercised	**(385,786)**	**9.50**		
Options cancelled	**(306,838)**	**37.48**		
Outstanding at September 30, 2005	**9,747,076**	**18.83**	**6.16**	**$ 64.0 million**
Exercisable at September 30, 2005	**9,702,101**	**$ 18.85**	**6.14**	**63.6 million**

The following table summarizes nonvested award activity under our restricted stock plans during the first quarter of fiscal 2006:

	Applera-Applied Biosystems Stock		Applera-Celera Genomics Stock	
	Number of Awards	Weighted-Average Grant-Date Fair Value	Number of Awards	Weighted-Average Grant-Date Fair Value
Nonvested at June 30, 2005	197,748	$ 21.10	56,334	$ 10.32
Vested	**69,166**	**21.26**	**29,306**	**10.19**
Nonvested at September 30, 2005	**128,582**	**$ 21.02**	**27,028**	**$ 10.46**

As of September 30, 2005, we have $2.4 million of total unrecognized compensation costs related to nonvested awards that are expected to be recognized over a weighted average period of one year.

Pro Forma Disclosures Prior to Adoption of SFAS No. 123R

Prior to fiscal 2006, we applied the provisions of APB Opinion No. 25 in accounting for our share-based plans. Under APB Opinion No. 25, we did not record any compensation cost related to stock options since, generally, the exercise price of stock options granted to employees equaled the fair market value of our stock prices at the date of grant. We also did not record any compensation expense related to our ESPP since the

provisions of these plans were deemed non-compensatory under APB Opinion No. 25. However, for restricted stock, the intrinsic value as of the grant date was amortized to compensation expense over their vesting period. During the first quarter of fiscal 2005, we recorded a pre-tax charge of approximately $1.0 million ($0.7 million net of tax) for restricted stock under ABP Opinion No. 25. The following tables illustrate the effect on reported net income (loss) and earnings (loss) per share for the first quarter of fiscal 2005 as if we had applied the fair value method of accounting for employee stock plans as required by SFAS No. 123, Accounting for Share-Based Compensation.

Back to Index

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

The earnings (loss) per share and pro forma effects on results for the three months ended September 30, 2004, are presented below:

(Dollar amounts in millions)	Applera Corporation	Applied Biosystems Group	Celera Genomics Group
Net income (loss), as reported	$ 16.1	$ 36.4	$ (20.3)
Add: Share-based employee compensation expense included in reported net income, net of tax	0.7	0.4	0.3
Deduct: Share-based employee compensation expense determined under fair value based method, net of tax	19.2	15.6	3.6
Pro forma net income (loss)	$ (2.4)	$ 21.2	$ (23.6)
Earnings (loss) per share			
Basic - as reported		$ 0.19	$ (0.28)
Basic - pro forma		$ 0.11	$ (0.32)
Diluted - as reported		$ 0.18	$ (0.28)
Diluted pro forma		$ 0.11	$ (0.32)

Valuation Assumptions in Estimating Fair Value

We estimated the fair value of stock options at the grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

	Three months ended September 30,	
	2004	2005
Applied Biosystems Group		
Dividend yield	0.9%	**0.9%**
Risk-free interest rate	3.5%	**3.9%**
Expected option life in years	5	**4**
Volatility	70%	**26%**
Weighted-average fair value per option granted	$ 11.10	**$ 5.15**
Celera Genomics Group		
Risk-free interest rate	3.5%	**3.9%**
Expected option life in years	4	**5**
Volatility	60%	**36%**
Weighted-average fair value per option granted	$ 5.25	**$ 4.28**

Prior to fiscal 2006, we determined the expected term of our options primarily based on the average life of our options for both the Applera-Applied Biosystems stock and the Applera-Celera Genomics stock. With the adoption of SFAS No. 123R in fiscal 2006, we determined the expected term of our options based on historical exercise patterns, which factored in the historical weighted average holding period from grant date to settlement date and from vest date to exercise date. We used the historical exercise patterns to project future settlement of outstanding options. As a result, the expected option life for Applera-Applied Biosystems stock decreased from five to four years and

increased from four to five years for Applera-Celera Genomics stock.

Back to Index

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Prior to fiscal 2006, we determined expected volatility based on historical volatilities of our two classes of common stock over the expected term. With the adoption of SFAS No. 123R, we continue to determine expected volatility based on historical volatilities, but have incorporated some adjustments, as noted below, related to the Celera Genomics group. In addition, under SFAS No. 123R, we began using a mean reversion analysis, which we believe provides a better estimate of current and future volatility rate expectations for our classes of stock. The volatility rate for Applera-Applied Biosystems stock decreased from the prior year quarter primarily as a result of the decline in the expected option life as discussed in the preceding paragraph. We believe that the methodology used to determine the historical volatility for Applera-Celera Genomics stock under APB Opinion No. 25, which included the impact of the sequencing and publication of the human genome by the Celera Genomics group, resulted in extraordinary volatility in the Celera Genomics group s stock price. As such, with the adoption of SFAS No. 123R, we excluded this unusually volatile period from our mean-reversion analysis.

Note 5 Comprehensive Gain

The components of comprehensive gain (loss) are reflected net of tax, except for foreign currency translation adjustments, which are generally not adjusted for income taxes as they relate to indefinite investments in non U.S. subsidiaries. Comprehensive gain (loss) was as follows:

	Three months ended September 30,	
(Dollar amounts in millions)	**2004**	**2005**
Net income	$ 16.1	**$ 25.2**
Other comprehensive gain (loss):		
Net unrealized gains (losses) on investments	0.2	**(0.5)**
Net unrealized gains (losses) on hedge contracts	(2.7)	**1.6**
Net unrealized losses on hedge contracts reclassified into earnings	2.0	**2.1**
Foreign currency translation adjustments	5.2	**(3.3)**
Total other comprehensive gain (loss)	4.7	**(0.1)**
Total comprehensive gain	$ 20.8	**$ 25.1**

Note 6 Inventories

Inventories included the following components:

(Dollar amounts in millions)	**June 30, 2005**	**September 30, 2005**
Raw materials and supplies	$ 45.9	**$ 53.4**
Work-in-process	5.3	**3.9**
Finished products	75.3	**83.2**
Total inventories, net	$ 126.5	**$ 140.5**

Note 7 Assets Held for Sale

In connection with the reduction and rebalancing of the Applied Biosystems group s workforce during the fourth quarter of fiscal 2005, the Applied Biosystems group decided to pursue the sale of its San Jose, California facility. As a result of this decision, we reclassified $7.0 million of property, plant and equipment into assets held for sale within prepaid expenses and other current assets at June 30, 2005, and recorded a $1.7 million pre-tax charge that represented the write-down of the carrying amount of the facility to its estimated market value less estimated selling costs. As discussed in Note 2, the Applied Biosystems group recorded an additional $1.1 million pre-tax impairment charge during the first

quarter of fiscal 2006.

Back to Index

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

The sale of this facility is expected to occur by June 30, 2006. At September 30, 2005, we had $5.5 million of assets held for sale within prepaid expenses and other current assets.

Note 8 Goodwill and Intangible Assets

The following table presents our intangible assets subject to amortization:

	June 30, 2005		September 30, 2005	
(Dollar amounts in millions)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	$ 25.5	$ 20.7	**$ 29.9**	**$ 21.2**
Acquired technology	60.5	42.7	**60.9**	**44.5**
Favorable operating leases	11.6	10.5	**11.6**	**11.2**
Total	$ 97.6	$ 73.9	**$ 102.4**	**$ 76.9**

Aggregate amortization expense was as follows:

	Three months ended September 30,	
(Dollar amounts in millions)	2004	2005
Applied Biosystems group	$ 1.8	**$ 1.7**
Celera Genomics group	0.7	**0.7**
Celera Diagnostics	0.5	**0.6**
Consolidated	$ 3.0	**$ 3.0**

The Applied Biosystems group records a substantial portion of amortization expense in cost of sales. The Celera Genomics group records amortization expense in amortization of intangible assets, and Celera Diagnostics records amortization expense in cost of sales.

At September 30, 2005, we estimated annual amortization expense of our intangible assets for each of the next five fiscal years as shown in the following table. Future acquisitions or impairment events could cause these amounts to change.

(Dollar amounts in millions)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Consolidated
Remainder of fiscal 2006	**$ 5.9**	**$ 0.4**	**$ 1.7**	**$ 8.0**
2007	**6.2**		**2.1**	**8.3**
2008	**3.5**		**0.5**	**4.0**
2009	**2.5**		**0.1**	**2.6**
2010	**2.1**		**0.1**	**2.2**

The carrying amount of goodwill at June 30, 2005, and September 30, 2005, was $39.4 million, of which $36.7 million was allocated to the Applied Biosystems group and $2.7 million was allocated to the Celera Genomics group.

Back to Index

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Note 9 Supplemental Cash Flow Information

Significant non-cash financing activities for the three months ended September 30 were as follows:

(Dollar amounts in millions)	2004	2005
Tax benefit related to employee stock options	$ 0.7	**$ 0.6**
Issuances of restricted stock	$ 0.4	**$**

Note 10 Guarantees

Leases
The Applied Biosystems group provides lease-financing options to its customers through third party financing companies. For some leases, the financing companies have recourse to us for any unpaid principal balance upon default by the customer. The leases typically have terms of two to three years and are secured by the underlying instrument. In the event of default by a customer, we would repossess the underlying instrument. We record revenues from these transactions upon the completion of installation/acceptance of products and maintain a reserve for estimated losses on all lease transactions with recourse provisions based on historical default rates and current economic conditions. At September 30, 2005, the financing companies outstanding balance of lease receivables with recourse to us was $9.2 million. We believe that we could recover the entire balance from the resale of the underlying instruments in the event of default by all customers.

Guarantee of pension benefits for divested business
As part of the divestiture of our Analytical Instruments business in fiscal 1999, the purchaser of the Analytical Instruments business is paying for the pension benefits for employees of a former German subsidiary. However, we guaranteed payment of these pension benefits should the purchaser fail to do so, as these benefits were not transferable to the buyer under German law. The guaranteed payment obligation, which approximated $54 million at September 30, 2005, is not expected to have a material adverse effect on our consolidated statement of financial position.

Indemnifications
In the normal course of business, we enter into some agreements under which we indemnify third parties for intellectual property infringement claims or claims arising from breaches of representations or warranties. In addition, from time to time, we provide indemnity protection to third parties for claims relating to past performance arising from undisclosed liabilities, product liabilities, environmental obligations, representations and warranties, and other claims. In these agreements, the scope and amount of remedy, or the period in which claims can be made, may be limited. It is not possible to determine the maximum potential amount of future payments, if any, due under these indemnities due to the conditional nature of the obligations and the unique facts and circumstances involved in each agreement. Historically, payments made related to these indemnifications have not been material to our consolidated financial position.

Product warranties
We accrue warranty costs for product sales at the time of shipment based on historical experience as well as anticipated product performance. Our product warranties extend over a specified period of time ranging up to two years from the date of sale depending on the product subject to warranty. The warranties cover equipment installation, customer training, and application support. We periodically review the adequacy of our warranty reserve, and adjust, if necessary, the warranty percentage and accrual based on actual experience and estimated costs to be incurred.

Back to Index

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

The following table provides an analysis of the warranty reserve for the three months ended September 30:

(Dollar amount in millions)	2004	2005
Balance at June 30	$ 15.9	**$ 14.0**
Accruals for warranties	4.5	**5.0**
Usage of reserve	(6.5)	**(5.5)**
Balance at September 30	$ 13.9	**$ 13.5**

Note 11 Pension and Other Postretirement Benefits

The components of net pension and postretirement benefit expenses for the three months ended September 30 were as follows:

	Three months ended September 30,	
(Dollar amounts in millions)	2004	2005
Pension		
Service cost	$ 0.6	**$ 0.7**
Interest cost	9.5	**8.9**
Expected return on plan assets	(10.5)	**(9.5)**
Amortization of losses	0.9	**1.9**
Net periodic expense	$ 0.5	**$ 2.0**
Postretirement Benefit		
Service cost	$ 0.1	**$ 0.1**
Interest cost	1.0	**0.8**
Amortization of gains	(0.1)	
Net periodic expense	$ 1.0	**$ 0.9**

We expect to contribute $0.9 million to our foreign pension plans for the fiscal year ended June 30, 2006. Through September 30, 2005, we have not made any contributions to the pension plans. We made benefit payments of approximately $1.9 million during the three months ended September 30, 2005, and we expect to make approximately $4.0 million of additional benefit payments during the remainder of fiscal 2006 under the postretirement plan.

Note 12 Contingencies

Supply Arrangement
On October 8, 2005, Delphi Medical Systems Texas Corporation, a supplier of some instruments and parts for the Applied Biosystems group (Delphi Medical Systems), and its parent Delphi Corporation, filed a petition in the United States Bankruptcy Court for the Southern District of New York seeking relief under the provisions of Chapter 11 of the federal Bankruptcy Code. As of September 30, 2005, the Applied Biosystems group had an accounts receivable balance of approximately $7.3 million and an accounts payable balance of approximately $3.0 million with Delphi Medical Systems. At the present time, no assessment can be made as to if and when or how much of the balance due from Delphi Medical Systems may be paid, how much of the amount owed to Delphi Medical Systems may be offset against the amounts payable by Delphi Medical Systems, or the effect of the Chapter 11 filing on the supply contracts in effect between the companies.

14

Back to Index

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Legal Proceedings

We are involved in various lawsuits, arbitrations, investigations, and other legal actions from time to time with both private parties and governmental entities. These legal actions currently involve, for example, commercial, intellectual property, antitrust, environmental, securities, and employment matters. We believe that we have meritorious defenses against the claims currently asserted against us and intend to defend them vigorously. The following is a description of some claims we are currently defending, including some counterclaims brought against us in response to claims filed by us against third parties.

Applera and some of its officers are defendants in a lawsuit brought on behalf of purchasers of Applera-Celera Genomics stock in our follow-on public offering of Applera-Celera Genomics stock completed on March 6, 2000. In the offering, we sold an aggregate of approximately 4.4 million shares of Applera-Celera Genomics stock at a public offering price of $225 per share. The lawsuit, which was commenced with the filing of several complaints in April and May 2000, is pending in the U.S. District Court for the District of Connecticut, and an amended consolidated complaint was filed on August 21, 2001. The consolidated complaint generally alleges that the prospectus used in connection with the offering was inaccurate or misleading because it failed to adequately disclose the alleged opposition of the Human Genome Project and two of its supporters, the governments of the U.S. and the U.K., to providing patent protection to our genomic-based products. Although the Celera Genomics group has never sought, or intended to seek, a patent on the basic human genome sequence data, the complaint also alleges that we did not adequately disclose the risk that the Celera Genomics group would not be able to patent this data. The consolidated complaint seeks monetary damages, rescission, costs and expenses, and other relief as the court deems proper. On March 31, 2005, the Court certified the case as a class action.

We are involved in several litigation matters with MJ Research, Inc. (acquired by Bio-Rad Laboratories, Inc. since the commencement of litigation), which commenced with our filing claims against MJ Research on June 24, 1998, in the U.S. District Court for the District of Connecticut based on its alleged infringement of some polymerase chain reaction, or PCR, patents. In response to our claims, MJ Research filed counterclaims including, among others, allegations that we have licensed and enforced these patents through anticompetitive conduct in violation of federal and state antitrust laws, that some of our patents are unenforceable because of patent misuse, and that some of our patents are invalid and unenforceable because of inequitable conduct. MJ Research is seeking injunctive relief, monetary damages, costs and expenses, and other relief. These matters were adjudicated in part through a jury trial, which resulted in a verdict in our favor rendered in April 2004, and the remaining issues were resolved through a series of summary judgments granted by the District Court in several rulings issued in our favor between December 2004 and April 2005. As a result, MJ Research s counterclaims were rejected and MJ Research has been held liable to us and Roche Molecular Systems, also a party to the litigation, for infringement of U.S. Patent Nos. 4,683,195, 4,683,202 and 4,965,188 (each relates to PCR process technology) and U.S. Patent Nos. 5,656,493, 5,333,675 and 5,475,610 (each relates to thermal cycler instrument technology). Further, the infringement of the 195, 202, 188 and 493 patents was held to be willful. As a result of these decisions in our favor, in April 2005, the District Court awarded us and Roche Molecular Systems damages of $35.4 million plus reasonable attorneys fees, an enhancement of the original damages award granted by the jury in the amount of $19.8 million. The Court also awarded, on August 26, 2005, prejudgment interest of approximately $1 million. Additionally, on August 30, 2005, the Court issued an order enjoining MJ Research from infringing U.S. Patent Nos. 5,333,675, 5,656,493 and 5,475,610. Both parties have filed notices of appeals of some of the rulings in the case, including the damages award and the order enjoining MJ Research.

Back to Index

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Subsequent to the filing of our claims against MJ Research which are described in the preceding paragraph, on September 21, 2000, MJ Research filed an action against us in the U.S. District Court for the District of Columbia. This complaint is based on the allegation that the patents underlying our DNA sequencing instruments were improperly obtained because one of the alleged inventors, whose work was funded in part by the U.S. government, was knowingly omitted from the patent applications. Our patents at issue are U.S. Patent Nos. 5,171,534, entitled Automated DNA Sequencing Technique, 5,821,058, entitled Automated DNA Sequencing Technique, 6,200,748, entitled Tagged Extendable Primers and Extension Products, and 4,811,218, entitled Real Time Scanning Electrophoresis Apparatus for DNA Sequencing. The complaint asserts violations of the federal False Claims Act and the federal Bayh Dole Act, invalidity and unenforceability of the patents at issue, patent infringement, and various other civil claims against us. MJ Research is seeking monetary damages, costs and expenses, injunctive relief, transfer of ownership of the patents in dispute, and other relief as the court deems proper. MJ Research claims to be suing in the name of the U.S. government although the government has to date declined to participate in the suit. On October 9, 2003, the case against us was dismissed but MJ Research has filed an appeal.

Promega Corporation filed a patent infringement action against Lifecodes Corporation, Cellmark Diagnostics, Genomics International Corporation, and us in the U.S. District Court for the Western District of Wisconsin on April 24, 2001. The complaint alleges that the defendants are infringing Promega s U.S. Patent Nos. 6,221,598 and 5,843,660, both entitled Multiplex Amplification of Short Tandem Repeat Loci, due to the defendants sale of forensic identification and paternity testing kits. Promega is seeking monetary damages, costs and expenses, injunctive relief, and other relief as the court deems proper. The defendants answered the complaint on July 9, 2001, and we asserted counterclaims alleging that Promega is infringing our U.S. Patent No. 6,200,748, entitled Tagged Extendable Primers and Extension Products, due to Promega s sale of forensic identification and paternity testing kits. As a result of settlement negotiations, the case was dismissed without prejudice on October 29, 2002, but could be re-filed against us if settlement negotiations are not successful.

Beckman Coulter, Inc. filed a patent infringement action against us in the U.S. District Court for the Central District of California on July 3, 2002. The complaint alleges that we are infringing Beckman Coulter s U.S. Patent Nos. RE 37,606 and 5,421,980, both entitled Capillary Electrophoresis Using Replaceable Gels, and U.S. Patent No. 5,552,580, entitled Heated Cover Device. The allegedly infringing products are the Applied Biosystems group s capillary electrophoresis sequencing and genetic analysis instruments, and PCR and real-time PCR systems. Since Beckman Coulter filed this claim, U.S. Patent No. 5,421,980 has been reissued as U.S. Patent No. RE 37,941, entitled Capillary Electrophoresis Using Replaceable Gels. On January 13, 2003, the court permitted Beckman Coulter to make a corresponding amendment to its complaint. Beckman Coulter is seeking monetary damages, costs and expenses, injunctive relief, and other relief as the court deems proper. On February 10, 2003, we filed our answer to Beckman Coulter s allegations, and counterclaimed for declaratory relief that the Beckman Coulter patents underlying Beckman Coulter s claim are invalid, unenforceable, and not infringed. We are seeking dismissal of Beckman Coulter s complaint, costs and expenses, declaratory and injunctive relief, and other relief as the court deems proper.

Genetic Technologies Limited filed a patent infringement action against us in the U.S. District Court for the Northern District of California on March 26, 2003. They filed an amended complaint against us on August 12, 2003. The amended complaint alleges that we are infringing U.S. Patent No. 5,612,179, entitled Intron Sequence Analysis Method for Detection of Adjacent and Remote Locus Alleles as Haplotypes, and U.S. Patent No. 5,851,762, entitled Genomic Mapping Method by Direct Haplotyping Using Intron Sequence Analysis. The allegedly infringing products are cystic fibrosis reagent kits, TaqMan® genotyping and gene expression assay products for non-coding regions, TaqMan genotyping and gene expression assay services for non-coding regions, AmpFLSTR® kits, the SNPlex Genotyping System, the SNPbroswer tool, and the Celera Discovery System (CDS). The complaint also alleges that haplotyping analysis performed by our businesses infringes the patents identified above. Genetic Technologies Limited is seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper.

Back to Index

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

On-Line Technologies, Inc. (since acquired by MKS Instruments, Inc.) filed claims for patent infringement, trade secret misappropriation, fraud, breach of contract and unfair trade practices against PerkinElmer, Inc., Sick UPA, GmbH, and us in the U.S. District Court for the District of Connecticut on or about November 3, 1999. The complaint alleged that products called the Spectrum One and the MCS100E manufactured by former divisions of the Applied Biosystems group, which divisions were sold to the co-defendants in this case, were based on allegedly proprietary information belonging to On-Line Technologies and that the MCS100E infringed U.S. Patent No. 5,440,143. On-Line Technologies sought monetary damages, costs, expenses, injunctive relief, and other relief. On April 2, 2003, the U.S. District Court for the District of Connecticut granted our summary judgment motion and dismissed all claims brought by On-Line Technologies. On-Line Technologies filed an appeal with the U.S. Court of Appeals for the Federal Circuit seeking reinstatement of its claims, and on October 13, 2004, the Court of Appeals upheld dismissal of all claims except for the patent infringement claim, which will be decided by the District Court in subsequent proceedings.

