APPLERA CORP
Form 10-Q
May 09, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2006

OR

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of the close of business on May 2, 2006, there were 185,050,595 shares of Applera Corporation-Applied Biosystems Group Common Stock and 76,977,344 shares of Applera Corporation-Celera Genomics Group Common Stock outstanding.

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 March 31,		Nine Months Ended March 31,	
	2005	2006	2005	2006
Products	$376,866	**$399,197**	$1,084,166	**$1,140,835**
Services	52,310	**54,162**	150,894	**161,618**
Other	40,254	**44,402**	119,067	**107,223**
Total Net Revenues	469,430	**497,761**	1,354,127	**1,409,676**
Products	180,841	**191,493**	536,393	**555,132**
Services	25,662	**24,566**	70,847	**73,137**
Other	4,419	**3,720**	15,270	**10,779**
Total Cost of Sales	210,922	**219,779**	622,510	**639,048**
Gross Margin	258,508	**277,982**	731,617	**770,628**
Selling, general and administrative	134,422	**149,410**	390,223	**425,894**
Research, development and engineering	86,844	**67,359**	248,191	**210,198**
Amortization of intangible assets	725		2,175	**1,091**
Employee-related charges, asset impairments and other	(951)	**19,995**	14,422	**21,226**
Asset dispositions and legal settlements		**1,629**	(38,172)	**28,170**
Acquired research and development		**3,400**		**3,400**
Operating Income	37,468	**36,189**	114,778	**80,649**
Gain on investments, net		**3,125**		**7,628**
Interest expense	(71)	**(153)**	(97)	**(318)**
Interest income	7,572	**9,486**	19,675	**28,476**
Other income (expense), net	743	**845**	3,910	**3,553**
Income before Income Taxes	45,712	**49,492**	138,266	**119,988**
Provision (benefit) for income taxes	11,038	**(51,038)**	32,626	**(19,806)**
Net Income	$34,674	**$100,530**	$105,640	**$139,794**

Applied Biosystems Group (see Note 4)				
Net Income per Share				
Basic	$0.28	**$0.67**	$0.85	**$1.05**
Diluted	$0.28	**$0.65**	$0.84	**$1.02**
Dividends Declared per Share	$0.0425	**$0.0425**	$0.1275	**$0.1275**
Celera Genomics Group (see Note 4)				
Net Loss per Share				
Basic and diluted	$(0.29)	**$(0.31)**	$(0.83)	**$(0.77)**

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

1

Back to Index

APPLERA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited)

(Dollar amounts in thousands)

	At June 30, 2005	At March 31, 2006
Assets		
Current assets		
Cash and cash equivalents	$779,401	**$402,843**
Short-term investments	645,084	**535,359**
Accounts receivable, net	383,938	**365,726**
Inventories, net	126,541	**149,550**
Prepaid expenses and other current assets	152,645	**184,683**
Total current assets	2,087,609	**1,638,161**
Property, plant and equipment, net	438,398	**404,419**
Goodwill and intangible assets, net	63,076	**327,256**
Other long-term assets	575,102	**611,986**
Total Assets	$3,164,185	**$2,981,822**
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$174,022	**$186,527**
Accrued salaries and wages	91,188	**81,530**
Accrued taxes on income	77,327	**41,557**
Other accrued expenses	250,134	**292,056**
Total current liabilities	592,671	**601,670**
Other long-term liabilities	227,431	**242,643**
Total Liabilities	820,102	**844,313**
Stockholders Equity		
Capital stock		
Applera Corporation Applied Biosystems Group	2,130	**2,131**
Applera Corporation Celera Genomics Group	743	**768**
Capital in excess of par value	2,132,364	**2,176,427**

Retained earnings	558,065	**653,832**
Accumulated other comprehensive loss	(41,787)	**(54,064)**
Treasury stock, at cost	(307,432)	**(641,585)**
Total Stockholders Equity	2,344,083	**2,137,509**
Total Liabilities and Stockholders Equity	$3,164,185	**$2,981,822**

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

2

Back to Index

APPLERA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(Dollar amounts in thousands)

	Nine months ended March 31,	
	2005	**2006**
Operating Activities of Continuing Operations		
Net income	$105,640	**$139,794**
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	76,882	**68,051**
Asset impairments	4,200	**8,366**
Employee-related charges and other	6,945	**5,066**
Share-based compensation programs	6,342	**8,623**
Sale of assets and legal settlements, net	(29,662)	**51,885**
Deferred income taxes	(8,413)	**(44,895)**
Acquired research and development		**3,400**
Changes in operating assets and liabilities:		
Accounts receivable	22,441	**23,658**
Inventories	(151)	**(9,387)**
Prepaid expenses and other assets	(3,374)	**(4,877)**
Accounts payable and other liabilities	(54,412)	**(71,136)**
Net Cash Provided by Operating Activities of Continuing Operations	126,438	**178,548**
Net Cash Provided (Used) by Operating Activities of Discontinued Operations	488	**(65)**
Investing Activities of Continuing Operations		
Additions to property, plant and equipment, net	(69,990)	**(36,058)**
Proceeds from maturities of available-for-sale investments	1,722,460	**139,373**
Proceeds from sales of available-for-sale investments	563,348	**326,066**
Purchases of available-for-sale investments	(2,130,228)	**(356,746)**
Acquisitions and investments, net of cash acquired	(231)	**(278,881)**
Proceeds from the sale of assets, net	7,085	**7,910**
Net Cash Provided (Used) by Investing Activities of Continuing Operations	92,444	**(198,336)**
Financing Activities		
Net change in loans payable		**(49)**
Principal payments on debt	(6,000)	
Dividends	(25,019)	**(16,128)**
Purchases of common stock for treasury		**(457,120)**

Proceeds from stock issued for stock plans and other	25,676	**124,571**
Net Cash Used by Financing Activities	(5,343)	**(348,726)**
Effect of Exchange Rate Changes on Cash	17,131	**(7,979)**
Net Change in Cash and Cash Equivalents	231,158	**(376,558)**
Cash and Cash Equivalents Beginning of Period	507,870	**779,401**
Cash and Cash Equivalents End of Period	$739,028	**$402,843**

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

3

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 year amo in the condensed consolidated financial statements and notes for comparative purposes.

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 5. 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 three and nine-months ended March 31:

Income/(charge) **(Dollar amounts in millions)**	**Three months ended March 31,**		**Nine months ended March 31,**	
	2005	**2006**	**2005**	**2006**
Severance and benefit costs	$	**$(10.7)**	$(11.3)	**$(12.2)**
Excess lease space		**(0.8)**	(3.8)	**(0.8)**
Asset impairments		**(8.0)**	(0.2)	**(9.1)**
Other		**(1.4)**		**(1.4)**
Reduction of expected costs	0.9	**0.9**	0.9	**2.3**
Total employee-related charges, asset impairments and other	$0.9	**