Promega Corporation filed an action against us and some of our affiliates and Roche Molecular Systems, Inc. and Hoffmann-La Roche, Inc. in the U.S. District Court for the Eastern District of Virginia on April 10, 2000. The complaint asserted violations of the federal False Claims Act. The complaint alleged that we and Hoffmann-La Roche overcharged the U.S. government for thermal cyclers and PCR reagents. The overcharges were alleged to be the result of a licensing program based in part on U.S. Patent No. 4,889,818. Promega asserted that U.S. Patent No. 4,889,818 was obtained fraudulently and that the licensing program run by us and Hoffmann-La Roche was the cause of the alleged overcharging. Promega was seeking monetary damages. Promega claimed to be suing in the name of the U.S. government although the government declined to participate in the suit. On June 29, 2004, the court granted our motion to dismiss for failure to state a claim upon which relief could be granted, but gave Promega the right to file an amended complaint. Promega filed an amended complaint on July 13, 2004, and we filed another motion to dismiss on August 6, 2004. The court granted our second motion and dismissed the case with prejudice on August 20, 2004. Promega had filed an appeal with the U.S. Court of Appeals for the Fourth Circuit. However, this litigation was terminated on September 26, 2005, when Promega withdrew its appeal and the parties granted each other a mutual release of claims.

Bio-Rad Laboratories, Inc. filed a patent infringement, trademark infringement, and unfair competition action against us in the U.S. District Court for the Northern District of California on December 26, 2002. The complaint alleges that we are infringing Bio-Rad s U.S. Pat. No. 5,089,011, entitled Electrophoretic Sieving in Gel-Free Media with Dissolved Polymers, and infringing Bio-Rad s Bio-Rad trademark. They filed a third amended complaint against us on May 30, 2003. The allegedly infringing products according to the third amended complaint are instruments using, and reagents used for, capillary electrophoresis, and products using the BioCAD name. Bio-Rad submitted its final infringement contentions under the local court rules on April 22, 2004, and the parties held a court-ordered mediation conference on July 19, 2004. Bio-Rad is seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper.

Enzo Biochem, Inc., Enzo Life Sciences, Inc., and Yale University filed a patent infringement action against us in the U.S. District Court for the District of Connecticut on June 8, 2004. The complaint alleges that we are infringing six patents. Four of these patents are assigned to Yale University and licensed exclusively to Enzo Biochem, i.e., U.S. Patent No. 4,476,928, entitled Modified Nucleotides and Polynucleotides and Complexes Formed Therefrom, U.S. Patent No. 5,449,767, entitled Modified Nucleotides and Polynucleotides and Methods of Preparing Same, U.S. Patent No. 5,328,824 entitled Methods of Using Labeled Nucleotides, and U.S. Patent No. 4,711,955, entitled Modified Nucleotides and Polynucleotides and Methods of Preparing and Using Same. The other two patents are assigned to Enzo Life Sciences, i.e., U.S. Patent No. 5,082,830 entitled End Labeled Nucleotide Probe and U.S. Patent No. 4,994,373 entitled Methods and Structures Employing Compoundly Labeled Polynucleotide Probes. The allegedly infringing products include the Applied Biosystems group s sequencing reagent kits, its TaqMan® genotyping and gene expression assays, and the gene expression microarrays used with its Expression Array System. Enzo Biochem, Enzo Life Sciences, and Yale University are seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper.

Back to Index

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Molecular Diagnostics Laboratories filed a class action complaint against us and Hoffmann-La Roche, Inc. in the U.S. District Court for the District of Columbia on September 23, 2004. The complaint alleges anticompetitive conduct in connection with the sale of Taq DNA polymerase and PCR-related products. The anticompetitive conduct is alleged to arise from the prosecution and enforcement of U.S. Patent No. 4,889,818. This patent is assigned to Hoffmann-La Roche, with whom we have a commercial relationship covering, among other things, this patent and the sale of Taq DNA polymerase. The complaint seeks monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper. This case is largely based on the same set of contentions underlying a claim filed against us by Promega Corporation in the U.S. District Court for the Eastern District of Virginia, which is described above. The Promega claim was dismissed in August 2004 for, among other reasons, failure to state a claim upon which relief could be granted.

We filed a patent infringement action against Bio-Rad Laboratories, Inc., MJ Research, Inc., and Stratagene Corporation in the U.S. District Court for the District of Connecticut on November 9, 2004. The complaint alleges that the defendants infringe U.S. Patent No. 6,814,934. The complaint specifically alleges that the defendants activities involving instruments for real-time PCR detection result in infringement. We are seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper. Bio-Rad, MJ Research, and Stratagene have each answered the complaint and counterclaimed for declaratory relief that the 934 patent is invalid and not infringed. Bio-Rad, MJ Research, and Stratagene are seeking dismissal of our complaint, a judgment that the 934 patent is invalid and not infringed, costs and expenses, and other relief as the court deems proper.

Thermo Finnigan LLC filed a patent infringement action against us in the U.S. District Court for the District of Delaware on December 8, 2004. The complaint alleges that we have infringed U.S. Patent No. 5,385,654 as a result of, for example, our Applied Biosystems group s commercialization of the ABI PRISM 3700 Genetic Analyzer. Thermo Finnigan is seeking monetary damages, costs, expenses, and other relief as the court deems proper.

Other than for items deemed not material, we have not accrued for any potential losses in the legal proceedings described above because we believe that an adverse determination is not probable, and potential losses cannot be reasonably estimated, in any of these proceedings. However, the outcome of legal actions is inherently uncertain, and we cannot be sure that we will prevail in any of the proceedings described above or in our other legal actions. An adverse determination in some of our current legal actions, particularly the proceedings described above, could have a material adverse effect on us and our consolidated financial statements.

Note 13 Segment and Consolidating Information

Presented below is our segment and consolidating financial information, including the allocation of expenses between our segments in accordance with our allocation policies, as well as other related party transactions, such as sales of products between segments. Our board of directors approves the method of allocating earnings to each class of common stock for purposes of calculating earnings per share. This determination is generally based on net income or loss amounts of the corresponding group calculated in accordance with GAAP, consistently applied.

See Note 14 to our consolidated financial statements included in our 2005 Annual Report to Stockholders for a detailed description of the segments and the management and allocation policies applicable to the attribution of assets, liabilities, revenues and expenses to the segments (which information is incorporated in this quarterly report by reference).

Back to Index

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

The following table summarizes revenues earned between segments:

(Dollar amounts in millions)	Three months ended September 30, 2004	2005
Applied Biosystems Group		
Sales to the Celera Genomics group [a]	$ 0.6	**$ 0.6**
Sales to Celera Diagnostics [a]	0.7	**0.9**
Celera Genomics Group		
Royalties from the Applied Biosystems group [b]	$ 0.6	**$ 0.9**

[a] The Applied Biosystems group recorded net revenues from leased instruments and sales of consumables and project materials to the Celera Genomics group and Celera Diagnostics.

[b] The Celera Genomics group recorded net revenues primarily for royalties generated from sales by the Applied Biosystems group of products integrating Celera Discovery System ™ (CDS) and some other genomic and biological information under a marketing and distribution agreement.

The following table summarizes additional related party transactions between segments:

(Dollar amounts in millions)	Three Months Ended September 30, 2004	2005
Applied Biosystems Group		
Nonreimbursable utilization of tax benefits [a]	$ 10.6	**$ 8.5**
Payments for reimbursable utilization of tax benefits [b]	4.3	**4.1**
Funding of Celera Diagnostics [c]	1.4	**4.5**
Celera Genomics Group		
Funding of Celera Diagnostics [d]	$ 8.8	**$ 10.3**

[a] The Applied Biosystems group received, without reimbursement, some of the tax benefits generated by the Celera Genomics group in accordance with our tax allocation policy.

[b] The Applied Biosystems group paid the Celera Genomics group for the use of existing tax benefits acquired by the Celera Genomics group in business combinations and other tax benefits, including those associated with Celera Diagnostics, in accordance with our tax allocation policy.

[c] The Applied Biosystems group recorded its share of capital expenditures and working capital funding for Celera Diagnostics.

[d] The Celera Genomics group recorded the funding of cash operating losses and its share of capital expenditures and working capital for Celera Diagnostics.

For the three month periods ended September 30, 2004 and 2005, the Celera Genomics group recorded 100% of the losses of Celera Diagnostics in its net loss as well as the tax benefit associated with those losses. In the following tables, the Eliminations column represents the elimination of intersegment activity and the losses on Celera Diagnostics, which are included both in the Celera Diagnostics column and net within the Celera Genomics group column as Loss from joint venture.

Back to Index

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Condensed Consolidating Statement of Operations for the Three Months Ended September 30, 2005

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Consolidated
Products	$ 335,808	$ 653	$ 2,068	$	$ 338,529
Services	51,443	495	329		52,267
Other	26,724		4,708		31,432
Net revenues from external customers	413,975	1,148	7,105		422,228
Intersegment revenues	1,490	956		(2,446)	
Total Net Revenues	415,465	2,104	7,105	(2,446)	422,228
Products	167,363		2,772	(1,647)	168,488
Services	23,477	664		(152)	23,989
Other	2,719		915		3,634
Cost of Sales	193,559	664	3,687	(1,799)	196,111
Gross Margin	221,906	1,440	3,418	(647)	226,117
Selling, general and administrative	112,212	5,307	2,632	11,714	131,865
Corporate allocated expenses	9,771	1,293	650	(11,714)	
Research, development and engineering	40,871	21,850	7,702	(693)	69,730
Amortization of intangible assets		725			725
Employee-related charges, asset impairments and other	871				871
Asset dispositions and legal settlements	22,834	490	185		23,509
Operating Income (Loss)	35,347	(28,225)	(7,751)	46	(583)
Gain on investments, net		4,503			4,503
Interest income, net	4,422	5,248			9,670
Other income (expense), net	1,665	42			1,707

Loss from joint venture		(7,751)		7,751	
Income (Loss) before Income Taxes	41,434	(26,183)	(7,751)	7,797	15,297
Benefit for income taxes	(1,690)	(9,435)		1,243	(9,882)
Net Income (Loss)	$ 43,124	$ (16,748)	$ (7,751)	$ 6,554	$ 25,179

Back to Index

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Condensed Consolidating Statement of Financial Position at September 30, 2005

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 575,807	$ 47,404	$	$	$ 623,211
Short-term investments	41,883	587,997			629,880
Accounts receivable, net	323,987	1,759	6,155	(2,031)	329,870
Inventories, net	130,659	344	9,511		140,514
Prepaid expenses and other current assets	149,210	6,463	14,079	(4,873)	164,879
Total current assets	1,221,546	643,967	29,745	(6,904)	1,888,354
Property, plant and equipment, net	398,273	30,953	6,049	(563)	434,712
Other long-term assets	501,702	159,752	4,663	(33,609)	632,508
Total Assets	$ 2,121,521	$ 834,672	$ 40,457	$ (41,076)	$ 2,955,574
Liabilities and Stockholders Equity					
Current liabilities					
Accounts payable	$ 154,453	$ 5,717	$ 4,336	$ (6,194)	$ 158,312
Accrued salaries and wages	42,087	4,115	2,357		48,559
Accrued taxes on income	37,840	11,620			49,460
Other accrued expenses	258,727	7,157	1,070	(1,128)	265,826
Total current liabilities	493,107	28,609	7,763	(7,322)	522,157
Other long-term liabilities	229,212	5,949	57		235,218

Total Liabilities	722,319	34,558	7,820	(7,322)	757,375
Total Stockholders Equity	1,399,202	800,114	32,637	(33,754)	2,198,199
Total Liabilities and Stockholders Equity	$ 2,121,521	$ 834,672	$ 40,457	$ (41,076)	$ 2,955,574

Back to Index

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Condensed Consolidating Statement of Cash Flows for the three Months Ended September 30, 2005

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Consolidated
Operating Activities of Continuing Operations					
Net income (loss)	$ 43,124	$ (16,748)	$ (7,751)	$ 6,554	$ 25,179
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	16,703	2,634	1,751	(110)	20,978
Asset impairments	1,090				1,090
Employee-related charges and other	(219)				(219)
Share-based compensation programs	1,332	319			1,651
Sale of assets and legal settlements, net	23,726	(4,013)	193		19,906
Deferred income taxes	(4,053)	2,030		1,103	(920)
Loss from joint venture		7,751		(7,751)	
Nonreimbursable utilization of intergroup tax benefits	8,458	(8,458)			
Changes in operating assets and liabilities:					
Accounts receivable	52,519	(350)	(803)	1,049	52,415
Inventories	(12,588)	(9)	(473)		(13,070)
Prepaid expenses and other assets	5,961	942	(2,600)	(508)	3,795
Accounts payable and other liabilities	(85,523)	(14,024)	(4,320)	(419)	(104,286)
Net Cash Provided (Used) by Operating Activities of Continuing Operations	50,530	(29,926)	(14,003)	(82)	6,519
Investing Activities of Continuing Operations					

Additions to property, plant and equipment, net	(12,808)	(846)	(824)	151	(14,327)
Proceeds from maturities of available-for-sale investments		55,278			55,278
Proceeds from sales of available-for-sale investments	10,548	92,812			103,360
Purchases of available-for-sale investments	(52,431)	(91,823)			(144,254)
Acquisitions and investments in joint venture and other, net	(4,510)	(10,317)		14,827	
Proceeds from the sale of assets, net		4,572		(69)	4,503
Net Cash Provided (Used) by Investing Activities of Continuing Operations	(59,201)	49,676	(824)	14,909	4,560
Net Cash Provided by Operating Activities of Discontinued Operations	(50)				(50)
Financing Activities					
Net cash funding from groups			14,827	(14,827)	
Purchases of common stock for treasury	(201,236)				(201,236)
Proceeds from stock issued for stock plans and other	31,800	4,489			36,289
Net Cash Provided (Used) by Financing Activities	(169,436)	4,489	14,827	(14,827)	(164,947)
Effect of Exchange Rate Changes on Cash	(2,272)				(2,272)
Net Change in Cash and Cash Equivalents	(180,429)	24,239			(156,190)
Cash and Cash Equivalents Beginning of Period	756,236	23,165			779,401

Cash and Cash Equivalents End of Period	$ 575,807	$ 47,404	$	$	$ 623,211

Back to Index

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Condensed Consolidating Statement of Operations for the Three Months Ended September 30, 2004

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Consolidated
Products	$ 317,077	$ 721	$ 1,085	$	$ 318,883
Services	45,543	542	450		46,535
Other	26,358	7,745	7,640		41,743
Net revenues from external customers	388,978	9,008	9,175		407,161
Intersegment revenues	1,335	638		(1,973)	
Total Net Revenues	390,313	9,646	9,175	(1,973)	407,161
Products	157,631	2,154	1,010	(419)	160,376
Services	21,902	75		(96)	21,881
Other	3,195	381	2,067	(674)	4,969
Cost of sales	182,728	2,610	3,077	(1,189)	187,226
Gross Margin	207,585	7,036	6,098	(784)	219,935
Selling, general and administrative	104,652	4,756	2,289	11,873	123,570
Corporate allocated expenses	9,710	1,494	669	(11,873)	
Research, development and engineering	45,751	23,633	12,432	(680)	81,136
Amortization of intangible assets		725			725
Employee-related charges, asset impairments and other	7,373	2,846			10,219
Asset dispositions and legal settlements	(8,500)				(8,500)
Operating Income (Loss)	48,599	(26,418)	(9,292)	(104)	12,785
Interest income, net	2,376	2,861			5,237
Other income (expense), net	582	1,551			2,133
Loss from joint venture		(9,292)		9,292	

Income (Loss) before Income Taxes	51,557	(31,298)	(9,292)	9,188	20,155
Provision (benefit) for income taxes	14,457	(10,954)		559	4,062
Net Income (Loss)	$ 37,100	$ (20,344)	$ (9,292)	$ 8,629	$ 16,093

Back to Index

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Condensed Consolidating Statement of Financial Position at June 30, 2005

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 756,236	$ 23,165	$	$	$ 779,401
Short-term investments		645,084			645,084
Accounts receivable, net	378,159	1,409	5,352	(982)	383,938
Inventories, net	117,168	335	9,038		126,541
Prepaid expenses and other current assets	139,246	7,150	11,630	(5,381)	152,645
Total current assets	1,390,809	677,143	26,020	(6,363)	2,087,609
Property, plant and equipment, net	400,422	32,131	6,436	(591)	438,398
Other long-term assets	498,832	159,957	4,679	(25,290)	638,178
Total Assets	$ 2,290,063	$ 869,231	$ 37,135	$ (32,244)	$ 3,164,185
Liabilities and Stockholders Equity					
Current liabilities					
Accounts payable	$ 167,060	$ 7,689	$ 5,302	$ (6,029)	$ 174,022
Accrued salaries and wages	74,598	11,925	4,665		91,188
Accrued taxes on income	66,792	10,535			77,327
Other accrued expenses	238,242	11,098	1,528	(734)	250,134
Total current liabilities	546,692	41,247	11,495	(6,763)	592,671
Other long-term liabilities	220,461	6,891	79		227,431
Total Liabilities	767,153	48,138	11,574	(6,763)	820,102
Total Stockholders Equity	1,522,910	821,093	25,561	(25,481)	2,344,083
Total Liabilities and Stockholders Equity	$ 2,290,063	$ 869,231	$ 37,135	$ (32,244)	$ 3,164,185

Back to Index

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Condensed Consolidating Statement of Cash Flows for the Three Months Ended September 30, 2004

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Consolidated
Operating Activities of Continuing Operations					
Net income (loss)	$ 37,100	$ (20,344)	$ (9,292)	$ 8,629	$ 16,093
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	21,060	2,936	1,913	(38)	25,871
Asset impairments	66	1,910			1,976
Employee-related charges and other	2,735	2,638			5,373
Share-based compensation programs	722	367			1,089
Deferred income taxes	(6,049)	3,344		415	(2,290)
Loss from joint venture		9,292		(9,292)	
Nonreimbursable utilization of intergroup tax benefits	10,566	(10,566)			
Changes in operating assets and liabilities:					
Accounts receivable	55,744	1,758	(1,024)	(68)	56,410
Inventories	(8,296)	(44)	184		(8,156)
Prepaid expenses and other assets	(6,959)	(377)	(2,260)	(2,061)	(11,657)
Accounts payable and other liabilities	(67,156)	(17,506)	553	2,273	(81,836)
Net Cash Provided (Used) by Operating Activities of Continuing Operations	39,533	(26,592)	(9,926)	(142)	2,873
Investing Activities of Continuing Operations					
Additions to property, plant and equipment,	(8,613)	(1,392)	(353)	142	(10,216)

net					
Proceeds from maturities of available-for-sale investments		716,602			716,602
Proceeds from sales of available-for-sale investments	111,450	181,983			293,433
Purchases of available-for-sale investments	(62,825)	(839,762)			(902,587)
Acquisitions and investments in joint venture and other, net	(1,451)	(8,828)		10,279	
Net Cash Provided (Used) by Investing Activities of Continuing Operations	38,561	48,603	(353)	10,421	97,232
Net Cash Provided by Operating Activities of Discontinued Operations	533				533
Financing Activities					
Principal payments on debt		(6,000)			(6,000)
Dividends	(8,322)				(8,322)
Net cash funding from groups			10,279	(10,279)	
Proceeds from stock issued for stock plans and other	3,886	1,325			5,211
Net Cash Provided (Used) by Financing Activities	(4,436)	(4,675)	10,279	(10,279)	(9,111)
Effect of Exchange Rate Changes on Cash	4,314				4,314
Net Change in Cash and Cash Equivalents	78,505	17,336			95,841
Cash and Cash Equivalents Beginning of Period	456,322	51,548			507,870
Cash and Cash Equivalents End of Period	$ 534,827	$ 68,884	$	$	$ 603,711

25

Back to Index

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

The purpose of the following management s discussion and analysis is to provide an overview of the business of Applera Corporation to help facilitate an understanding of significant factors influencing our historical operating results, financial condition, and cash flows and also to convey our expectations of the potential impact of known trends, events, or uncertainties that may impact our future results. You should read this discussion in conjunction with our consolidated financial statements and related notes included in this report and in our 2005 Annual Report to Stockholders. Historical results and percentage relationships are not necessarily indicative of operating results for future periods. When used in this management discussion, the terms Applera, Company, we, us, or our mean Applera Corporation and its subsidiaries.

We have reclassified some prior period amounts in the condensed consolidated financial statements and notes for comparative purposes.

During the third quarter of fiscal 2005, we reclassified costs supporting our patent related activities from R&D expenses to SG&A expenses. This reclassification had no impact on net income or earnings per share. The reclassified amount for the first quarter of fiscal 2005 was approximately $6 million.

Commencing in the third quarter of fiscal 2005, we began classifying all of our investments in auction rate securities as short-term investments. Prior to fiscal 2005, some of these securities were included in cash and cash equivalents. Short-term investments included approximately $46 million of auction rate securities at September 30, 2004. This reclassification had no impact on results of operations or previously reported cash flows from operations or financing activities.

Overview
We are comprised of three business segments: the Applied Biosystems group, the Celera Genomics group, and Celera Diagnostics.

The Applied Biosystems group serves the life science industry and research community by developing and marketing instrument-based systems, consumables, software, and services. Customers use these products and services to analyze nucleic acids (DNA and RNA), small molecules, and proteins to make scientific discoveries, develop new pharmaceuticals, and conduct standardized testing. The Applied Biosystems group s products also serve the needs of some markets outside of life science research, which we refer to as applied markets, such as the fields of: forensic testing and human identification; biosecurity, which refers to products needed in response to the threat of biological terrorism and other malicious, accidental, and natural biological dangers; and food and environmental testing.

The Celera Genomics group is engaged principally in the discovery and development of targeted therapeutics for cancer, autoimmune, and inflammatory diseases. The Celera Genomics group is leveraging its proteomic, bioinformatic, and genomic capabilities to identify and validate drug targets, and to discover and develop small molecule therapeutics. It is also seeking to advance therapeutic antibody and selected small molecule drug programs in collaboration with global technology and market leaders.

Celera Diagnostics, a 50/50 joint venture between the Applied Biosystems group and the Celera Genomics group, is focused on the discovery, development, and commercialization of diagnostic products.

In fiscal 1999, as part of a recapitalization of our Company, we created two classes of common stock referred to as tracking stocks. Tracking stock is a class of stock of a corporation intended to track or reflect the relative performance of a specific business within the corporation.

Applera Corporation-Applied Biosystems Group Common Stock (Applera-Applied Biosystems stock) is listed on the New York Stock Exchange under the ticker symbol ABI and is intended to reflect the relative performance of the

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

Applied Biosystems group. Applera Corporation-Celera Genomics Group Common Stock (Applera-Celera Genomics stock) is listed on the New York Stock Exchange under the ticker symbol CRA and is intended to reflect the relative performance of the Celera Genomics group. There is no single security that represents the performance of Applera as a whole, nor is there a separate security traded for Celera Diagnostics.

Holders of Applera-Applied Biosystems stock and holders of Applera-Celera Genomics stock are stockholders of Applera. The Applied Biosystems group and the Celera Genomics group are not separate legal entities, and holders of these stocks are stockholders of a single company, Applera. As a result, holders of these stocks are subject to all of the risks associated with an investment in Applera and all of its businesses, assets, and liabilities. The Applied Biosystems group and the Celera Genomics group do not have separate boards of directors. Applera has one board of directors, which will make any decision in accordance with its good faith business judgment that the decision is in the best interests of Applera and all of its stockholders as a whole.

More information about the risks relating to our capital structure, particularly our two classes of capital stock, is contained in our Annual Report on Form 10-K for fiscal 2005 filed with the Securities and Exchange Commission.

Our fiscal year ends on June 30. The financial information for each segment is presented in Note 13 to our condensed consolidated financial statements, Segment and Consolidating Information. Management s discussion and analysis addresses the consolidated financial results followed by the discussions of our three segments.

Business Highlights:

Applied Biosystems Group

In August 2005, Macrogen Inc. and the Applied Biosystems group announced that Macrogen will provide gene expression analysis services using the Applied Biosystems Expression Array System to the National Institute of Toxicological Research (NITR) under the Korean Food and Drug Administration (KFDA). NITR and its five selected research centers in Korea will test the efficacy of applying gene expression signatures identified by the Applied Biosystems Human Genome Survey Microarray and Expression Array System for developing predictive food and drug evaluation measurement systems.

Also in August 2005, the Applied Biosystems group and DuPont Qualicon, a DuPont Co. business, announced a strategic marketing and technology alliance to develop next-generation DNA detection tests and systems for food testing, targeted at food safety and quality assessment.

In September 2005, the Applied Biosystems group announced that the U.S. District Court for the District of Connecticut in New Haven, CT, had issued a permanent injunction against Bio-Rad Laboratories, Inc. and MJ Research, Inc., an affiliate of Bio-Rad. The permanent injunction immediately prohibited Bio-Rad and MJ Research from making or selling infringing thermal cycler products in the U.S. capable of performing PCR (polymerase chain reaction) methods, including real-time PCR methods. The injunction further prohibits Bio-Rad and MJ Research from servicing, repairing, advertising, instructing, or otherwise promoting the use of the infringing thermal cyclers for use with PCR. The injunction also requires that the defendants provide written notice of the injunction to their employees and all other persons involved in any way with making, using, selling, offering for sale, advertising or promoting the infringing thermal cyclers.

In September 2005, the Applied Biosystems group announced the commercial release of its TaqMan® microRNA Assays for the detection and quantitation of mature human microRNA (miRNA) expression levels, a promising new area of genomic research. MicroRNAs are a recently discovered class of small RNA molecules known to play a powerful regulatory role in cell differentiation, developmental biology, and diseases such as cancer.

Also in September 2005, the Applied Biosystems group settled its qui tam litigation with Promega Corporation. This case, originally initiated by Promega against Hoffmann-La Roche, Inc. and Applera in the United States District Court for the Eastern District of Virginia in 2000, involved several allegations regarding our sale of thermal cyclers and reagents to the U.S. government and our patent licensing program.

In October 2005, the Applied Biosystems group signed a definitive agreement to make an equity investment in VisiGen Biotechnologies, Inc., a privately held company, and to enter into a scientific collaboration with VisiGen. VisiGen is a next-generation sequencing technology company that is developing a promising single molecule solution for sequencing.

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

Celera Genomics Group

In August 2005, the Celera Genomics group announced that one of its antigen targets was selected for further investigation by Seattle Genetics, Inc. for therapeutic development pursuant to the collaboration agreement initiated last year. Thirty-two cancer targets have thus far been identified and validated through the Celera Genomics group s proteomics studies in pancreatic, colon, breast, and lung cancer specimens.

In September 2005, the Celera Genomics group advanced its cathepsin S inhibitor, CRA-028129, for the treatment of psoriasis into Phase I clinical testing in healthy volunteers.

Celera Diagnostics

Celera Diagnostics published novel findings linking genetic variations in four genes with an increased risk for myocardial infarction (MI), or heart attack, in the October 2005 edition of the American Journal of Human Genetics. None of these gene variants has previously been associated with MI, and they could lead to the identification of new mechanisms for the causes of coronary heart disease.

In October 2005, Celera Diagnostics and its collaborators at Bristol Myers Squibb and Harvard University published an article in the journal Stroke describing a study of genetic variation in a family of proteins that have an anti-oxidant effect on low density cholesterol. The paper reported on a variant in the paraoxonase 1 gene that is associated with a 2.4-2.7 fold increase in risk for stroke that is independent of standard risk factors such as high blood pressure, diabetes and smoking.

Also in October 2005, Celera Diagnostics and Laboratory Corporation of America (LabCorp) entered into a license agreement to support LabCorp s implementation of hormone responsiveness testing linked to breast cancer that will incorporate Celera Diagnostics technology.

Critical Accounting Estimates

There were no material changes in our critical accounting estimates during the first quarter of fiscal 2006, except for the adoption of Statement of Financial Accounting Standards (SFAS) No. 123, Share-Based Payment (revised 2004) in July 2005, as described below. For further information on our critical accounting estimates, please refer to the discussion contained in the management s discussion and analysis section of our 2005 Annual Report to Stockholders (which discussion is incorporated in this quarterly report by reference).

Share-Based Compensation

SFAS No. 123R requires entities to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. Please see Adoption of SFAS No. 123R below and Note 4 to our condensed consolidated financial statements for more information on SFAS No. 123R.

We have selected the Black-Scholes option pricing model to estimate the fair value of our option awards. This model uses six assumptions to calculate an option s fair value, the most subjective of which are the expected term and expected volatility assumptions. These assumptions are derived through historical analysis and projections of future stock option exercises and stock price fluctuations and, therefore, involve considerable judgment.

The expected term assumption incorporates the contractual term of the option, historical employee exercise behavior, and post-vesting cancellation patterns. Using historical data, we calculated various expected term estimates. To incorporate the contractual term of the options, we assumed outstanding options at the period end date that had exercise prices that were in-the-money or were close to being in-the-money would be exercised using historical settlement patterns. We assumed that all other outstanding options at the period end date would be outstanding during their remaining contractual life. The expected term assumption used in the model is the mid-point in the range of these estimates.

Expected volatility is based on the mean reversion of the historical volatility of our stock prices over the options contractual life. The mean reversion is the tendency for a financial variable, in this case, stock price volatility, to remain near, or return over time to a long-term average. We use a mean reversion analysis because we believe it provides a better estimate of current and future volatility rate expectations for our classes of common stock as compared to unadjusted historical volatility. In addition, we believe the sequencing and publication of the human genome resulted in extraordinary volatility in the Celera Genomics group s stock price. As such, we excluded this unusually volatile period from our mean reversion analysis for the Celera Genomics group.

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

The following table provides the assumptions used to estimate the fair value of stock options as calculated under SFAS No. 123R in the first quarter of fiscal 2006 compared to the assumptions used under SFAS No. 123, Accounting for Share-Based Compensation, for the same quarter of fiscal 2005.

	SFAS No. 123	SFAS No. 123R
	First Quarter of Fiscal 2005	First Quarter of Fiscal 2006
Applied Biosystems Group		
Dividend yield	0.9%	**0.9%**
Volatility	70%	**26%**
Risk-free interest rate	3.5%	**3.9%**
Expected option life in years	5	**4**
Celera Genomics Group		
Volatility	60%	**36%**
Risk-free interest rate	3.5%	**3.9%**
Expected option life in years	4	**5**

Additionally, SFAS No. 123R requires that estimated forfeitures be considered in determining compensation cost. As such, we estimate the number of options expected to eventually vest based on historical forfeiture data.

Events Impacting Comparability

We are providing the following information on some actions taken by us or events that occurred in the periods indicated. We describe the effect of these items on our reported earnings for the purpose of providing you with a better understanding of our on-going operations. You should consider these items when making comparisons to past performance and assessing prospects for future results.

	Three months ended September 30,	
(Dollar amounts in millions)	**2004**	**2005**
Severance and benefit costs	$ (8.5)	**$**
Excess lease space	(1.5)	
Asset impairments	(0.2)	**(1.1)**
Reduction of expected costs		**0.2**
Total employee-related charges, asset impairments and other	$ (10.2)	**$ (0.9)**
Other events impacting comparability:		
Impairment of inventory recorded in cost of sales	$ (1.7)	**$**
Asset dispositions and legal settlements	8.5	**(23.5)**
Investment gains		**4.5**
Resolution of outstanding foreign tax matters		**13.5**

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

Employee-Related Charges, Asset Impairments and Other

Applied Biosystems group
Fiscal 2006
In the first quarter of fiscal 2006, the Applied Biosystems group recorded a pre-tax benefit of $0.2 million for a reduction in anticipated employee-related costs associated with a severance and benefit charge recorded in fiscal 2005.

In the fourth quarter of fiscal 2005, the Applied Biosystems group decided to pursue the sale of its San Jose, California facility and recorded a pre-tax impairment charge of $1.7 million related to that decision. In the first quarter of fiscal 2006, the Applied Biosystems group recorded an additional $1.1 million pre-tax impairment charge to write-down the carrying amount of the facility to its current estimated market value less estimated selling costs. Please see Note 7 to our condensed consolidated financial statements for additional information.

Fiscal 2005
In the first quarter of fiscal 2005, the Applied Biosystems group recorded a pre-tax charge of $7.4 million in employee-related charges, asset impairments and other for severance charges related primarily to staff reductions intended to better align the Applied Biosystems group s resources with anticipated business opportunities and to integrate the Applied Biosystems MALDI Time-of-Flight (TOF) product line into the Applied Biosystems/MDS Sciex Instruments joint venture with MDS Inc. The positions eliminated were primarily in the areas of research, manufacturing, sales and administration. Following this action, the Applied Biosystems group has hired, and may continue to hire, additional appropriately-skilled employees to support future business needs.

As of June 30, 2005, all of the affected employees had been terminated and substantially all cash payments related to the terminations had been made. The cash expenditures were funded by cash provided by operating activities.

Other
During the first quarter of fiscal 2006, the Applied Biosystems group made cash payments of $7.7 million for severance and employee benefits and office closures related to charges recorded prior to fiscal 2006. The following table summarizes the remaining cash payments by event and the expected payment dates as of September 30, 2005.

(Dollar amounts in millions)	Remaining cash payments	Expected payment dates
Fiscal 2003 employee-related charge	$ 0.5	Fiscal 2006 Fiscal 2007
Fiscal 2005 employee-related charge	3.5	2nd and 3rd Quarters of Fiscal 2006
Fiscal 2005 excess lease space and other charges	3.0	Fiscal 2006 Fiscal 2011
	$ 7.0	

Celera Genomics group
During the first quarter of fiscal 2005, the Celera Genomics group recorded pre-tax charges totaling $4.5 million related to our decision to discontinue promotion of products and most operations of Paracel, Inc., a business we acquired in fiscal 2000. Paracel developed high-performance genomic data and text analysis systems for the pharmaceutical, biotechnology, information services, and government markets. Since the focus of the Celera Genomics group had shifted to therapeutic discovery and development, Paracel was no longer deemed strategic to the overall business. The $4.5 million charge consisted of $2.8 million in employee-related charges, asset impairments and other, of which $1.1 million was for severance and benefit costs and $1.7 million was for excess facility lease expenses and asset impairments. The Celera Genomics group recorded the remaining $1.7 million in cost of sales for the impairment of Paracel inventory. The charge for excess facility lease expenses and asset impairments was primarily for a revision to an accrual initially recorded in fiscal 2002 for the estimated cost of excess facility space for a lease that extends through fiscal 2011 and to write off related fixed assets.

As of March 31, 2005, the majority of the affected Paracel employees had been terminated. Substantially all cash payments related to these terminations were made as of June 30, 2005. During the first quarter of fiscal 2006, we made cash payments of $0.9 million related to the excess lease space charge. The cash expenditures were funded by available

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

cash. The remaining cash expenditures, of approximately $4.3 million related to excess lease space, are expected to be disbursed by fiscal 2011. Although the Celera Genomics group anticipates modest expenses related to the closure of the Paracel business and completion of remaining service obligations during fiscal 2006, these amounts are not expected to have a material impact on future operating results.

Other
In the fourth quarter of fiscal 2005, the Celera Genomics group recorded a pre-tax charge of $3.4 million related to discontinuation of the Online/Information Business, an information products and service business. This charge consisted of $1.8 million for severance and benefit costs and $1.6 million for asset impairments, primarily related to information-technology leases. During the first quarter of fiscal 2006, the Celera Genomics group made cash payments of $1.4 million for severance and employee benefits and $1.4 million primarily for information technology leases related to this charge. The cash expenditures were funded by available cash. As of September 30, 2005, all affected employees had been terminated. The remaining cash expenditures related to this action of approximately $0.4 million are expected to be disbursed by the end of December 2005.

Other Events Impacting Comparability

Asset dispositions and legal settlements
The following items have been recorded in the condensed consolidated statements of operations in asset dispositions and legal settlements.

In the first quarter of fiscal 2006, we recorded a $23.5 million pre-tax charge related to an outstanding litigation matter and arbitration settlement. We recorded the pre-tax charge as follows: $22.8 million at the Applied Biosystems group, $0.5 million at the Celera Genomics group, and $0.2 million at Celera Diagnostics. The charge includes an estimate of the liability that will be incurred by us to resolve the litigation matter and the arbitration settlement described below.

With regard to the arbitration matter, on November 1, 2005, an arbitrator issued his decision in a proceeding filed by Amersham Biosciences, now GE Healthcare. The matter involved the interpretation of a license agreement relating to DNA sequencing reagents and kits. Amersham had alleged, among other things, that the Applied Biosystems group had underpaid royalties under the license agreement. The arbitrator awarded Amersham past damages based on an increase in royalty rates for some of its DNA sequencing enzymes and kits that contain those enzymes, plus interest, fees, and other costs in an amount to be determined. As a result of this decision, the Applied Biosystems group recorded a pre-tax charge of $20.4 million in the first quarter of fiscal 2006, $19.5 million of which was recorded in asset dispositions and legal settlements.

In the first quarter of fiscal 2005, the Applied Biosystems group received a payment of $8.5 million from Illumina, Inc. in connection with the termination of a joint development agreement and settlement of a patent infringement claim and a breach of contract claim.

Investments
The Celera Genomics group recorded a pre-tax gain of $4.5 million in the condensed consolidated statements of operations in gain on investments, net in the first quarter of fiscal 2006 from the sale of a non-strategic minority equity investment.

Resolution of outstanding foreign tax matters
During the first quarter of fiscal 2006, the Applied Biosystems group recorded a tax benefit of $13.5 million related to the resolution of transfer pricing matters in Japan.

Adoption of SFAS No. 123R
As previously discussed in critical accounting estimates, we adopted SFAS No. 123R in July 2005. SFAS No. 123R requires entities to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. We adopted SFAS No. 123R using the modified prospective method of transition. This method requires us to apply the provisions of SFAS No. 123R to new awards and to any awards that were unvested as of our adoption date and does not require us to restate prior periods.

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

Prior to fiscal 2006, we applied the provisions of Accounting Principles Board Opinion No. (APB Opinion No.) 25, Accounting for Stock Issued to Employees, in accounting for our share-based compensation plans. Under APB Opinion No. 25, we did not record any compensation cost related to stock options since the exercise price of stock options granted to employees equaled the fair market value of our stock prices at the date of grant. We also did not record any compensation expense related to our employee stock purchase plans since the provisions of these plans were deemed non-compensatory under APB Opinion No. 25. However, for restricted stock, the intrinsic value as of the grant date was amortized to compensation expense over their vesting period.

In the second half of fiscal 2005, our board of directors approved the accelerated vesting of substantially all unvested stock options. Please refer to Note 1 to our consolidated financial statements in our 2005 Annual Report to Stockholders for more information on the acceleration.

For the first quarter of fiscal 2006, we recorded a pre-tax charge of $1.5 million ($1.0 million net of tax) in our condensed consolidated statements of operations for compensation costs related to our share-based plans. This amount includes $0.7 million for our restricted stock plans, which would have been recorded as compensation expense under APB Opinion No. 25. As of September 30, 2005, $2.4 million of total unrecognized compensation costs related to nonvested awards is expected to be recognized over a weighted average period of one year.

Discussion of Applera Corporation s Consolidated Operations

	Three Months Ended September 30,		
(Dollar amounts in millions)	**2004**	**2005**	**% Increase/ (Decrease)**
Net revenues	$ 407.2	**$ 422.2**	**3.7%**
Cost of sales	187.3	**196.1**	**4.7%**
Gross margin	219.9	**226.1**	**2.8%**
SG&A expenses	123.6	**131.9**	**6.7%**
R&D	81.1	**69.7**	**(14.1)%**
Amortization of intangible assets	0.7	**0.7**	**%**
Employee-related charges, asset impairments and other	10.2	**0.9**	**(91.2)%**
Asset dispositions and legal settlements	(8.5)	**23.5**	**(376.5)%**
Operating income (loss)	12.8	**(0.6)**	**(104.7)%**
Gain on investments, net		**4.5**	
Interest income, net	5.3	**9.7**	**83.0%**
Other income (expense), net	2.1	**1.7**	**(19.0)%**
Income before income taxes	20.2	**15.3**	**(24.3)%**
Provision (benefit) for income taxes	4.1	**(9.9)**	**(341.5)%**
Net income	$ 16.1	**$ 25.2**	**56.5%**

Percentage of net revenues:		
Gross margin	54.0%	**53.6%**
SG&A expenses	30.4%	**31.2%**
R&D	19.9%	**16.5%**
Operating income (loss)	3.1%	**(0.1)%**
Effective income tax (benefit) rate	20%	**(65)%**

The following table summarizes the impact of the previously described events impacting comparability included in the financial results for fiscal 2006 and 2005:

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

(Dollar amounts in millions)	Three Months Ended September 30, 2004	2005
Charge included in income before income taxes	$ (3.4)	**$ (19.9)**
Benefit for income taxes	(1.3)	**(18.5)**

Net income increased in the first quarter of fiscal 2006 primarily due to higher net revenues and lower R&D expenses at the Applied Biosystems group, partially offset by higher SG&A expenses at the Applied Biosystems group and lower revenues at the Celera Genomics group. The net effect of foreign currency on net income was insignificant during the first quarter of fiscal 2006. Please read our discussion of segments for information on their financial results.

Net revenues, including the unfavorable effects of foreign currency, increased compared with the prior year quarter. The impact of foreign currency on net revenues was insignificant for the first quarter of fiscal 2006.

Revenues increased at the Applied Biosystems group, driven by strength in the Real-Time PCR/Applied Genomics, DNA Sequencing, and Mass Spectrometry product categories.
Net revenues decreased at the Celera Genomics group, primarily as a result of the expiration of Online/Information Business customer agreements.
Celera Diagnostics net revenues decreased due to lower equalization revenues under the profit and cost-sharing arrangement with Abbott Laboratories.

The lower gross margin percentage for the first quarter of fiscal 2006 compared to the prior year quarter was due primarily to lower revenues at the Celera Genomics group and higher royalty expenses and the unfavorable effects of foreign currency at the Applied Biosystems group. Partially offsetting the decrease was an increase in royalty and licensing revenue and a decrease in software amortization at the Applied Biosystems group. Service margins at the Applied Biosystems group improved for the first quarter of fiscal 2006 primarily driven by growth in the volume of service contracts, as well as higher pricing on selected billable parts and service contracts.

SG&A expenses for the first quarter of fiscal 2006 increased over the prior year quarter due primarily to increased compensation and investments in sales growth initiatives at the Applied Biosystems group and higher legal and professional services and employee benefits at the Celera Genomics group. Partially offsetting this increase were lower litigation-related legal expenses of approximately $4 million at the Applied Biosystems group and the discontinuation of most of the operations of Paracel.

R&D expenses decreased for the first quarter of fiscal 2006 compared to the prior year quarter primarily as a result of cost savings realized from the integration in fiscal 2005 of the MALDI TOF product line into the Applied Biosystems/MDS Sciex Instruments joint venture with MDS Inc. at the Applied Biosystems group, the discontinuation of essentially all operations of the Online/Information Business at the Celera Genomics group, and enhanced operational efficiencies at Celera Diagnostics.

Interest income, net increased during the first quarter fiscal 2006 compared to the prior year quarter primarily due to higher average interest rates and, to a lesser extent, higher average cash and cash equivalents and short-term investments.

Other income, net decreased slightly for the first quarter of fiscal 2006 in comparison to the prior year quarter primarily due to a non-recurring receipt of $1.0 million related to a financing activity for a Celera Genomics group s investment in fiscal 2005, almost entirely offset by higher benefits associated with our foreign currency risk management program in fiscal 2006.

In the first quarter of fiscal 2006, we recorded an effective tax benefit rate of 65% in comparison to an effective tax rate of 20% in the first quarter of fiscal 2005. This variance was caused primarily by the previously discussed events impacting comparability, in particular, the resolution of transfer pricing matters in Japan at the Applied Biosystems group, and an increase in R&D credits at the Celera Genomics group in the first quarter of fiscal 2006.

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

Applera Corporation
Discussion of Condensed Consolidated Financial Resources and Liquidity

We had cash and cash equivalents and short-term investments of $1.3 billion at September 30, 2005, and $1.4 billion at June 30, 2005. We maintain a $200 million unsecured revolving credit agreement with four banks that matures on April 15, 2010, under which there were no borrowings outstanding at September 30, 2005. Cash provided by operating activities has been our primary source of funds over the last fiscal year.

We believe that existing funds, cash generated from operations, and existing sources of debt financing are more than adequate to satisfy our normal operating cash flow needs, planned capital expenditures, dividends, and approved plan share repurchases for the next twelve months and for the foreseeable future. However, if the Celera Genomics group is successful in its therapeutic programs, it may require additional funds to advance these programs through the regulatory process.

(Dollar amounts in millions)	June 30, 2005	September 30, 2005
Cash and cash equivalents	$ 779.4	**$ 623.2**
Short-term investments	645.1	**629.9**
Total cash and cash equivalents and short-term investments	$ 1,424.5	**$ 1,253.1**
Working capital	1,494.9	**1,366.2**

Cash and cash equivalents decreased during the first three months of fiscal 2006 from June 30, 2005, as cash expenditures for the repurchase of common stock, the purchase of capital and other assets, and the unfavorable impact of the exchange rate valuation on cash and cash equivalents, exceeded cash generated from operating activities, proceeds from the sales and maturities of available-for-sale investments, net of purchases, and proceeds from stock issuances.

Net cash flows for the three months ended September 30 were as follows:

(Dollar amounts in millions)	2004	2005
Net cash from operating activities	$ 2.9	**$ 6.5**
Net cash from investing activities	97.2	**4.6**
Net cash used in financing activities	(9.1)	**(164.9)**
Effect of exchange rate changes on cash	4.3	**(2.3)**

Operating activities:
The increase in net cash provided from operating activities for the first three months of fiscal 2006 compared to the first three months of fiscal 2005 resulted primarily from: higher income-related cash flows; the timing of royalty payments; and the timing of receipts on non-trade receivables and dividends and distributions from investments in unconsolidated subsidiaries at the Applied Biosystems group. This increase was partially offset by the timing of vendor payments and a larger reduction in our severance and tax accrual balances in the first quarter of fiscal 2006 compared to the first quarter of fiscal 2005. Also offsetting this increase was a higher increase in the inventory balance in fiscal 2006 at the Applied Biosystems group and lower cash receipts in fiscal 2006 at the Celera Genomics group due to the continuing expiration of the Online/Information Business customer agreements.

Investing activities:
Capital expenditures, net of disposals, were $4.1 million higher than in the prior year quarter due primarily to the development of, and enhancements to, the Applied Biosystems Portal. The first three months of fiscal 2006 included lower proceeds generated from sales and maturities of available-for-sale investments, net of purchases. The first quarter of fiscal 2005 included the maturation of non-callable U.S. government obligations pledged as collateral for the 8% senior secured convertible notes assumed in connection with the acquisition of Axys. A portion of the proceeds from the

34

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

principal and interest received on these U.S. government obligations was used to fund the interest and principal payments under the notes.

Financing activities:
In the first quarter of fiscal 2005, we repaid the remaining principal amount of the 8% senior secured convertible notes assumed in connection with the Axys acquisition of approximately $6 million. The first quarter of fiscal 2005 included one dividend payment on Applera-Applied Biosystems stock. Dividends were declared but not paid in the first quarter of fiscal 2006. In the first quarter of fiscal 2006, we repurchased 9.3 million shares of Applera-Applied Biosystems stock for $201.2 million. In the first quarter of fiscal 2006, we received higher proceeds from stock issued for stock plans than in the first quarter of fiscal 2005.

Contractual Obligations

Our significant contractual obligations at September 30, 2005, and the anticipated payments under these obligations were as follows:

	Payments by Period				
(Dollar amounts in millions)	**Total**	**2006 [a]**	**2007 - 2008**	**2009 2010**	**Thereafter**
Minimum operating lease payments [b]	**$ 133.1**	**$ 26.3**	**$ 44.4**	**$ 28.0**	**$ 34.4**
Purchase obligations [c]	**123.3**	**78.1**	**23.1**	**19.8**	**2.3**
Other long-term liabilities [d]	**34.7**	**2.2**	**1.3**	**0.8**	**30.4**
Total	**$ 291.1**	**$ 106.6**	**$ 68.8**	**$ 48.6**	**$ 67.1**

[a] Represents cash obligations for the remainder of fiscal 2006.
[b] Please refer to Note 9 to our consolidated financial statements in our 2005 Annual Report to Stockholders for further information.
[c] Purchase obligations are entered into with various vendors in the normal course of business, and include commitments related to capital expenditures, R&D arrangements and collaborations, license agreements, and other services.
[d] We have excluded deferred revenues as they have no impact on our future liquidity. We have also excluded deferred tax liabilities and obligations connected with our pension and postretirement plans and other foreign employee-related plans as they are not contractually fixed as to timing and amount. Please see Note 11 to our condensed consolidated financial statements contained in this Report and Note 4 to our consolidated financial statements in our 2005 Annual Report to Stockholders for more information on these plans.

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

Discussion of Segments Operations, Financial Resources and Liquidity

Applied Biosystems Group

(Dollar amounts in millions)	Three Months Ended September 30, 2004	2005	% Increase/ (Decrease)
Net revenues	$ 390.3	**$ 415.5**	**6.5%**
Cost of sales	182.7	**193.6**	**6.0%**
Gross margin	207.6	**221.9**	**6.9%**
SG&A expenses	114.4	**122.0**	**6.6%**
R&D	45.7	**40.9**	**(10.5)%**
Employee-related charges, asset impairments and other	7.4	**0.9**	**(87.8)%**
Asset dispositions and legal settlements	(8.5)	**22.8**	**(368.2)%**
Operating income	48.6	**35.3**	**(27.4)%**
Interest income, net	2.4	**4.4**	**83.3%**
Other income (expense), net	0.6	**1.7**	**183.3%**
Income before income taxes	51.6	**41.4**	**(19.8)%**
Provision (benefit) for income taxes	14.5	**(1.7)**	**(111.7)%**
Net income	$ 37.1	**$ 43.1**	**16.2%**
Percentage of net revenues:			
Gross margin	53.2%	**53.4%**	
SG&A expenses	29.3%	**29.4%**	
R&D	11.7%	**9.8%**	
Operating income	12.5%	**8.5%**	
Effective income (benefit) tax rate	28%	**(4)%**	

The following table summarizes the impact of the previously described events impacting comparability included in the financial results for fiscal 2006 and 2005:

(Dollar amounts in millions)	Three Months Ended September 30, 2004	2005
Income (charge) included in income before income taxes	$ 1.1	**$ (23.7)**
Provision (benefit) for income taxes	0.3	**(20.6)**

Net income increased in the first quarter of fiscal 2006 primarily due to higher net revenues and lower R&D expenses, partially offset by higher SG&A expenses and the previously described events impacting comparability. The net effect of foreign currency on net income was insignificant during the first quarter of fiscal 2006.

Revenues overall summary

The following table sets forth the Applied Biosystems group s revenues by product categories for the three months ended September 30:

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

(Dollar amounts in millions)	Three Months Ended September 30, 2004	2005	% Increase/ (Decrease)
DNA Sequencing	$ 116.1	**$ 124.9**	**8%**
% of total revenues	*30%*	***30%***	
Real-Time PCR/Applied Genomics	111.8	**121.8**	**9%**
% of total revenues	*29%*	***29%***	
Mass Spectrometry	89.1	**97.3**	**9%**
% of total revenues	*23%*	***24%***	
Core PCR & DNA Synthesis [(a)]	47.4	**47.3**	**(-)%**
% of total revenues	*12%*	***11%***	
Other Product Lines	25.9	**24.2**	**(7)%**
% of total revenues	*6%*	***6%***	
Total	$ 390.3	**$ 415.5**	**6%**

(a) The product category Core PCR & DNA Synthesis was previously referred to as Core DNA Synthesis and PCR.

Net revenues, including the unfavorable effects of foreign currency, increased compared with the prior year quarter. The impact of foreign currency on net revenues was insignificant for the first quarter of fiscal 2006.

Revenues in the Real-Time PCR/Applied Genomics product category increased primarily due to increased sales of consumables products. Sales of TaqMan® Gene Expression Assays products and human identification products used in forensics contributed significantly to the product category growth.

DNA Sequencing revenue increased compared to the prior year quarter primarily as a result of increased sales of low-to-medium throughput analyzers in directed (or medical) sequencing and forensics applications.

Revenues in the Mass Spectrometry product category were led by sales of: high-end triple quadrupole, or quad, systems, primarily the API 5000 LC/MS/MS System; MALDI TOF/TOF instruments, primarily the Applied Biosystems/MDS SCIEX 4800 MALDI TOF/TOF Analyzer; and mass spectrometry instrument service contracts. Partially offsetting these increased sales were decreased sales of low-end triple quad systems, primarily the API 3000 LC/MS/MS System.

Revenue by sources

The following table sets forth the Applied Biosystems group s revenues by sources for the three months ended September 30:

(Dollar amounts in millions)	Three Months Ended September 30, 2004	2005	% Increase/ (Decrease)
Instruments	$ 162.5	**$ 171.0**	**5.2%**
Consumables	155.6	**166.1**	**6.7%**
	72.2	**78.4**	**8.6%**

Other sources			
Total	$ 390.3	**$ 415.5**	**6.5%**

Instruments

For the first quarter of fiscal 2006, instrument revenues increased from the prior year quarter primarily due to higher sales in both the DNA Sequencing and Mass Spectrometry product categories. Within the DNA Sequencing category, higher sales of the Applied Biosystems 3130 line of Genetic Analyzers were partially offset by reduced sales of the Applied Biosystems ABI PRISM® 3100 and 3100-Avant Genetic Analyzers. Contributing to the increased sales in the Mass

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

Spectrometry category were the high-end triple quad systems, primarily the API 5000 LC/MS/MS System, and the recently introduced Applied Biosystems/MDS SCIEX 4800 MALDI TOF/TOF Analyzer, which we began selling in the fourth quarter of fiscal 2005. Partially offsetting these increased sales were decreased sales of low-end triple quad systems, primarily the API 3000 LC/MS/MS System.

Consumables
The increase in consumables sales in the first quarter of fiscal 2006 primarily reflected the strength of Real-Time PCR/Applied Genomics consumables sales. These sales increased primarily as a result of higher sales of TaqMan® Gene Expression Assays products and human identification products used in forensics. This increase was partially offset by lower sales of Core PCR and DNA Synthesis consumables.

Other sources
Revenues from other sources, which included service and support, royalties, licenses, and contract research, increased for the first quarter of fiscal 2006 primarily due to higher service and support and royalties and licensing revenues.

Revenues by geographic area
The following table sets forth the Applied Biosystems group s revenues by geographic area for the three months ended September 30:

	Three Months Ended September 30,		
(Dollar amounts in millions)	**2004**	**2005**	**% Increase/ (Decrease)**
United States	$ 192.7	**$ 199.7**	**3.6%**
Europe	115.3	**128.6**	**11.5%**
Asia Pacific	71.4	**72.7**	**1.8%**
Latin America and other markets	10.9	**14.5**	**33.0%**
Total	$ 390.3	**$ 415.5**	**6.5%**

The unfavorable effects of foreign currency decreased revenues by less than 1% in Europe and by approximately 2% in Asia Pacific during the first quarter of fiscal 2006 compared to the prior year quarter. Revenues increased in Europe primarily as a result of strong sales of DNA sequencing instruments, led by the Applied Biosystems 3130 and 3730 lines of Genetic Analyzers, and the introduction of the 4800 MALDI TOF/TOF Analyzer. During the first quarter of fiscal 2006, revenues from Japan, which are included in total revenues for Asia Pacific, decreased approximately 6% compared to the prior year quarter primarily due to unfavorable foreign currency effects of approximately 5%. Sales in the U.S. increased primarily due to sales of new mass spectrometry instruments, including the API 5000 LC/MS/MS and API 3200 LC/MS/MS Systems and the 3200 Q Trap® LC/MS/MS System, increased royalty and licensing revenue, and increased sales of biosecurity products.

Gross margin, as a percentage of net revenues, increased for the first quarter of fiscal 2006 over the prior year quarter due primarily to an increase in royalty and licensing revenue and a decrease in software amortization costs. Service margins improved for the first quarter of fiscal 2006 primarily driven by growth in the volume of service contracts, as well as higher pricing on selected billable parts and service contracts. Partially offsetting these increases were higher royalty expenses and the unfavorable effects of foreign currency.

SG&A expenses for the first quarter of fiscal 2006 increased compared to the prior year quarter due primarily to increased compensation and investments in sales growth initiatives, partially offset by lower litigation-related legal expenses of approximately $4 million.

R&D expenses decreased in the first quarter of fiscal 2006 from the prior year quarter primarily as a result of cost savings realized from the integration in fiscal 2005 of the MALDI TOF product line into the Applied Biosystems/MDS Sciex Instruments joint venture with MDS Inc.

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

Interest income, net increased during the first quarter of fiscal 2006 compared to the prior year quarter due to higher average interest rates and higher average cash and cash equivalents and short-term investments.

Other income (expense), net increased in the first quarter of fiscal 2006 primarily due to higher benefits associated with our foreign currency risk management program in comparison to the prior year quarter.

The effective tax rate decreased in the first quarter of fiscal 2006 compared to the prior year quarter primarily due to the previously discussed events impacting comparability, in particular, resolution of transfer pricing matters in Japan, recorded in the first quarter of fiscal 2006.

Applied Biosystems Group
Discussion of Financial Resources and Liquidity

The Applied Biosystems group had cash and cash equivalents and short-term investments of $617.7 million at September 30, 2005, and $756.2 million at June 30, 2005. We maintain a $200 million unsecured revolving credit agreement with four banks that matures on April 15, 2010, under which there were no borrowings outstanding at September 30, 2005. Cash provided by operating activities has been our primary source of funds over the last fiscal year.

We believe that existing funds, cash generated from operations, and existing sources of debt financing are more than adequate to satisfy the Applied Biosystems group s normal operating cash flow needs, planned capital expenditures, its share of funding of the Celera Diagnostics joint venture, dividends, and approved plan share repurchases for the next twelve months and for the foreseeable future.

We manage the investment of surplus cash and the issuance and repayment of short and long-term debt for the Applied Biosystems group and the Celera Genomics group on a centralized basis and allocate activity within these balances to the group that uses or generates such resources.

(Dollar amounts in millions)	June 30, 2005	September 30, 2005
Cash and cash equivalents	$ 756.2	**$ 575.8**
Short-term investments		**41.9**
Total cash and cash equivalents and short-term investments	$ 756.2	**$ 617.7**
Working capital	844.1	**728.4**

Cash and cash equivalents decreased from June 30, 2005, as cash expenditures for the repurchase of common stock, capital and other assets, purchases of available for sale investments, net of sales, the funding of the Celera Diagnostics joint venture, and the unfavorable impact of the exchange rate valuation on cash and cash equivalents exceeded cash generated from operating activities and the proceeds from stock issuances. Net cash flows of continuing operations for the first quarter ended September 30 were as follows:

(Dollar amounts in millions)	2004	2005
Net cash from operating activities	$ 39.5	**$ 50.5**
Net cash from investing activities	38.6	**(59.2)**
Net cash from financing activities	(4.4)	**(169.4)**
Effect of exchange rate changes on cash	4.3	**(2.3)**

Operating activities:
Net cash from operating activities of continuing operations for the first quarter of fiscal 2006 was $11.0 million higher than in the first quarter of fiscal 2005. This increase resulted primarily from: higher income related cash flows; the timing of royalty payments; and the timing of receipts on non-trade receivables and dividends and distributions from investments in unconsolidated subsidiaries. This increase was partially offset by the timing of vendor payments and a larger reduction in our severance and tax accrual balances in the first quarter of fiscal 2006 compared to the first quarter of fiscal 2005.

39

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

Also offsetting this increase was a higher increase in the inventory balance in fiscal 2006. The Applied Biosystems group s days sales outstanding was 60 days at September 30, 2005, 56 days at June 30, 2005, and 65 days at September 30, 2004. Inventory on hand was 3.2 months at September 30, 2005 compared to 2.4 months at June 30, 2005.

Investing activities:
Capital expenditures for the first three months of fiscal 2006, net of disposals, were $4.2 million higher than in the prior year quarter due primarily to the development of, and enhancements to, the Applied Biosystems Portal. The first three months of fiscal 2006 included significantly lower proceeds from sales of available for sale investments, net of purchases.

Financing activities:
The first quarter of fiscal 2005 included one dividend payment on Applera-Applied Biosystems stock. Dividends were declared but not paid in the first quarter of fiscal 2006. During the first three months of fiscal 2006, we repurchased 9.3 million shares of Applera-Applied Biosystems stock for $201.2 million. In the first quarter of fiscal 2006, we received higher proceeds from stock issued for stock plans than in the first quarter of fiscal 2005.

Celera Genomics Group

	Three Months Ended September 30,		
(Dollar amounts in millions)	**2004**	**2005**	**% Increase/ (Decrease)**
Net revenues	$ 9.6	**$ 2.1**	**(78.1)%**
Cost of sales	2.6	**0.7**	**(73.1)%**
R&D	23.6	**21.8**	**(7.6)%**
SG&A expenses	6.3	**6.6**	**4.8%**
Amortization of intangible assets	0.7	**0.7**	**%**
Employee-related charges, asset impairments and other	2.8		**(100.0)%**
Asset dispositions and legal settlements		**0.5**	
Operating loss	(26.4)	**(28.2)**	**6.8%**
Gain on investments, net		**4.5**	
Interest income, net	2.9	**5.3**	**82.8%**
Other income (expense), net	1.5		**(100.0)%**
Loss from joint venture	(9.3)	**(7.8)**	**(16.1)%**
Loss before income taxes	(31.3)	**(26.2)**	**(16.3)%**
Benefit for income taxes	11.0	**9.5**	**(13.6)%**
Net loss	$ (20.3)	**$ (16.7)**	**(17.7)%**
Effective income tax benefit rate	35%	**36%**	

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

The following table summarizes the impact of the previously described events impacting comparability included in the financial results for fiscal 2006 and 2005:

	Three Months Ended September 30,	
(Dollar amounts in millions)	**2004**	**2005**
Income (charge) included in income before income taxes	$ (4.5)	**$ 4.0**
Provision (benefit) for income taxes	(1.6)	**1.4**

The lower net loss in the first quarter of fiscal 2006 compared to the first quarter of fiscal 2005 primarily resulted from the impact of the previously described events impacting comparability; higher interest income, net; and lower R&D expenses; partially offset by lower net revenues.

Revenues decreased for the first quarter of fiscal 2006 compared to the prior year quarter primarily as a result of the expiration of Online/Information Business customer agreements. Under the terms of the marketing and distribution agreement between the Celera Genomics group and the Applied Biosystems group, the Celera Genomics group has not sought any new customers for its Celera Discovery System (CDS) and related information products and services since June 2002, and therefore, its revenues from these products and services have declined as expected. The CDS online platform is an integrated source of information based on the human genome and other biological and medical sources. Substantially all of the existing customer contracts terminated prior to June 30, 2005.

Cost of sales in the first quarter of fiscal 2005 included $1.7 million related to the impairment of Paracel inventory.

R&D expenses decreased in the first quarter of fiscal 2006 compared to the prior year quarter primarily due to the discontinuation of essentially all operations of the Online/Information Business.

SG&A expenses increased in the first quarter of fiscal 2006 compared to the first quarter of fiscal 2005 primarily due to higher legal and professional services and employee benefits, partially offset by lower expenses due to the discontinuation of most of the operations of Paracel.

Interest income, net increased during the first quarter of fiscal 2006 compared to the prior year period primarily due to higher average interest rates, partially offset by lower average cash and cash equivalents and short-term investments.

Other income, net for the first three months of fiscal 2005 included a non-recurring receipt of $1.0 million related to a financing activity for a non-strategic investment.

The increase in the effective income tax benefit rate for the first quarter of fiscal 2006 compared to the prior year quarter was primarily attributable to an increase in R&D credits.

Celera Genomics Group
Discussion of Financial Resources and Liquidity

The Celera Genomics group had cash and cash equivalents and short-term investments of $635.4 million at September 30, 2005, and $668.3 million at June 30, 2005. We maintain a $200 million unsecured revolving credit agreement with four banks that matures on April 15, 2010, under which there were no borrowings outstanding at September 30, 2005.

We believe that existing funds and existing sources of debt financing are more than adequate to satisfy the Celera Genomics group s normal operating cash flow needs, planned capital expenditures, and its share of funding of the Celera Diagnostics joint venture for the next twelve months and for the foreseeable future. However, if the Celera Genomics group is successful in its therapeutic programs, it may require additional funds to advance these programs through the regulatory process.

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

We manage the investment of surplus cash and the issuance and repayment of short and long-term debt for the Celera Genomics group and the Applied Biosystems group on a centralized basis and allocate activity within these balances to the group that uses or generates such resources.

(Dollar amounts in millions)	June 30, 2005	September 30, 2005
Cash and cash equivalents	$ 23.2	**$ 47.4**
Short-term investments	645.1	**588.0**
Total cash and cash equivalents and short-term investments	$ 668.3	**$ 635.4**
Working capital	635.9	**615.4**

Cash and cash equivalents increased from June 30, 2005, as proceeds from the sales and maturities of available for sale investments, net of purchases, and stock issuances exceeded the amount expended on operations, the funding of the Celera Diagnostics joint venture, and the purchase of capital assets. Net cash flows for the three months ended September 30 were as follows:

(Dollar amounts in millions)	2004	2005
Net cash from operating activities	$ (26.6)	**$ (29.9)**
Net cash from investing activities	48.6	**49.7**
Net cash from financing activities	(4.7)	**4.5**

Operating activities:
Net cash used by operating activities for the first three months of fiscal 2006 was $3.3 million higher than in the first three months of fiscal 2005. The higher use of cash resulted primarily from higher net cash operating losses, partially offset by lower working capital requirements in fiscal 2006. Working capital primarily benefited from a lower decrease in accounts payable and other liabilities due to the discontinuation of essentially all operations of the Online/Information Business, partially offset by higher severance and lease payments in the first quarter of fiscal 2006 compared to the first quarter of fiscal 2005.

Investing activities:
Net cash from investing activities for the first three months of fiscal 2006 increased from the first three months of fiscal 2005 due primarily to the proceeds received on the sale of a non-strategic investment in fiscal 2006. Partially offsetting the increase was lower proceeds received from the sales and maturities of available for sale investments, net of purchases, in the first quarter of fiscal 2006. The first quarter of fiscal 2005 included the maturation of non-callable U.S. government obligations pledged as collateral for the 8% senior secured convertible notes assumed in connection with the acquisition of Axys. A portion of the proceeds from the principal and interest received from these U.S. government obligations was used to fund the interest and principal payments under the notes.

Financing activities:
Net cash from financing activities for the first three months of fiscal 2006 increased from the first three months of fiscal 2005. During the first three months of fiscal 2005, we repaid the remaining $6 million principal amount of the convertible notes assumed in connection with the acquisition of Axys. In the first quarter of fiscal 2006, we received higher proceeds from stock issued for stock plans compared to the first quarter of fiscal 2005.

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

Celera Diagnostics

(Dollar amounts in millions)	Three Months Ended September 30, 2004	2005	% Increase/ (Decrease)
Net revenues	$ 9.2	**$ 7.1**	**(22.8)%**
Cost of sales	3.1	**3.7**	**19.4%**
R&D	12.4	**7.7**	**(37.9)%**
SG&A expenses	3.0	**3.3**	**10.0%**
Asset dispositions and legal settlements		**0.2**	
Operating loss	$ (9.3)	**$ (7.8)**	**(16.1)%**
Supplemental information			
Equalization revenue, net	$ 6.5	**$ 3.2**	
End-user alliance sales for all products sold primarily through Abbott Laboratories	12.9	**17.8**	

In June 2002, Celera Diagnostics and Abbott Laboratories announced a long-term strategic alliance to develop, manufacture and market a broad range of *in vitro* molecular diagnostic products, including third party products brought into the alliance.

Reported revenues decreased for the first quarter of fiscal 2006 in comparison to the same quarter last year primarily as a result of decreased equalization revenues from Abbott. Reported revenues differ from end-user sales and consist primarily of equalization payments from Abbott resulting from the profit and cost-sharing arrangement between Abbott and Celera Diagnostics and technology-related revenues. Fluctuation in equalization payments can lead to variability in reported revenues, gross margins and cash use from period to period due to differences in end-user sales of alliance products and operating expenses between the alliance partners. End-user alliance sales for all products sold primarily through Abbott increased for the first quarter of fiscal 2006 compared to the prior year quarter primarily due to increased sales of Hepatitis C Virus (HCV) genotyping and HCV viral load products, human leukocyte antigen (HLA) products, and the RealTi*m*e Human Immunodeficiency Virus (HIV) and HCV assays that run on the *m*2000 system that was recently launched in Europe.

R&D expenses decreased for the first quarter of fiscal 2006 compared to the prior year quarter due to enhanced operational efficiencies and the reimbursement by the Applied Biosystems group of some expenses incurred by Celera Diagnostics for research performed to assist the Applied Biosystems group in product development activities.

Market Risks

We performed a sensitivity analysis as of September 30, 2005. Assuming a hypothetical 10% adverse change in currency rates relative to the U.S. dollar as of September 30, 2005, we calculated a hypothetical after-tax loss of $18.4 million, as compared to a hypothetical after-tax loss of $13.8 million at June 30, 2005. Our analysis included the change in value of the derivative financial instruments, along with the impact of translation on foreign currency-denominated assets and liabilities. Our analysis excluded the impact of translation of foreign currency-denominated forecasted revenues and intercompany transactions. If currency rates actually change in a manner similar to the assumed change in the foregoing calculation, the hypothetical loss calculated would be more than offset by the recognition of higher U.S. dollar equivalent foreign revenues. Actual gains and losses in the future could, however, differ materially from this analysis, based on changes in the timing and amount of currency rate movements and actual exposures and hedges.

For further information on our market risks, please refer to the discussion contained in the management s discussion and analysis section of our 2005 Annual Report to Stockholders (which discussion is incorporated in this quarterly report by reference).

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

Outlook

Applied Biosystems Group

The Applied Biosystems group believes that its fiscal 2006 outlook and financial performance will be affected by, among other things: the introduction and adoption of new products; the level of commercial investments in life science R&D; the level of government funding for life science research; the outcome of pending litigation matters; competitive product introductions and pricing; purchasing patterns from large genome centers for DNA sequencing instruments and consumables; and the success of the Applied Biosystems group s expanded licensing program for PCR technology.

Subject to the inherent uncertainty associated with these factors, the Applied Biosystems group has the following expectations for fiscal 2006:

Despite the strengthening of the dollar since the Applied Biosystems group s Outlook statement in the 2005 Annual Report to Stockholders, at September 30, 2005 exchange rates, the Applied Biosystems group expects low to mid single digit revenue growth.

The Applied Biosystems group anticipates revenue growth in the Real-Time PCR/Applied Genomics and Mass Spectrometry product categories and a revenue decline in the Core PCR and DNA Synthesis category. Revenues are also expected to decline in the DNA Sequencing category despite the growth in first quarter of fiscal 2006 in this category. Revenues in the Other Product Lines Category are expected to approximately equal those in fiscal 2005.

Excluding the items that affect the comparability of both fiscal periods, the Applied Biosystems group expects EPS growth to increase at a rate above the fiscal 2006 revenue growth rate.

The Applied Biosystems group expects the effective tax rate to be approximately 29% versus our previous guidance of 30% reflecting higher than anticipated Canadian R&D tax credits. We continue to analyze certain tax strategies that could positively impact the rate. In addition, we anticipate that several outstanding tax matters may be resolved in our favor during fiscal 2006.

The Applied Biosystems group expects to complete its planned share repurchase program of up to a total of 10% of Applera-Applied Biosystems stock.

The Applied Biosystems group expects capital spending for fiscal 2006 to be in the range of $70-75 million.

The Applied Biosystems group expects the pre-tax impact of adopting SFAS No. 123R (accounting for stock based compensation) to be in the range of $6 7 million.

The Applied Biosystems group continues to develop a plan to repatriate cash balances held outside the U.S. during fiscal 2006 consistent with the repatriation provision of the American Jobs Creation Act of 2004.

Other risks and uncertainties that may affect the Applied Biosystems group s financial performance are detailed in the Forward-Looking Statements and Risk Factors section of this Report.

Celera Genomics Group

The Celera Genomics group believes that its fiscal 2006 financial performance will be influenced by, among other things, the success of its internal and external research and development programs and the financial performance of Celera Diagnostics. Additionally, the Celera Genomics group anticipates continuing to advance its small molecule pipeline and is seeking partners to maximize the value of this asset in the most cost effective manner. The Celera Genomics group also expects to continue its proteomics program and seek additional partners to maximize the therapeutic and pharmacogenomic value associated with this program. Subject to the inherent uncertainty associated with these factors, the Celera Genomics group has the following expectations regarding its financial performance for fiscal 2006:

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

Excluding the potential effects of the Celera Genomics group s partnering initiatives in fiscal 2006, net cash use for fiscal 2006 is expected to be approximately $90 to $100 million. This includes an anticipated $10 to $15 million in fiscal 2006 for the Celera Genomics group s portion of the funding for the Celera Diagnostics joint venture. Revenues are expected to be in the range of $5 to $10 million, which reflects the discontinuation of the Online/Information Business.

Excluding the potential effects of the Celera Genomics group s partnering initiatives in fiscal 2006, the Celera Genomics group anticipates R&D expenses to be in the range of $95 to $105 million, and SG&A expenses to be in the range of $25 to $30 million. Pre-tax losses related to the Celera Diagnostics joint venture are expected to be in the range of $19 to $23 million.

Other risks and uncertainties that may affect the Celera Genomics group s financial performance are detailed in the Forward-Looking Statements and Risk Factors section of this Report.

Celera Diagnostics

Celera Diagnostics anticipates that its fiscal 2006 financial performance will be affected by, among other things: continued growth in demand for current products, such as analyte specific reagents (ASRs) for cystic fibrosis and HCV; sales of new products for infectious disease testing on the *m*2000 system sold through the alliance with Abbott and others in development at Celera Diagnostics; and new alliance product sales for ASRs for Fragile X and other genetic diseases. Celera Diagnostics intends to continue advancing its genomic research and its medical utility studies to create value from diagnostic testing and, together with the Celera Genomics group, to seek partnerships to leverage proteomic capabilities to identify novel targets, pharmacogenomic markers and biomarkers. Subject to the inherent uncertainty associated with these factors, Celera Diagnostics has the following expectations regarding its financial performance for fiscal 2006:

For fiscal 2006, Celera Diagnostics anticipates pre-tax losses to be in the range of $19 to $23 million, and fiscal 2006 net cash use to be in the range of $25 to $30 million. Total end user sales for the alliance between Celera Diagnostics and Abbott are anticipated to be in the range of $80 to $90 million.

Other risks and uncertainties that may affect Celera Diagnostics financial performance are detailed in the Forward-Looking Statements and Risk Factors section of this Report.

Forward-Looking Statements and Risk Factors

Some statements contained in, or incorporated by reference in, this report are forward-looking. Similarly, the press releases we issue and other public statements we make from time to time may contain language that is forward-looking. These forward-looking statements may be identified by the use of forward-looking words or phrases such as forecast, believe, expect, intend, anticipate, should, plan, estimate, potential, among others. The forward-looking statements contained in this report are based on our current expectations, and those made at other times will be based on our expectations when the statements are made. We cannot guarantee that any forward-looking statements will be realized.

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, we note that a variety of factors could cause actual results and experience to differ materially from anticipated results or other expectations expressed in forward-looking statements. We also note that achievement of anticipated results or expectations in forward-looking statements is subject to the possibility that assumptions underlying forward-looking statements will prove to be inaccurate. Investors should bear this in mind as they consider forward-looking statements. The risks and uncertainties that may affect the operations, performance, development, and results of our business include, but are not limited to, those described below under the headings Factors Relating to the Applied Biosystems Group, Factors Relating to the Celera Genomics Group, and Factors Relating to Celera Diagnostics, a 50/50 Joint Venture between the Applied Biosystems Group and the Celera Genomics Group.

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

Also, we note that owners of Applera-Applied Biosystems stock and Applera-Celera Genomics stock are subject to risks arising from their ownership of common stock of a corporation with two separate classes of common stock. The risks and uncertainties that arise from our capital structure, particularly our two separate classes of common stock, include, but are not limited to, those described in Part II, Item 5 of our 2005 Annual Report on Form 10-K under the heading Forward-Looking Statements and Risk factors - Risks Relating to a Capital Structure with Two Separate Classes of Common Stock.

Factors Relating to the Applied Biosystems Group

Rapidly changing technology in life sciences could make the Applied Biosystems group s product line obsolete unless it continues to develop and manufacture new and improved products and services, and pursue new market opportunities. A significant portion of the net revenues for the Applied Biosystems group each year is derived from products and services that did not exist in the prior year. The Applied Biosystems group s products and services are based on complex technology which is subject to rapid change as new technologies are developed and introduced in the marketplace. The Applied Biosystems group s future success depends on its ability to continually improve its current products and services, develop and introduce, on a timely and cost-effective basis, new products and services that address the evolving needs of its customers, and pursue new market opportunities that develop as a result of technological and scientific advances in life sciences. These new market opportunities may be outside the scope of the group s proven expertise or in areas which have unproven market demand. For example, the Applied Biosystems group has committed significant resources to researching, developing, marketing, and distributing new products and services designed to integrate laboratory experimentation with relevant scientific information, and to new Internet web sites devoted to promoting the group s products and supporting customer research and development activities. These are emerging business areas for the Applied Biosystems group, and there can be no assurance that there will be market acceptance of the utility and value of these products and services. The inability to gain market acceptance of new products and services could adversely affect the group s future operating results. The group s future success also depends on its ability to manufacture these improved and new products to meet customer demand in a timely and cost-effective manner, including its ability to resolve in a timely manner manufacturing issues that may arise from time to time as the group commences production of these complex products. Unanticipated difficulties or delays in replacing existing products and services with new products and services or in manufacturing improved or new products in sufficient quantities to meet customer demand could adversely affect future demand for the group s products and services and its future operating results.

The Applied Biosystems group relies on third parties for the manufacture of some of its products and also for the supply of some components of the products it manufactures on its own. Although the Applied Biosystems group has contracts with most of these manufacturers and suppliers, there can be no assurance that their operations will not be disrupted. These disruptions could be caused by conditions unrelated to the business or operations of the Applied Biosystems group, including the bankruptcy of the manufacturer or supplier. For example, Delphi Medical Systems Texas Corporation, which supplies some instruments and parts to the group, recently filed a petition in the United States Bankruptcy Court seeking relief under the provisions of Chapter 11 of the federal Bankruptcy Code. As of the date of this report, the Applied Biosystems group does not know the effect of this filing, if any, on Delphi s or the group s operations. The Applied Biosystems group does not currently have alternative third party manufacturing or supply arrangements for some of the key products and key components manufactured or supplied by third parties. Although the Applied Biosystems group has its own manufacturing facilities, and believes it might be able to manufacture some of the products and components currently sourced from third parties, it also believes that it would take considerable time and resources to establish the capability to do so. Accordingly, if third party manufacturers or suppliers are unable or fail to fulfill their obligations to the Applied Biosystems group, the Applied Biosystems group might not be able to satisfy customer demand in a timely manner, and its business could be adversely affected.

A significant portion of sales depends on customers capital spending policies that may be subject to significant and unexpected decreases. A significant portion of the Applied Biosystems group s instrument product sales are capital purchases by its customers. The Applied Biosystems group s customers include pharmaceutical, environmental, research, biotechnology, and chemical companies, and the capital spending policies of these companies can have a significant effect on the demand for the Applied Biosystems group s products. These policies are based on a wide variety of factors, including the resources available to make purchases, the spending priorities among various types of research equipment,

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

and policies regarding capital expenditures during recessionary periods. Any decrease in capital spending or change in spending policies of these companies could significantly reduce the demand for the Applied Biosystems group s products.

A substantial portion of the Applied Biosystems group s sales is to customers at universities or research laboratories whose funding is dependent on both the amount and timing of funding from government sources. As a result, the timing and amount of revenues from these sources may vary significantly due to factors that can be difficult to forecast. Research funding for life science research has increased more slowly during the past several years compared to previous years and has declined in some countries, and some grants have been frozen for extended periods or otherwise become unavailable to various institutions, sometimes without advance notice. Budgetary pressures may result in reduced allocations to government agencies that fund research and development activities. If government funding necessary to purchase the Applied Biosystems group s products were to become unavailable to researchers for any extended period of time, or if overall research funding were to decrease, the business of the Applied Biosystems group could be adversely affected.

The Applied Biosystems group is currently, and could in the future be, subject to lawsuits, arbitrations, investigations, and other legal actions with private parties and governmental entities, particularly involving claims for infringement of patents and other intellectual property rights, and it may need to obtain licenses to intellectual property from others. The Applied Biosystems group believes that it has meritorious defenses against the claims currently asserted against it and intends to defend them vigorously. However, the outcome of legal actions is inherently uncertain, and the Applied Biosystems group cannot be sure that it will prevail in any of these actions. An adverse determination in some of the group s current legal actions, particularly the cases described below, could have a material adverse effect on our consolidated financial statements.

The Applied Biosystems group s products are based on complex, rapidly developing technologies. These products could be developed without knowledge of previously filed patent applications that mature into patents that cover some aspect of these technologies. In addition, because patent litigation is complex and the outcome inherently uncertain, the Applied Biosystems group s belief that its products do not infringe the technology covered by valid and enforceable patents could be successfully challenged by third parties. The Applied Biosystems group has from time to time been notified that it may be infringing patents and other intellectual property rights of others. Also, in the course of its business, the Applied Biosystems group may from time to time have access to confidential or proprietary information of third parties, and these parties could bring a claim against the Applied Biosystems group asserting that the Applied Biosystems group had misappropriated their technologies, which though not patented are protected as trade secrets, and had improperly incorporated such technologies into the Applied Biosystems group s products. Due to these factors, there remains a constant risk of intellectual property litigation and other legal actions, which could include antitrust claims, affecting the group. The Applied Biosystems group has been made a party to litigation and has been subject to other legal actions regarding intellectual property matters, which have included claims of violations of antitrust laws. Such actions currently include the legal proceedings described in the following paragraph, some of which, if determined adversely, could have a material adverse effect on the Applied Biosystems group. To avoid or settle legal claims, it may be necessary or desirable in the future to obtain licenses relating to one or more products or relating to current or future technologies, and the Applied Biosystems group cannot be assured that it will be able to obtain these licenses or other rights on commercially reasonable terms, or at all.

Several legal actions have been filed against us that could affect the intellectual property rights of the Applied Biosystems group and its products and services, including the following:

In response to claims by us against MJ Research, Inc., MJ Research filed counterclaims against us including, among others, allegations that we have licensed and enforced some polymerase chain reaction, or PCR, patents through anticompetitive conduct in violation of federal and state antitrust laws. These claims have been rejected as a result of a jury verdict and a series of summary judgment rulings by the court, but MJ Research has filed a notice of appeal. Subsequently, MJ Research filed a lawsuit against us based on the allegation that four patents underlying the Applied Biosystems group s DNA sequencing instruments were invalidly obtained because an alleged inventor, whose work was funded in part by the U.S. government, was knowingly omitted from the patent applications. MJ Research claims to be suing in the name of the U.S. government although the government has to date declined to participate in the lawsuit. The case was dismissed but the decision has been appealed by MJ Research.

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

Promega Corporation has filed a lawsuit against us alleging that the Applied Biosystems group, along with some other named defendants, is infringing two Promega patents due to the sale of forensic identification and paternity testing kits.

Beckman Coulter, Inc. has filed a lawsuit against us alleging that the Applied Biosystems group is infringing three Beckman Coulter patents. The allegedly infringing products are the Applied Biosystems group s capillary electrophoresis sequencing and genetic analysis instruments, and PCR and real-time PCR systems.

Genetic Technologies Limited has filed a lawsuit against us alleging that we are infringing two of its patents due to the sale of cystic fibrosis reagent kits, some of our TaqMan® genotyping and gene expression products and services, AmpFLSTR® kits, the SNPlex Genotyping System, the SNPbrowser tool, and the Celera Discovery System . Genetic Technologies has also alleged that haplotyping analysis performed by our businesses infringes these patents.

Enzo Biochem, Inc., Enzo Life Sciences, Inc., and Yale University have filed a lawsuit against us alleging that we are infringing six patents due to the sale of sequencing reagent kits, TaqMan® genotyping and gene expression assays, and the gene expression microarrays used with the Applied Biosystems group s Expression Array System.

Bio-Rad Laboratories, Inc. has filed a lawsuit against us alleging that we are infringing one of its patents due to our sale of instruments using, and reagents used for, capillary electrophoresis, and one of its trademarks due to our use of the BioCAD name.

Molecular Diagnostics Laboratories has filed a class action complaint against us and Hoffmann-La Roche, Inc. alleging anticompetitive conduct in connection with the sale of Taq DNA polymerase and PCR-related products. The anticompetitive conduct is alleged to arise from the prosecution and enforcement of U.S. Patent No 4,889,818. This patent is assigned to Hoffmann-La Roche, with whom we have a commercial relationship covering, among other things, this patent and the sale of Taq DNA polymerase.

In response to patent infringement claims made by us against Bio-Rad Laboratories, Inc., MJ Research, Inc. and Stratagene Corporation, Bio-Rad, MJ Research, and Stratagene have filed counterclaims seeking declaratory judgments that our U.S. Patent No. 6,814,934 in the field of real-time PCR is invalid and not infringed.

Thermo Finnigan LLC has filed a lawsuit against us alleging that we are infringing one of its patents as a result of, for example, the Applied Biosystems group s commercialization of the ABI PRISM 3700 Genetic Analyzer.

These cases are described in further detail in Part I, Item 3, of our 2005 Annual Report on Form 10-K under the heading Legal Proceedings Commercial Litigation, as updated by the information in Part II, Item 1 of this report. The cost of litigation and the amount of management time associated with these cases is expected to be significant. There can be no assurance that these matters will be resolved favorably; that we will not be enjoined from selling the products or services in question or other products or services as a result; or that any monetary or other damages assessed against us will not have a material adverse effect on the financial condition of our company, the Applied Biosystems group, the Celera Genomics group, or Celera Diagnostics.

The Applied Biosystems group may become involved in legal proceedings to enforce its intellectual property rights. The intellectual property rights of biotechnology companies, including the Applied Biosystems group, involve complex factual, scientific, and legal questions. Even though the Applied Biosystems group may believe that it has a valid patent on a particular technology, other companies have from time to time taken, and may in the future take, actions that the Applied Biosystems group believes violate its patent rights. Although the Applied Biosystems group has licensing programs to provide industry access to some of its patent rights, other companies have in the past refused to participate in these licensing programs and companies may refuse to participate in them in the future, resulting in a loss of potential licensing revenue. Legal actions to enforce these patent rights can be expensive and may involve the diversion of significant management time. In addition, these legal actions could be unsuccessful and could also result in the invalidation of some of the Applied Biosystems group s intellectual property rights.

Since the Applied Biosystems group s business is dependent on foreign sales, fluctuating currencies will make revenues and operating results more volatile. Approximately 55% of the Applied Biosystems group s net revenues for our 2005

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

fiscal year were derived from sales to customers outside of the U.S. The majority of these sales were based on the relevant customer s local currency. A significant portion of the related costs for the Applied Biosystems group are based on the U.S. dollar. As a result, the Applied Biosystems group s reported and anticipated operating results and cash flows are subject to fluctuations due to material changes in foreign currency exchange rates that are beyond the Applied Biosystems group s control.

The future growth of the Applied Biosystems group depends in part on its ability to acquire complementary technologies through acquisitions, investments, or other strategic relationships or alliances, which may absorb significant resources, may be unsuccessful, and could dilute holders of Applera-Applied Biosystems stock. Acquisitions, investments and other strategic relationships and alliances, if pursued, may involve significant cash expenditures, debt incurrence, and expenses that could have a material effect on the Applied Biosystems group s financial condition and operating results. If these types of transactions are pursued, it may be difficult for the Applied Biosystems group to complete these transactions quickly and to integrate these acquired operations efficiently into its current business operations. Potential technological advances resulting from the integration of technologies may not be achieved as successfully or rapidly as anticipated, if at all. Any acquisitions, investments or other strategic relationships and alliances by the Applied Biosystems group may ultimately have a negative impact on its business and financial condition. In addition, future acquisitions may not be as successful as originally anticipated and may result in impairment charges. We have incurred these charges in recent years in relation to acquisitions. For example, we incurred charges for impairment of goodwill, intangibles and other assets and other charges in the amounts of $69.1 million during our 2001 fiscal year, $25.9 million during our 2002 fiscal year, and $4.5 million during our 2005 fiscal year in relation to the Celera Genomics group s acquisition of Paracel, Inc. Similarly, we incurred charges for the impairment of patents and acquired technology in the amount of $14.9 million during our 2004 fiscal year in relation to the Applied Biosystems group s acquisition of Boston Probes, Inc. In addition, acquisitions and other transactions may involve the issuance of a substantial amount of Applera-Applied Biosystems stock without the approval of the holders of Applera-Applied Biosystems stock. Any issuances of this nature could be dilutive to holders of Applera-Applied Biosystems stock.

The Applied Biosystems group s businesses, particularly those focused on developing and marketing information-based products and services, depend on the continuous, effective, reliable, and secure operation of its computer hardware, software, and Internet applications and related tools and functions. The Applied Biosystems group s business requires manipulating and analyzing large amounts of data, and communicating the results of the analysis to its internal research personnel and to its customers via the Internet. Also, the Applied Biosystems group relies on a global enterprise software system to operate and manage its business. The Applied Biosystems group s business therefore depends on the continuous, effective, reliable, and secure operation of its computer hardware, software, networks, Internet servers, and related infrastructure. To the extent that the Applied Biosystems group s hardware or software malfunctions or access to the Applied Biosystems group s data by internal research personnel or customers through the Internet is interrupted, the Applied Biosystems group s business could suffer.

The Applied Biosystems group s computer and communications hardware is protected through physical and software safeguards. However, it is still vulnerable to fire, storm, flood, power loss, earthquakes, telecommunications failures, physical or software break-ins, software viruses, and similar events. In addition, the Applied Biosystems group s online products and services are complex and sophisticated, and as such, could contain data, design, or software errors that could be difficult to detect and correct. Software defects could be found in current or future products. If the Applied Biosystems group fails to maintain and further develop the necessary computer capacity and data to support its computational needs and its customers access to information-based product and service offerings, it could experience a loss of or delay in revenues or market acceptance. In addition, any sustained disruption in Internet access provided by third parties could adversely affect the Applied Biosystems group.

The Applied Biosystems group s operations involve the use, manufacture, sale, and distribution of hazardous materials, and the mishandling of these hazardous materials could result in substantial liabilities and harm to Applied Biosystems. The Applied Biosystems group s research and development and manufacturing activities involve the controlled use of potentially hazardous materials, including biological materials, chemicals, and various radioactive compounds. Also, some of the Applied Biosystems group s products are hazardous materials or include hazardous materials. The Applied Biosystems group cannot completely eliminate the risk of accidental or other contamination or injury from these materials, and the Applied Biosystems group could be held liable for resulting damages, which could be substantial.

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

Under some laws and regulations, a party can be subject to strict liability for damages caused by some hazardous materials, which means that a party can be liable without regard to fault or negligence. In addition, the Applied Biosystems group is subject to federal, state, local, and foreign laws, regulations, and permits governing the use, storage, handling, and disposal of hazardous materials and specified waste products, as well as the shipment and labeling of materials and products containing hazardous materials. If the Applied Biosystems group fails to comply with any of these laws, regulations, or permits, we could be subject to substantial fine or penalty, payment of remediation costs, loss of permits, and/or other adverse governmental action. Any of these events could have a material adverse effect on the Applied Biosystems group s business and financial condition.

Earthquakes could disrupt operations in California. The headquarters and principal operations of the Applied Biosystems group are located in the San Francisco Bay area, a region near major California earthquake faults. The ultimate impact of earthquakes on the Applied Biosystems group, its significant suppliers, and the general infrastructure is unknown, but operating results could be materially affected in the event of a major earthquake.

Applera-Applied Biosystems stock price may be volatile. The market price of Applera-Applied Biosystems stock has in the past been and may in the future be volatile due to the risks and uncertainties described in this section of this report, as well as other factors that may have affected or may in the future affect the market price, such as:

- conditions and publicity regarding the genomics, biotechnology, pharmaceutical, or life sciences industries generally;
- price and volume fluctuations in the stock market at large which do not relate to Applied Biosystems operating performance; and
- comments by securities analysts or government officials, including with regard to the viability or profitability of the biotechnology sector generally or with regard to intellectual property rights of life science companies, or the Applied Biosystems group s ability to meet market expectations.

The stock market has from time to time experienced extreme price and volume fluctuations that are unrelated to the operating performance of particular companies. In the past, companies that have experienced volatility have sometimes been the subjects of securities class action litigation. If litigation was instituted on this basis, it could result in substantial costs and a diversion of management s attention and resources.

Factors Relating to the Celera Genomics Group

The Celera Genomics group has incurred net losses to date and may not achieve profitability. The Celera Genomics group has accumulated net losses of approximately $811 million as of September 30, 2005, and expects that it will continue to incur net losses for the foreseeable future. These cumulative losses are expected to increase as the Celera Genomics group continues to make investments in new technology and product development, including its investments in the discovery and development of therapeutic products, as well as investments in diagnostics through Celera Diagnostics, its joint venture with the Applied Biosystems group. The Celera Genomics group will record all initial cash operating losses of Celera Diagnostics up to a maximum of $300 million, after which any additional operating losses would be shared equally by the Celera Genomics group and the Applied Biosystems group. However, the Applied Biosystems group reimburses the Celera Genomics group for all tax benefits generated by Celera Diagnostics to the extent such tax benefits are used by the Applied Biosystems group, and the effect of recording Celera Diagnostics operating losses on the Celera Genomics group s net losses will be partially offset by this reimbursement. Celera Diagnostics has accumulated cash operating losses of approximately $154 million as of September 30, 2005. As an early stage business, the Celera Genomics group faces significant challenges in expanding its business operations into the discovery and development of therapeutic products. As a result, there is a high degree of uncertainty that the Celera Genomics group will be able to achieve profitable operations.

The marketing and distribution agreement with the Applied Biosystems group may not generate significant royalty payments. The Applied Biosystems group became the exclusive distributor of the Celera Genomics group s human genomic and other biological and medical information under the terms of a marketing and distribution agreement that was effective in April 2002, the term of which was originally ten years but which was extended to 15 years in February 2005. Under the terms of that agreement, the Applied Biosystems group is obligated to pay a royalty to the Celera Genomics

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

group based on sales of some products sold by the Applied Biosystems group on and after July 1, 2002. The Applied Biosystems group has not guaranteed any minimum royalty payments to the Celera Genomics group. The actual amount of royalty payments to be paid to the Celera Genomics group depends on the Applied Biosystems group s ability to successfully commercialize the products subject to the royalty, and sales of these products may not meet expectations. Such sales will depend on several factors that are not controlled by the Celera Genomics group, including general market conditions, customer acceptance, and the efforts of the Applied Biosystems group.

The Celera Genomics group s ability to develop and commercialize proprietary therapeutic products is unproven and several of its programs rely on the use of novel discovery methods. As the Celera Genomics group expands its business operations in the area of therapeutic product discovery and development, it faces the difficulties inherent in developing and commercializing these products. It is possible that the Celera Genomics group s discovery and development efforts will not result in any commercial products. Furthermore, the Celera Genomics group is seeking to identify novel methods of treating disease through the use of technology in the field of proteomics, the study of proteins. The Celera Genomics group is also seeking to capitalize on its relationship with Celera Diagnostics by incorporating novel findings arising from Celera Diagnostics disease association studies into its research. The Celera Genomics group is using the results of studies performed by Celera Diagnostics on its own behalf and also studies performed specifically for the Celera Genomics group. To our knowledge, neither of these approaches to therapeutic product discovery and development has to date been effectively used to develop a therapeutic product that has been commercialized, and therefore the potential benefit to the Celera Genomics group of its use of proteomics technology and Celera Diagnostics disease association studies is unknown. Also, Celera Diagnostics is not obligated to continue performing disease association studies on its own or on the Celera Genomics group s behalf, and if Celera Diagnostics discontinues performing these studies the Celera Genomics group s business and scientific plan could be adversely affected.

For some of the Celera Genomics group s research and product development programs, particularly its proteomics efforts, the Celera Genomics group needs access to human and other tissue samples from diseased and healthy individuals, other biological materials, and related clinical and other information, which may be in limited supply. The Celera Genomics group may not be able to obtain or maintain access to these materials and information on acceptable terms, or may not be able to obtain needed consents from individuals providing tissue or other samples. In addition, government regulation in the U.S. and foreign countries could result in restricted access to, or use of, human and other tissue samples. If the Celera Genomics group loses access to sufficient numbers or sources of tissue samples or other required biological materials, or if tighter restrictions are imposed on the use of related clinical or other information or information generated from tissue samples or other biological materials, these research and development programs and the Celera Genomics group s business could be adversely affected.

Therapeutic product candidates may never result in a commercialized product. All of the Celera Genomics group s therapeutic product candidates are in various stages of research and development and will require significant additional research and development efforts by the Celera Genomics group or its collaborators before they can be marketed. These efforts include extensive preclinical and clinical testing and lengthy regulatory review for approval by the U.S. Food and Drug Administration and comparable agencies in other countries. The Celera Genomics group s development of therapeutic products is highly uncertain and subject to a number of significant risks. To date, the Celera Genomics group has not commercialized any therapeutic product and the Celera Genomics group does not expect any of its therapeutic product candidates to be commercially available for a number of years, if ever. Therapeutic product candidates that appear to be promising at early stages of development may not be developed into commercial products, or may not be successfully marketed, for a number of reasons, including:

- the Celera Genomics group or its collaborators may not successfully complete research and development efforts;
- the Celera Genomics group or its collaborators may not successfully build the necessary preclinical and clinical development organizations;
- any therapeutic product candidates that the Celera Genomics group or its collaborators develop may be found during preclinical testing or clinical trials to be ineffective or to cause harmful side effects;
- the Celera Genomics group or its collaborators may fail to obtain required regulatory approvals for products they develop;

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

the Celera Genomics group or its collaborators may be unable to manufacture enough of any potential products at an acceptable cost and with appropriate quality;
the Celera Genomics group or its collaborators may fail to build necessary distribution channels;
the Celera Genomics group s or its collaborators products may not be competitive with other existing or future products;
adequate reimbursement for the Celera Genomics group s or its collaborators products may not be available to healthcare providers and patients from the government or insurance companies; and
the Celera Genomics group or its collaborators may be unable to obtain necessary intellectual property protection, or third parties may own proprietary rights that prevent the Celera Genomics group or its collaborators from commercializing their products.

If the Celera Genomics group fails to maintain its existing collaborative relationships and enter into new collaborative relationships, or if collaborators do not perform under collaboration agreements, development of its therapeutic product candidates could be delayed. The Celera Genomics group s strategy for the discovery, development, clinical testing, manufacturing and/or commercialization of most of its therapeutic product candidates includes entering into collaborations with partners. Although the Celera Genomics group has expended, and continues to expend, time and money on internal research and development programs, it may be unsuccessful in creating therapeutic product candidates that would enable it to form additional collaborations and receive milestone and/or royalty payments from collaborators.

Each of the Celera Genomics group s existing collaboration agreements may be canceled under some circumstances. In addition, the amount and timing of resources to be devoted to research, development, clinical trials and commercialization activities by the Celera Genomics group s collaborators are not within the Celera Genomics group s control. The Celera Genomics group cannot ensure that its collaborators will perform their obligations as expected. If any of the Celera Genomics group s collaborators terminate their agreements or otherwise fail to conduct their collaborative activities in a timely manner, the development or commercialization of therapeutic products may be delayed or otherwise adversely affected. If in some cases the Celera Genomics group assumes responsibilities for continuing programs on its own after termination of a collaboration, the Celera Genomics group may be required to devote additional resources to product development and commercialization or the Celera Genomics group may need to cancel some development programs.

If the Celera Genomics group or its collaborators fail to satisfy regulatory requirements for any therapeutic product candidate, the Celera Genomics group or its collaborators will be unable to complete the development and commercialization of that product. The Celera Genomics group is currently developing its internal capability to move potential products through clinical testing, manufacturing and the approval processes of the U.S. Food and Drug Administration, and comparable agencies in other countries. In the U.S., either the Celera Genomics group or its collaborators must show through pre-clinical studies and clinical trials that each of the Celera Genomics group s or its collaborators therapeutic product candidates is safe and effective in humans for each indication before obtaining regulatory approval from the FDA for the commercial sale of that product. Outside of the U.S., the regulatory requirements for commercialization vary from country to country. If the Celera Genomics group or its collaborators fail to adequately show the safety and effectiveness of a therapeutic product, regulatory clearance or approval could be delayed or denied. The regulatory review and approval process can take many years and require substantial expense and may not be successful.

Even if the Celera Genomics group or its collaborators obtain regulatory clearance or approval for a particular therapeutic product, that product will be subject to risks and uncertainties relating to regulatory compliance, including post-approval clinical studies and inability to meet the compliance requirements of the FDA s Good Manufacturing Practices regulations. In addition, identification of some adverse side effects after a therapeutic product is on the market or the occurrence of manufacturing problems could cause subsequent suspension of product manufacture or withdrawal of approval, or could require reformulation of a therapeutic product, additional testing, or changes in labeling of the product. This could delay or prevent the Celera Genomics group from generating revenues from the sale of that therapeutic product.

Clinical trials may not be successful. Numerous unforeseen events during, or as a result of, clinical testing could delay or prevent commercialization of the Celera Genomics group s or its collaborators therapeutic product candidates. Many companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in advanced clinical

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

trials, even after promising results in earlier studies. The results from pre-clinical studies may be different from the results that are obtained in clinical trials. Factors that could affect the success of clinical trials include:

- The Celera Genomics group s or its collaborators product candidates may not prove to be efficacious or may cause unacceptable toxicity or other harmful side effects;
- negative or inconclusive clinical trial results may require the Celera Genomics group or its collaborators to conduct further testing or to abandon projects that appeared promising in preliminary studies;
- registration or enrollment of patients or other volunteer participants in the Celera Genomics group s or its collaborators clinical testing may be lower than anticipated, resulting in delay or cancellation of clinical testing; and
- regulators or institutional review boards may prevent, delay, suspend, or terminate clinical research for various reasons, including noncompliance with regulatory requirements or their determination that participating patients or other volunteers are being exposed to unacceptable health risks.

If any of these events were to occur, significant delays in or termination of the Celera Genomics group s or its collaborators clinical testing may result. The Celera Genomics group has limited experience in conducting clinical trials and may not be able to rapidly or effectively continue the further development of its product candidates and meet current or future requirements, if any, identified by the U.S. Food and Drug Administration. Furthermore, clinical trials planned by the Celera Genomics group or its collaborators may not begin on time, may not be completed on schedule, or at all, or may not be sufficient for registration of the candidate compounds or to result in approvable products. Also, the Celera Genomics group s or its collaborators research and clinical testing of their therapeutic product candidates may be delayed or abandoned if they later discover other compounds that show significantly improved safety or efficacy compared to the current product candidates. Any of the foregoing events could limit the Celera Genomics group s ability to generate revenues, cause the Celera Genomics group to incur additional expenses, and adversely affect the Celera Genomics group s financial results.

Clinical trials may take several years or more and can be very expensive. The length of time for clinical trials generally varies substantially according to the type, complexity, novelty, and intended use of a product candidate. The duration and costs of clinical trials may vary significantly over the life of a project as a result of factors relating to the trial, including, among others:

- the number of patients or other volunteers that ultimately participate in the trial;
- the duration of participant follow-up that is appropriate in view of the results;
- the number of clinical sites included in the trials; and
- the length of time required to enroll suitable participants.

The Celera Genomics group relies on other companies to conduct clinical trials. The Celera Genomics group does not have the ability to independently conduct clinical trials for its therapeutic product candidates, and must rely on other companies, such as contract research organizations, medical institutions, clinical investigators, and contract laboratories to conduct clinical trials. If these other companies do not successfully perform their contractual duties or regulatory obligations or meet expected deadlines, if the other companies need to be replaced, or if the quality or accuracy of the data they obtain is compromised due to the failure to adhere to the Celera Genomics group s clinical protocols or regulatory requirements or for other reasons, the Celera Genomics group s product development activities and clinical trials may be extended, delayed, suspended, or terminated.

The Celera Genomics group relies on suppliers for materials needed to manufacture compounds for clinical trials. The Celera Genomics group relies on other companies to manufacture compounds that will be tested in the Celera Genomics group s clinical trials. These manufacturers need access to raw materials to manufacture those compounds, and the Celera Genomics group is responsible for obtaining some of these raw materials from suppliers. Suppliers may not sell these materials at the time when they are needed or on commercially reasonable terms. If it becomes necessary to change suppliers for any of these materials or if any of suppliers of these materials experience a shutdown or disruption in their facilities used to produce these materials, due to technical, regulatory, or other problems, it could adversely affect a manufacturer s ability to manufacture adequate quantities of the Celera Genomics group s compounds. If the Celera Genomics group or its manufacturers are unable to obtain the materials needed for the manufacture of compounds used in

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

the Celera Genomics group s clinical trials, product testing and potential regulatory approval could be delayed, adversely impacting the Celera Genomics group s ability to develop the product candidates.

The Celera Genomics group relies on other companies to manufacture its therapeutic product candidates. The Celera Genomics group currently does not have manufacturing capabilities or experience necessary to produce materials in amounts sufficient for pre-clinical toxicology testing or clinical trials, including its cathepsin S and HDAC inhibitors, both in Phase I clinical trials. As a result, the Celera Genomics group must rely on other companies to produce the Celera Genomics group s compounds for pre-clinical toxicology testing and clinical trials. These manufacturers must comply with applicable regulatory requirements, including the U.S. Food and Drug Administration s current Good Manufacturing Practices, or GMP, regulations. The Celera Genomics group s current and anticipated future dependence upon these manufacturers may adversely affect the Celera Genomics group s ability to develop and commercialize therapeutic products on a timely and competitive basis. These manufacturers may not be able to produce material on a timely basis or manufacture material at the quality level or in the quantity required to meet the Celera Genomics group s development timelines and applicable regulatory requirements, including the GMP regulations, other applicable FDA regulatory requirements, or similar regulations applicable outside of the U.S. The Celera Genomics group may not be able to maintain or renew its existing manufacturing arrangements, or enter into new arrangements, on a timely basis on commercially acceptable terms, or at all. The Celera Genomics group s manufacturers could terminate or decline to renew the Celera Genomics group s arrangements based on their own business priorities, at a time that is costly or inconvenient for the Celera Genomics group. If the Celera Genomics group is unable to contract on a timely basis for the production of materials in sufficient quantity and of sufficient quality on commercially acceptable terms, the Celera Genomics group s pre-clinical work or clinical trials may be delayed or prevented. Additionally, if the Celera Genomics group is required to enter into new manufacturing arrangements, it may not be able to obtain approval from the FDA of any alternate manufacturer in a timely manner, or at all, which could delay or prevent the clinical development and commercialization of any related product candidates.

The Celera Genomics group s collaborations with outside experts may be subject to restriction and change. The Celera Genomics group collaborates with scientific and clinical experts at academic and other institutions that provide assistance and guidance to the Celera Genomics group s research and development efforts. These advisors and collaborators are not the Celera Genomics group s employees and may have other commitments that limit their availability to the Celera Genomics group. Although they generally agree not to do competing work, if a conflict of interest arises between their work for the Celera Genomics group and their work for another entity, the Celera Genomics group may lose the services of these experts. In addition, although the Celera Genomics group s advisors and collaborators sign agreements not to disclose the Celera Genomics group s confidential information, it is possible that valuable proprietary knowledge may become publicly known or otherwise available to other parties, including the Celera Genomics group s competitors, through them.

The pharmaceutical industry is intensely competitive and evolving. There is intense competition among pharmaceutical and biotechnology companies attempting to discover candidates for potential new therapeutic products. These companies may:

- develop new therapeutic products in advance of the Celera Genomics group or its collaborators;
- develop therapeutic products which are more effective as therapeutics, or more cost-effective than those developed by the Celera Genomics group or its collaborators;
- obtain regulatory approvals of their therapeutic products more rapidly than the Celera Genomics group or its collaborators; or
- obtain patent protection or other intellectual property rights that would limit the ability of the Celera Genomics group or its collaborators to develop and commercialize therapeutic products.

Introduction of new products may expose the Celera Genomics group to product liability claims. New products developed by the Celera Genomics group or its collaborators could expose the Celera Genomics group to potential product liability risks that are inherent in the testing, manufacturing, marketing, and sale of human therapeutic products. Product liability claims or product recalls, regardless of the ultimate outcome, could require the Celera Genomics group to spend significant time and money in litigation and to pay significant damages. Although the Celera Genomics group expects to seek and maintain product liability insurance to cover claims relating to the testing and use of therapeutic

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

products, there can be no assurance that such insurance will be available on commercially reasonable terms, if at all, or that the amount of coverage obtained will be adequate to cover losses from any particular claim.

Therapeutics discovery and development is a highly technical field and there is a competitive market for personnel with the expertise needed for the expansion of the Celera Genomics group s business operations within this field. The Celera Genomics group believes that in order to develop and commercialize therapeutic products, it will need to continue to recruit and retain scientific and management personnel having specialized training and/or advanced degrees, or otherwise having the technical background, necessary for an understanding of therapeutic products. There is a shortage of qualified scientific and management personnel who possess this technical background. The Celera Genomics group competes for these personnel with other pharmaceutical and biotechnology companies, academic institutions and government entities. If the Celera Genomics group is unable to retain and attract qualified scientific and management personnel, the growth of the group s business operations in the area of therapeutic product discovery and development could be delayed or curtailed.

The Celera Genomics group could incur liabilities relating to hazardous materials that it uses in its research and development activities. The Celera Genomics group s research and development activities involve the controlled use of potentially hazardous materials, including biological materials, chemicals, and various radioactive compounds. The Celera Genomics group cannot completely eliminate the risk of accidental or other contamination or injury from these materials, and the Celera Genomics group could be held liable for resulting damages, which could be substantial. Under some laws and regulations, a party can be subject to strict liability for damages caused by some hazardous materials, which means that a party can be liable without regard to fault or negligence. In addition, the Celera Genomics group is subject to federal, state, local, and foreign laws, regulations, and permits governing the use, storage, handling, and disposal of hazardous materials and specified waste products. If the Celera Genomics group fails to comply with any of these laws, regulations, or permits, we could be subject to substantial fine or penalty, payment of remediation costs, loss of permits, and/or other adverse governmental action. Any of these events could have a material adverse effect on the Celera Genomics group s business and financial condition.

The Celera Genomics group s business depends on the continuous, effective, reliable, and secure operation of its computer hardware, software, and Internet applications and related tools and functions. The Celera Genomics group s business requires manipulating and analyzing large amounts of data, and communicating the results of the analysis to its internal research personnel via the Internet. Also, the Celera Genomics group relies on a global enterprise software system to operate and manage its business. The Celera Genomics group s business therefore depends on the continuous, effective, reliable, and secure operation of its computer hardware, software, networks, Internet servers, and related infrastructure. To the extent that the Celera Genomics group s hardware or software malfunctions or access to the Celera Genomics group s data by the Celera Genomics group s internal research personnel through the Internet is interrupted, the group s business could suffer.

The Celera Genomics group s computer and communications hardware is protected through physical and software safeguards. However, it is still vulnerable to fire, storm, flood, power loss, earthquakes, telecommunications failures, physical or software break-ins, software viruses, and similar events. If the Celera Genomics group fails to maintain and further develop the necessary computer capacity and data to support its therapeutic products discovery and development programs, it could experience a loss of or delay in revenues. In addition, any sustained disruption in Internet access provided by third parties could adversely affect the Celera Genomics group s business.

The Celera Genomics group s competitive position depends on maintaining its intellectual property protection. The Celera Genomics group s ability to compete and to achieve and maintain profitability depends, in part, on its ability to protect its proprietary discoveries and technologies through obtaining and enforcing patent rights, obtaining copyright protection, maintaining its trade secrets, and operating without infringing the intellectual property rights of others. The Celera Genomics group s ability to obtain patent protection for the inventions it makes is uncertain. The patentability of biotechnology and pharmaceutical inventions involves complex factual, scientific, and legal questions. As a result, it is difficult to predict whether patents will issue or the breadth of claims that will be allowed in biotechnology and pharmaceutical patents. This may be particularly true with regard to the patenting of gene sequences, gene functions, and genetic variations. In this regard, the U.S. Patent and Trademark Office has adopted guidelines for use in the review of the utility of inventions, particularly biotechnology inventions. These guidelines increased the amount of evidence

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

required to demonstrate utility in order to obtain a patent in the biotechnology field, making patent protection more difficult to obtain. Also, the Celera Genomics group cannot ensure that changes in policies or to laws, or interpretations of these policies or laws, relevant to the patenting of biotechnology and pharmaceutical inventions will not adversely affect its patent position in the U.S. or other countries. Opposition to the protection of these inventions in the U.S. or other countries could result in stricter standards for obtaining or enforcing biotechnology or pharmaceutical patent rights.

In some instances, patent applications in the U.S. are maintained in secrecy until a patent issues. In most instances, the content of U.S. and international patent applications is made available to the public approximately 18 months after the initial filing from which priority is claimed. As a result, the Celera Genomics group cannot be certain that others have not filed patent applications for inventions covered by the Celera Genomics group s patent applications or that the Celera Genomics group inventors were the first to make the invention. Accordingly, the Celera Genomics group s patent applications may be preempted or the Celera Genomics group may have to participate in interference proceedings before the U.S. Patent and Trademark Office. These proceedings determine the priority of invention and the right to a patent for the claimed invention in the U.S.

The Celera Genomics group may be dependent on protecting its proprietary databases through copyright law to prevent other organizations from taking information from those databases and copying and reselling it. Copyright law currently provides uncertain protection regarding the copying and resale of factual data. Changes in copyright law could either expand or reduce the extent to which the Celera Genomics group and its customers are able to protect their intellectual property. Accordingly, the Celera Genomics group is uncertain as to whether it can prevent such copying or resale through copyright law.

The Celera Genomics group also relies on trade secret protection for its confidential and proprietary information and procedures, including procedures related to sequencing genes and to searching and identifying important regions of genetic information. The Celera Genomics group protects its trade secrets through recognized practices, including access control, confidentiality and nonuse agreements with employees, consultants, collaborators and customers, and other security measures. These confidentiality and nonuse agreements may be breached, however, and the Celera Genomics group may not have adequate remedies for a breach. In addition, the Celera Genomics group s trade secrets may otherwise become known or be independently developed by competitors. Accordingly, it is uncertain whether the Celera Genomics group s reliance on trade secret protection will be adequate to safeguard its confidential and proprietary information and procedures.

Disputes may arise in the future with regard to the ownership of rights to any invention developed with collaborators. These and other possible disagreements with collaborators could lead to delays in the achievement of milestones or receipt of royalty payments or in research, development and commercialization of the Celera Genomics group s products. In addition, these disputes could require or result in lawsuits or arbitration. Lawsuits and arbitration are time-consuming and expensive. Even if the Celera Genomics group wins, the cost of these proceedings could adversely affect its business, financial condition and operating results.

The Celera Genomics group may infringe the intellectual property rights of third parties, may become involved in expensive intellectual property legal proceedings, and may need to obtain licenses to intellectual property from others. There has been substantial litigation and other legal proceedings regarding patents and other intellectual property rights in the biotechnology, pharmaceutical, and diagnostic industries. The intellectual property rights of biotechnology companies, including the Celera Genomics group, are generally uncertain and involve complex factual, scientific, and legal questions. The Celera Genomics group s success in therapeutic product discovery and development may depend, in part, on its ability to operate without infringing the intellectual property rights of others and to prevent others from infringing its intellectual property rights.

The Celera Genomics group may initiate proceedings at the U.S. Patent and Trademark Office to determine its patent rights with respect to third parties, referred to as interference proceedings. Also, the Celera Genomics group may initiate patent litigation to enforce its patent rights or invalidate patents held by third parties. These legal actions may similarly be initiated against the Celera Genomics group by third parties alleging that the Celera Genomics group is infringing their rights. The cost to the Celera Genomics group of any patent litigation or proceedings, even if the Celera Genomics group is successful, could be substantial, and these legal actions may absorb significant management time.

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

If infringement claims against the Celera Genomics group are resolved unfavorably to the Celera Genomics group, the Celera Genomics group may be enjoined from manufacturing or selling its products or services without a license from a third party, and the Celera Genomics group may not be able to obtain a license on commercially acceptable terms, or at all. Also, the Celera Genomics group could become subject to significant liabilities to third parties if these claims are resolved unfavorably to the Celera Genomics group.

Ethical, legal, and social issues related to the use of genetic information and genetic testing may cause less demand for the Celera Genomics group s products. Genetic testing has raised issues regarding confidentiality and the appropriate uses of the resulting information. For example, concerns have been expressed regarding the use of genetic test results by insurance carriers or employers to discriminate on the basis of this information, resulting in barriers to the acceptance of genetic tests by consumers. This could lead to governmental authorities calling for limits on or regulation of the use of genetic testing or prohibiting testing for genetic predisposition to some diseases, particularly those that have no known cure. Any of these scenarios could reduce the potential markets for products of the Celera Genomics group.

The Celera Genomics group may pursue acquisitions, investments, or other strategic relationships or alliances, which may consume significant resources, may be unsuccessful, and could dilute the holders of Applera-Celera Genomics stock. Acquisitions, investments and other strategic relationships and alliances, if pursued, may involve significant cash expenditures, debt incurrence, additional operating losses, and expenses that could have a material effect on the Celera Genomics group s financial condition and operating results. Acquisitions involve numerous other risks, including:

- diversion of management from daily operations;
- difficulties integrating acquired technologies and personnel into the business of the Celera Genomics group;
- inability to obtain required financing on favorable terms;
- entry into new markets in which the Celera Genomics group has little previous experience;
- potential loss of key employees, key contractual relationships, or key customers of acquired companies or of the Celera Genomics group; and
- assumption of the liabilities and exposure to unforeseen liabilities of acquired companies.

If these types of transactions are pursued, it may be difficult for the Celera Genomics group to complete these transactions quickly and to integrate these acquired operations efficiently into its current business operations. Any acquisitions, investments or other strategic relationships and alliances by the Celera Genomics group may ultimately have a negative impact on its business and financial condition. In addition, future acquisitions may not be as successful as originally anticipated and may result in impairment charges. We have incurred these charges in recent years in relation to acquisitions. For example, we incurred charges for impairment of goodwill, intangibles and other assets and other charges in the amounts of $69.1 million during our 2001 fiscal year, $25.9 million during our 2002 fiscal year, and $4.5 million during our 2005 fiscal year in relation to the Celera Genomics group s acquisition of Paracel, Inc. Similarly, we incurred charges for the impairment of patents and acquired technology in the amount of $14.9 million during our 2004 fiscal year in relation to the Applied Biosystems group s acquisition of Boston Probes, Inc.

In addition, acquisitions and other transactions may involve the issuance of a substantial amount of Applera-Celera Genomics stock without the approval of the holders of Applera-Celera Genomics stock. Any issuances of this nature could be dilutive to holders of Applera-Celera Genomics stock.

Earthquakes could disrupt operations in California. The Celera Genomics group has research and development and administrative facilities in South San Francisco, California. South San Francisco is located near major California earthquake faults. The ultimate impact of earthquakes on the Celera Genomics group, its significant suppliers, and the general infrastructure is unknown, but operating results could be materially affected in the event of a major earthquake.

Applera-Celera Genomics stock price may be volatile. The market price of Applera-Celera Genomics stock has in the past been and may in the future be volatile due to the risks and uncertainties described in this section of this report, as well as other factors that may have affected or may in the future affect the market price, such as:

- conditions and publicity regarding the genomics, biotechnology, pharmaceutical, or life sciences industries generally;

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

- price and volume fluctuations in the stock market at large which do not relate to the Celera Genomics group s operating performance; and
- comments by securities analysts or government officials, including with regard to the viability or profitability of the biotechnology sector generally or with regard to intellectual property rights of life science companies, or the Celera Genomics group s ability to meet market expectations.

The stock market has from time to time experienced extreme price and volume fluctuations that are unrelated to the operating performance of particular companies. In the past, companies that have experienced volatility have sometimes been the subjects of securities class action litigation. If litigation was instituted on this basis, it could result in substantial costs and a diversion of management s attention and resources.

Our company is subject to a class action lawsuit relating to its 2000 offering of shares of Applera-Celera Genomics stock that may be expensive and time consuming. Our company and some of our officers are defendants in a lawsuit brought on behalf of purchasers of Applera-Celera Genomics stock in our follow-on public offering of Applera-Celera Genomics stock completed on March 6, 2000. In the offering, we sold an aggregate of approximately 4.4 million shares of Applera-Celera Genomics stock at a public offering price of $225 per share. The lawsuit was commenced with the filing of several complaints in 2000, which have been consolidated into a single case which has been certified by the court as a class action. The consolidated complaint generally alleges that the prospectus used in connection with the offering was inaccurate or misleading because it failed to adequately disclose the alleged opposition of the Human Genome Project and two of its supporters, the governments of the U.S. and the U.K., to providing patent protection to our genomic-based products. Although the Celera Genomics group has never sought, or intended to seek, a patent on the basic human genome sequence data, the complaint also alleges that we did not adequately disclose the risk that the Celera Genomics group would not be able to patent this data. The consolidated complaint seeks unspecified monetary damages, rescission, costs and expenses, and other relief as the court deems proper. Although we believe the asserted claims are without merit and intend to defend the case vigorously, the outcome of this or any other litigation is inherently uncertain. The defense of this case will require management attention and resources.

Factors Relating to Celera Diagnostics, a 50/50 Joint Venture between the Applied Biosystems Group and the Celera Genomics Group

Celera Diagnostics ability to develop and commercialize proprietary diagnostic products is unproven. Celera Diagnostics faces the difficulties inherent in developing and commercializing diagnostic products. It is possible that Celera Diagnostics discovery and development efforts will not result in any new commercial products or services. In particular, Celera Diagnostics and its collaborators are seeking to develop new diagnostic products based on information derived from the study of the genetic material of organisms, or genomics. This method carries inherent risks, as only a limited number of diagnostic products based on genomic discoveries have been developed and commercialized to date.

Diagnostic product candidates may never result in a commercialized product. Most of Celera Diagnostics potential diagnostic products are in various stages of research and development and will require significant additional research and development efforts by Celera Diagnostics or its collaborators before they can be marketed. These efforts include extensive clinical testing and may require lengthy regulatory review and clearance or approval by the U.S. Food and Drug Administration and comparable agencies in other countries. Celera Diagnostics development of new diagnostic products is highly uncertain and subject to a number of significant risks. Diagnostic product candidates that appear to be promising at early stages of development may not be developed into commercial products, or may not be successfully marketed, for a number of reasons, including:

- Celera Diagnostics or its collaborators may not successfully complete research and development efforts;
- any diagnostic products that Celera Diagnostics or its collaborators develop may be found during clinical trials to have limited medical value;
- Celera Diagnostics or its collaborators may fail to obtain required regulatory clearances or approvals for products they develop;
- Celera Diagnostics or its collaborators may be unable to manufacture enough of any potential products at an acceptable cost and with appropriate quality;

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

any diagnostic products Celera Diagnostics or its collaborators develop may not be competitive with other existing or future products;
adequate reimbursement for Celera Diagnostics and its collaborators products may not be available to physicians or patients from the government or insurance companies; and
Celera Diagnostics may be unable to obtain necessary intellectual property protection, or third parties may own proprietary rights that prevent Celera Diagnostics or its collaborators from commercializing their products.

If Celera Diagnostics or its collaborators fail to satisfy regulatory requirements for any diagnostic product candidate, they may be unable to complete the development and commercialization of that product. Celera Diagnostics is currently developing its capability to move potential products through clinical testing, manufacturing, and the approval processes of the U.S. Food and Drug Administration and comparable agencies in other countries. In the U.S., either Celera Diagnostics or its collaborators must show through pre-clinical studies and clinical trials that each of Celera Diagnostics or its collaborators diagnostic product candidates is safe and effective for each indication before obtaining regulatory clearance or approval from the FDA for the commercial sale of that product as an *in-vitro* diagnostic product with clinical claims. Outside of the U.S., the regulatory requirements vary from country to country. If Celera Diagnostics or its collaborators fail to adequately show the safety and effectiveness of a diagnostic product, regulatory clearance or approval could be delayed or denied. The results from pre-clinical studies may be different from the results that are obtained in clinical trials. Celera Diagnostics cannot be certain that it or its collaborators will show sufficient safety and effectiveness in its clinical trials to allow them to obtain the needed regulatory clearance or approval. The regulatory review and approval process can take many years and require substantial expense and may not be successful. A number of companies in the diagnostics industry, including biotechnology companies, have suffered significant setbacks in advanced clinical trials, even after promising results in earlier studies.

Even if Celera Diagnostics or its collaborators obtain regulatory clearance or approval for a product, that product will be subject to risks and uncertainties relating to regulatory compliance, including post-clearance or approval clinical studies and inability to meet the compliance requirements of the FDA s Quality System Regulations, which relate to manufacturing of diagnostic products. In addition, the occurrence of manufacturing problems could cause subsequent suspension of product manufacture or withdrawal of clearance or approval, or could require reformulation of a diagnostic product, additional testing, or changes in labeling of the product. This could delay or prevent Celera Diagnostics from generating revenues from the sale of that diagnostic product.

Celera Diagnostics products may not be fully accepted by physicians and laboratories. Celera Diagnostics growth and success will depend on market acceptance by physicians and laboratories of its products as clinically useful and cost-effective. Celera Diagnostics expects that most of its products will use genotyping and gene expression information to predict predisposition to diseases, disease progression or severity, or responsiveness to treatment. Market acceptance will depend on the widespread acceptance and use by doctors and clinicians of genetic testing for these purposes. The use of genotyping and gene expression information by doctors and clinicians for these purposes is relatively new. Celera Diagnostics cannot be certain that doctors and clinicians will want to use its products designed for these purposes.

Even if genetic testing is accepted as a method to manage health care, Celera Diagnostics cannot be certain that its products will be accepted in the clinical diagnostic market. If genetic testing becomes widely accepted in the clinical diagnostic market, Celera Diagnostics cannot predict the extent to which doctors and clinicians may be willing to utilize Celera Diagnostics products in providing patient care. Doctors and clinicians may prefer competing technologies and products that can be used for the same purposes as Celera Diagnostics products.

Ethical, legal, and social issues related to the use of genetic information and genetic testing may cause less demand for Celera Diagnostics products. Genetic testing has raised issues regarding confidentiality and the appropriate uses of the resulting information. For example, concerns have been expressed regarding the use of genetic test results by insurance carriers or employers to discriminate on the basis of this information, resulting in barriers to the acceptance of genetic tests by consumers. This could lead to governmental authorities calling for limits on or regulation of the use of genetic testing or prohibiting testing for genetic predisposition to some diseases, particularly those that have no known cure. Any of these scenarios could reduce the potential markets for products of Celera Diagnostics.

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

If insurance companies and other third-party payors do not reimburse doctors and patients for Celera Diagnostics tests, its ability to sell its products to the clinical diagnostics market will be impaired. Sales of Celera Diagnostics products will depend, in large part, on the availability of adequate reimbursement to users of those products from government insurance plans, including Medicare and Medicaid in the U.S., managed care organizations, and private insurance plans. Physicians recommendations to use diagnostic tests, as well as decisions by patients to pursue those tests, are likely to be influenced by the availability of reimbursement by insurance companies and other third party payors. Third-party payors are increasingly attempting to contain health care costs by limiting both the extent of coverage and the reimbursement rate for testing and treatment products and services. In particular, products and services that are determined to be investigational in nature or that are not considered reasonably necessary for diagnosis or treatment may be denied reimbursement coverage. In addition, third-party payors are increasingly limiting reimbursement coverage for medical diagnostic products and, in many instances, are exerting pressure on medical suppliers to reduce their prices. Thus, third-party reimbursement may not be consistently available or financially adequate to cover the cost of Celera Diagnostics products. This could limit the ability of Celera Diagnostics to sell its products, cause Celera Diagnostics to reduce the prices of its products, or otherwise adversely affect Celera Diagnostics operating results.

Because each third-party payor individually approves reimbursement, obtaining these approvals is a time-consuming and costly process that requires Celera Diagnostics to provide scientific and clinical support for the use of each of its products to each payor separately with no assurance that such approval will be obtained. This process can delay the broad market introduction of new products and could have a negative effect on Celera Diagnostics revenues and operating results.

If Celera Diagnostics fails to maintain its existing collaborative relationships and enter into new collaborative relationships, or if collaborators do not perform under collaboration agreements, development of its diagnostic products could be delayed. Celera Diagnostics strategy for the discovery, development, clinical testing, manufacturing and commercialization of most of its diagnostic product candidates includes entering into collaborations with partners. Although Celera Diagnostics has expended, and continues to expend, time and money on internal research and development programs, it may be unsuccessful in creating diagnostic product candidates that would enable it to form additional collaborations. Celera Diagnostics cannot ensure that its collaborators will perform their obligations as expected. If any of Celera Diagnostics collaborators terminate or elect to cancel their agreements or otherwise fail to conduct their collaborative activities in a timely manner, the development or commercialization of diagnostics products may be delayed or otherwise adversely affected. If in some cases Celera Diagnostics assumes responsibilities for continuing programs on its own after termination of a collaboration, Celera Diagnostics may be required to devote additional resources to product development and commercialization or Celera Diagnostics may need to cancel some development programs.

Celera Diagnostics has entered into a strategic alliance agreement with Abbott Laboratories for the joint discovery, development, manufacturing, and commercialization of nucleic acid-based diagnostic products. Although this is a long-term alliance, the alliance agreement contains provisions that could result in early termination for reasons that include the following: breach by either company; a change in control of either company; either company s dissatisfaction with the performance of the alliance according to specific timelines for such judgments set forth in the alliance agreement; or by either company if the other party fails to meet performance criteria applicable to the other party set forth in the alliance agreement. In addition, the amount and timing of resources to be devoted to research, development, eventual clinical trials and commercialization activities by Abbott are not within Celera Diagnostics control. Future strategic alliances, if any, with other third parties are likely to be subject to similar terms and conditions.

Celera Diagnostics does not have a sales and service capability in the clinical diagnostic market. Celera Diagnostics currently does not have a sales and service organization. Accordingly, its ability to successfully sell its products will depend on its ability to either develop a sales and service organization, work with Abbott Laboratories under the existing alliance agreement, work with another distributor, or pursue a combination of these alternatives. In jurisdictions where Celera Diagnostics uses third party distributors, its success will depend to a great extent on the efforts of the distributors.

Celera Diagnostics has limited manufacturing capability and may encounter difficulties expanding Celera Diagnostics operations. Celera Diagnostics has limited commercial manufacturing experience and capabilities. If product sales increase, Celera Diagnostics will have to increase the capacity of its manufacturing processes and facilities or rely on its collaborators, if any. Celera Diagnostics may encounter difficulties in scaling-up manufacturing processes and may be

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

unsuccessful in overcoming such difficulties. In such circumstances, Celera Diagnostics ability to meet product demand may be impaired or delayed.

Celera Diagnostics facilities are subject, on an ongoing basis, to the FDA s Quality System Regulations, international quality standards and other regulatory requirements, including requirements for good manufacturing practices and the State of California Department of Health Services Food and Drug Branch requirements. Celera Diagnostics may encounter difficulties expanding Celera Diagnostics manufacturing operations in accordance with these regulations and standards, which could result in a delay or termination of manufacturing or an inability to meet product demand.

Celera Diagnostics manufacturing operations are located in a facility in Alameda, California. Celera Diagnostics expects to operate its manufacturing out of this facility for the foreseeable future, and it does not have alternative production plans in place or alternative facilities available should its existing manufacturing facility cease to function. Accordingly, Celera Diagnostics business could be adversely affected by unexpected interruptions in manufacturing caused by events such as labor problems, equipment failures, or other factors, and the resulting inability to meet customer orders on a timely basis.

Celera Diagnostics research and product development depends on access to tissue and blood samples from diseased and healthy individuals, other biological materials, and related clinical and other information, which may be in limited supply. Celera Diagnostics may not be able to obtain or maintain access to these materials and information on acceptable terms, or may not be able to obtain needed consents from individuals providing tissue or blood samples. In addition, government regulation in the U.S. and foreign countries could result in restricted access to, or use of, human tissue or blood samples. If Celera Diagnostics loses access to sufficient numbers or sources of tissue or blood samples, or if tighter restrictions are imposed on its use of the information generated from tissue or blood samples, its business may be harmed.

Single suppliers or a limited number of suppliers provide key components of Celera Diagnostics products. If these suppliers fail to supply these components, Celera Diagnostics may be unable to satisfy product demand. Several key components of Celera Diagnostics products come from, or are manufactured for Celera Diagnostics by, a single supplier or a limited number of suppliers. This applies in particular to components such as enzymes, florescent dyes, phosphoramadites, and oligonucleotides. Celera Diagnostics acquires some of these and other key components on a purchase-order basis, meaning that the supplier is not required to supply Celera Diagnostics with specified quantities over any set period of time or set aside part of its inventory for Celera Diagnostics forecasted requirements. Celera Diagnostics has not arranged for alternative supply sources for some of these components and it may be difficult to find alternative suppliers, especially to replace enzymes and oligonucleotides. Furthermore, in order to maintain compliance with Quality System Regulations, Celera Diagnostics must verify that its suppliers of key components are in compliance with all applicable U.S. Food and Drug Administration regulations. Celera Diagnostics believes that compliance with these regulatory requirements would increase the difficulty in arranging for needed alternative supply sources, particularly for components that are from single source suppliers, which means that they are currently the only supplier of custom-ordered components. If Celera Diagnostics product sales increase beyond the forecast levels, or if its suppliers are unable or unwilling to supply it on commercially acceptable terms or comply with regulations applicable to manufacturing of Celera Diagnostics products, it may not have access to sufficient quantities of key components on a timely basis and may be unable to satisfy product demand.

In addition, if any of the components of Celera Diagnostics products are no longer available in the marketplace, it may be forced to further develop its products or technology to incorporate alternate components. The incorporation of new components into its products may require Celera Diagnostics to seek clearances or approvals from the FDA or foreign regulatory agencies prior to commercialization.

Celera Diagnostics operations involve the use, manufacture, sale, and distribution of hazardous materials, and the mishandling of these hazardous materials could result in substantial liabilities and harm to Celera Diagnostics. Celera Diagnostics research and development and manufacturing activities involve the controlled use of potentially hazardous materials, including biological materials and chemicals. Also, some of Celera Diagnostics products, including products sold through its strategic alliance with Abbott Laboratories, are hazardous materials or include hazardous materials. Celera Diagnostics cannot completely eliminate the risk of accidental or other contamination or injury from these materials, and Celera Diagnostics could be held liable for resulting damages, which could be substantial. Under some laws and regulations, a party can be subject to strict liability for damages caused by some hazardous materials, which

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

means that a party can be liable without regard to fault or negligence. Furthermore, Celera Diagnostics could be held indirectly responsible for contamination or injury arising from the conduct of Abbott Laboratories in manufacturing, selling, or distributing alliance products. In addition, Celera Diagnostics is subject to federal, state, local, and foreign laws, regulations, and permits governing the use, storage, handling, and disposal of hazardous materials and specified waste products, as well as the shipment and labeling of materials and products containing hazardous materials. If Celera Diagnostics fails to comply with any of these laws, regulations, or permits, or if Celera Diagnostics is held indirectly responsible for conduct of Abbott Laboratories found to be non-compliant, we could be subject to substantial fine or penalty, payment of remediation costs, loss of permits, and/or other adverse governmental action. Similar consequences could arise if Celera Diagnostics is held indirectly responsible for conduct of Abbott Laboratories found to be non-compliant. Any of these events could have a material adverse effect on Celera Diagnostics business and financial condition.

Celera Diagnostics business depends on the continuous, effective, reliable, and secure operation of its computer hardware, software, and Internet applications and related tools and functions. Celera Diagnostics business requires manipulating and analyzing large amounts of data, and communicating the results of the analysis to its internal research personnel and to its collaborators via the Internet. Also, Celera Diagnostics relies on a global enterprise software system to operate and manage its business. Celera Diagnostics business therefore depends on the continuous, effective, reliable, and secure operation of its computer hardware, software, networks, Internet servers, and related infrastructure. To the extent that Celera Diagnostics hardware or software malfunctions or access to Celera Diagnostics data by Celera Diagnostics internal research personnel or collaborators through the Internet is interrupted, its business could suffer.

Celera Diagnostics computer and communications hardware is protected through physical and software safeguards. However, it is still vulnerable to fire, storm, flood, power loss, earthquakes, telecommunications failures, physical or software break-ins, software viruses, and similar events. If Celera Diagnostics fails to maintain and further develop the necessary computer capacity and data to support its computational needs, its diagnostic product discovery and research efforts, and the Celera Genomics group s and its collaborators therapeutic products discovery and research efforts, it could experience a loss of or delay in revenues. In addition, any sustained disruption in Internet access provided by third parties could adversely affect Celera Diagnostics business.

Celera Diagnostics competitive position depends on maintaining its intellectual property protection. Celera Diagnostics ability to compete and to achieve and maintain profitability depends, in part, on its ability to protect its proprietary discoveries and technologies through obtaining and enforcing patent rights, maintaining its trade secrets, and operating without infringing the intellectual property rights of others. Celera Diagnostics ability to obtain patent protection for the inventions it makes is uncertain. The patentability of biotechnology inventions involves complex factual, scientific, and legal questions. As a result, it is difficult to predict whether patents will issue or the breadth of claims that will be allowed in biotechnology and pharmaceutical patents. This may be particularly true with regard to the patenting of gene sequences, gene functions, and genetic variations. In this regard, the U.S. Patent and Trademark Office has adopted guidelines for use in the review of the utility of inventions, particularly biotechnology inventions. These guidelines increased the amount of evidence required to demonstrate utility in order to obtain a patent in the biotechnology field, making patent protection more difficult to obtain. Also, Celera Diagnostics cannot ensure that changes in policies or to laws, or interpretations of these policies or laws, relevant to the patenting of biotechnology inventions will not adversely affect its patent position in the U.S. or other countries. Opposition to the protection of these inventions in the U.S. or other countries could result in stricter standards for obtaining or enforcing biotechnology patent rights.

In some instances, patent applications in the U.S. are maintained in secrecy until a patent issues. In most instances, the content of U.S. and international patent applications is made available to the public approximately 18 months after the initial filing from which priority is claimed. As a result, Celera Diagnostics cannot be certain that others have not filed patent applications for inventions covered by Celera Diagnostics patent applications or that Celera Diagnostics inventors were the first to make the invention. Accordingly, Celera Diagnostics patent applications may be preempted or Celera Diagnostics may have to participate in interference proceedings before the U.S. Patent and Trademark Office. These proceedings determine the priority of invention and the right to a patent for the claimed invention in the U.S.

Celera Diagnostics also relies on trade secret protection for its confidential and proprietary information and procedures. Celera Diagnostics protects its trade secrets through recognized practices, including access control, confidentiality and

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

nonuse agreements with employees, consultants, collaborators and customers, and other security measures. These confidentiality and nonuse agreements may be breached, however, and Celera Diagnostics may not have adequate remedies for a breach. In addition, Celera Diagnostics trade secrets may otherwise become known or be independently developed by competitors. Accordingly, it is uncertain whether Celera Diagnostics reliance on trade secret protection will be adequate to safeguard its confidential and proprietary information and procedures.

Disputes may arise in the future with regard to the ownership of rights to any invention developed with collaborators. These and other possible disagreements with collaborators could lead to delays in the achievement of milestones or receipt of royalty payments or in research, development, and commercialization of Celera Diagnostics products. In addition, these disputes could require or result in lawsuits or arbitration. Lawsuits and arbitration are time-consuming and expensive. Even if Celera Diagnostics wins, the cost of these proceedings could adversely affect its business, financial condition and operating results.

Celera Diagnostics may infringe the intellectual property rights of third parties, may become involved in expensive intellectual property legal proceedings, and may need to obtain licenses to intellectual property from others. There has been substantial litigation and other legal proceedings regarding patents and other intellectual property rights in the biotechnology, pharmaceutical, and diagnostic industries. The intellectual property rights of biotechnology companies, including Celera Diagnostics, are generally uncertain and involve complex factual, scientific, and legal questions. Celera Diagnostics success in diagnostic discovery and development may depend, in part, on its ability to operate without infringing the intellectual property rights of others and to prevent others from infringing its intellectual property rights.

Celera Diagnostics may initiate proceedings at the U.S. Patent and Trademark Office to determine its patent rights with respect to third parties, referred to as interference proceedings. Also, Celera Diagnostics may initiate patent litigation to enforce its patent rights or invalidate patents held by third parties. These legal actions may similarly be initiated against Celera Diagnostics by third parties alleging that Celera Diagnostics is infringing their rights. For example, Genetic Technologies Limited has filed a lawsuit against us alleging that we are infringing two of its patents due to the sale of cystic fibrosis reagent kits. This case is described in further detail above in Part I, Item 3 of our 2005 Annual Report on Form 10-K under the heading Legal Proceedings-Commercial Litigation. The cost to Celera Diagnostics of any patent litigation or proceedings, even if Celera Diagnostics is successful, could be substantial, and these legal actions may absorb significant management time. If infringement claims against Celera Diagnostics are resolved unfavorably to Celera Diagnostics, Celera Diagnostics may be enjoined from manufacturing or selling its products or services without a license from a third party, and Celera Diagnostics may not be able to obtain a license on commercially acceptable terms, or at all. Also, Celera Diagnostics could become subject to significant liabilities to third parties if these claims are resolved unfavorably to Celera Diagnostics. Similarly, contractual disputes related to existing license rights under third party patents may affect Celera Diagnostics ability to develop, manufacture, and sell its products.

Introduction of new products may expose Celera Diagnostics to product liability claims. New products developed by Celera Diagnostics or its collaborators could expose Celera Diagnostics to potential product liability risks that are inherent in the testing, manufacturing, marketing, and sale of human diagnostic products. In addition, clinicians, patients, third-party payors, and others may at times seek damages based on testing or analysis errors based on a technician s misreading of results, mishandling of the patient samples, or similar claims. Product liability claims or product recalls, regardless of the ultimate outcome, could require Celera Diagnostics to spend significant time and money in litigation and to pay significant damages. Although Celera Diagnostics expects to seek and maintain product liability insurance to cover claims relating to the testing and use of diagnostic products, there can be no assurance that such insurance will be available on commercially reasonable terms, if at all, or that the amount of coverage obtained will be adequate to cover losses from any particular claim.

The diagnostics industry is intensely competitive and evolving. There is intense competition among health care, biotechnology, and diagnostic companies attempting to discover candidates for potential new diagnostic products. These companies may:

- develop new diagnostic products in advance of Celera Diagnostics or its collaborators;
- develop diagnostic products which are more effective or more cost-effective than those developed by Celera Diagnostics or its collaborators;

Back to Index

APPLERA CORPORATION
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS continued

obtain regulatory clearances or approvals of their diagnostic products more rapidly than Celera Diagnostics or its collaborators; or
obtain patent protection or other intellectual property rights that would limit Celera Diagnostics or its collaborators ability to develop and commercialize, or their customers ability to use, Celera Diagnostics or its collaborators diagnostic products.

Celera Diagnostics competes with companies in the U.S. and abroad that are engaged in the development and commercialization of products and services that provide genetic information. These companies may develop products that are competitive with the products offered by Celera Diagnostics or its collaborators, such as analyte specific reagents or diagnostic test kits that perform the same or similar purposes as Celera Diagnostics or its collaborators products. Also, clinical laboratories may offer testing services that are competitive with the products sold by Celera Diagnostics or its collaborators. For example, a clinical laboratory can use either reagents purchased from manufacturers other than Celera Diagnostics, or use their own internally developed reagents, to make diagnostic tests. If clinical laboratories make tests in this manner for a particular disease, they could offer testing services for that disease as an alternative to products sold by Celera Diagnostics used to test for the same disease. The testing services offered by clinical laboratories may be easier to develop and market than test kits developed by Celera Diagnostics or its collaborators because the testing services are not subject to the same clinical validation requirements that are applicable to FDA-cleared or approved diagnostic test kits. The diagnostic testing services market is dominated by a small number of large clinical testing laboratories, including Laboratory Corporation of America Holdings, Quest Diagnostics Inc., and Specialty Laboratories, Inc.

Also, a substantial portion of all sales of diagnostic products are made to a small number of clinical reference laboratories, including those identified above, and therefore Celera Diagnostics expects to rely on these laboratories for a substantial portion of its sales. Celera Diagnostics inability to establish or maintain one or more of these laboratories as a customer could adversely affect its business, financial condition, and operating results.

Earthquakes could disrupt operations in California. The headquarters and operations of Celera Diagnostics are located in Alameda, California. Alameda is located near major California earthquake faults. The ultimate impact of earthquakes on Celera Diagnostics, its significant suppliers, and the general infrastructure is unknown, but operating results could be materially affected in the event of a major earthquake.

Back to Index

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to potential loss from exposure to market risks represented principally by changes in foreign exchange rates, interest rates, and equity prices. Please refer to the market risks section of the management s discussion and analysis included on page 43 of this report. Additional information can also be found in the market risk section of the management s discussion and analysis included on page 44 of our 2005 Annual Report to Stockholders (which section is incorporated in this report by reference).

Item 4. Controls and Procedures.

We maintain disclosure controls and procedures designed to ensure that the information required to be disclosed in the reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of these disclosure controls and procedures as of the end of the first quarter of our 2006 fiscal year, the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to achieve their stated purpose. However, there is no assurance that our disclosure controls and procedures will operate effectively under all circumstances. No changes were made to our internal control over financial reporting during the first quarter of our 2006 fiscal year that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Back to Index

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved in various lawsuits, arbitrations, investigations, and other legal actions from time to time with both private parties and governmental entities. These legal actions currently involve, for example, commercial, intellectual property, antitrust, environmental, securities, and employment matters. We disclosed information about some of our legal actions in Part I, Item 3, of our 2005 Annual Report on Form 10-K. Set forth below is an update to those disclosures, including specifically a description of previously-disclosed cases in which there have been recent material developments.

We believe that we have meritorious defenses against the claims currently asserted against us, including the claims described in our 2005 10-K as updated by the disclosures in this report, and we intend to defend them vigorously. However, the outcome of legal actions is inherently uncertain, and we cannot be sure that we will prevail in our defense of claims currently asserted against us. An adverse determination in the cases we are currently defending, particularly the claims against us described in Item 3 of our 2005 10-K under the heading Commercial Litigation, as updated by the disclosures in this report, could have a material adverse effect on us, the Applied Biosystems group, the Celera Genomics group, or Celera Diagnostics.

We are involved in several litigation matters with MJ Research, Inc. (acquired by Bio-Rad Laboratories, Inc. since the commencement of litigation), which commenced with our filing claims against MJ Research on June 24, 1998, in the U.S. District Court for the District of Connecticut based on its alleged infringement of some polymerase chain reaction, or PCR, patents. In response to our claims, MJ Research filed counterclaims including, among others, allegations that we have licensed and enforced these patents through anticompetitive conduct in violation of federal and state antitrust laws, that some of our patents are unenforceable because of patent misuse, and that some of our patents are invalid and unenforceable because of inequitable conduct. MJ Research is seeking injunctive relief, monetary damages, costs and expenses, and other relief. These matters were adjudicated in part through a jury trial, which resulted in a verdict in our favor rendered in April 2004, and the remaining issues were resolved through a series of summary judgments granted by the District Court in several rulings issued in our favor between December 2004 and April 2005. As a result, MJ Research s counterclaims were rejected and MJ Research has been held liable to us and Roche Molecular Systems, also a party to the litigation, for infringement of U.S. Patent Nos. 4,683,195, 4,683,202 and 4,965,188 (each relates to PCR process technology) and U.S. Patent Nos. 5,656,493, 5,333,675 and 5,475,610 (each relates to thermal cycler instrument technology). Further, the infringement of the 195, 202, 188 and 493 patents was held to be willful. As a result of these decisions in our favor, in April 2005, the District Court awarded us and Roche Molecular Systems damages of $35.4 million plus reasonable attorneys fees, an enhancement of the original damages award granted by the jury in the amount of $19.8 million. The Court also awarded, on August 26, 2005, prejudgment interest of approximately $1 million. Additionally, on August 30, 2005, the Court issued an order enjoining MJ Research from infringing U.S. Patent Nos. 5,333,675, 5,656,493 and 5,475,610. Both parties have filed notices of appeals of some of the rulings in the case, including the damages award and the order enjoining MJ Research.

Promega Corporation filed an action against us and some of our affiliates and Roche Molecular Systems, Inc. and Hoffmann-La Roche, Inc. in the U.S. District Court for the Eastern District of Virginia on April 10, 2000. The complaint asserted violations of the federal False Claims Act. The complaint alleged that we and Hoffmann-La Roche overcharged the U.S. government for thermal cyclers and PCR reagents. The overcharges were alleged to be the result of a licensing program based in part on U.S. Patent No. 4,889,818. Promega asserted that U.S. Patent No. 4,889,818 was obtained fraudulently and that the licensing program run by us and Hoffmann-La Roche was the cause of the alleged overcharging. Promega was seeking monetary damages. Promega claimed to be suing in the name of the U.S. government although the government declined to participate in the suit. On June 29, 2004, the court granted our motion to dismiss for failure to state a claim upon which relief could be granted, but gave Promega the right to file an amended complaint. Promega filed an amended complaint on July 13, 2004, and we filed another motion to dismiss on August 6, 2004. The court granted our second motion and dismissed the case with prejudice on August 20, 2004. Promega had filed an appeal with the U.S. Court of Appeals for the Fourth Circuit. However, this litigation was terminated on September 26, 2005, when Promega withdrew its appeal and the parties granted each other a mutual release of claims.

Back to Index

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

This table provides information regarding our purchases of shares of Applera-Applied Biosystems stock during the first quarter of fiscal 2006.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Number of Shares (or Approximate Dollar Value) that May Yet Be Purchased Under the Plans or Programs (2)(3)
July 1-July 31, 2005		$		19,450,000
August 1-August 31, 2005	5,478,167	$ 20.9890	5,453,500	19,450,000
September 1- September 30, 2005	3,870,800	$ 22.3442	3,870,800	13,996,500
Total	9,348,967	$ 21.5501	9,324,300	10,125,700

(1) Consists of (a) the shares purchased pursuant to the authorization referred to in footnote (2) below, and (b) shares tendered by employees to cover taxes relating to the vesting of restricted stock.

(2) On July 27, 2005, we announced that our Board of Directors has authorized the repurchase of up to 19,450,000 shares of Applera-Applied Biosystems stock, in addition to the authorization described in footnote (3) below. The new authorization has no time restrictions and delegates to Company management discretion to purchase shares at times and prices it deems appropriate through open market purchases, privately negotiated transactions, tender offers, exchange offers, or otherwise. It is anticipated that repurchases will be made from time to time depending on market conditions and will be funded using the Applied Biosystems group s U.S. cash reserves and cash generated from domestic operations, as well as funds to be borrowed under our revolving corporate credit facility or from other sources, if and when required. Share amounts reflected in this column indicate the number of shares that remain authorized for repurchase under this authorization as of the first day of each of the months indicated and as of the end of the fiscal quarter.

(3) We previously announced that our Board of Directors has authorized the repurchase of shares of Applera-Applied Biosystems stock from time to time to replenish shares issued under our various employee stock benefit plans. This authorization has no set dollar or time limits and delegates to Company management discretion to purchase shares at times and prices it deems appropriate through open market or negotiated purchases. Accordingly, the amounts in this column do not reflect this authorization. No shares were purchased under this authorization during the first quarter of fiscal 2006.

This table provides information regarding our purchases of shares of Applera-Celera Genomics stock during the first quarter of fiscal 2006.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Number of Shares (or Approximate Dollar Value) that May Yet be Purchased Under the Plans or Programs (2)
July 1-July 31, 2005		$		
August 1-August 30, 2005	12,798	$ 11.85		
September 1-September 30, 2005		$		
Total	12,798	$ 11.85		

(1) Consists of shares tendered by employees to the Company to cover taxes relating to the vesting of restricted stock.

(2) We previously announced that our board of directors has authorized the repurchase of shares of Applera-Celera Genomics stock from time to time to replenish shares issued under our various employee stock benefit plans. This authorization has no set dollar or time limits and delegates to Company management discretion to purchase shares at times and prices it deems appropriate through open market or negotiated purchases. Accordingly, the amounts in this column do not reflect this authorization. No shares were purchased under this authorization during the first quarter of fiscal 2006.

Back to Index

Item 6. Exhibits.

13	Annual Report to Stockholders for the fiscal year ended June 30, 2005, to the extent incorporated herein by reference (incorporated by reference to Exhibit 13 to Annual Report on Form 10-K of the Company for the fiscal year ended June 30, 2005 (Commission file number 1-4389)).
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Back to Index

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

APPLERA CORPORATION

By: /s/ Dennis L. Winger

Dennis L. Winger
Senior Vice President and
Chief Financial Officer

By: /s/ Ugo D. DeBlasi

Ugo D. DeBlasi
Vice President and Controller
(Chief Accounting Officer)

Dated: November 9, 2005

Back to Index

EXHIBIT INDEX

Exhibit Number	
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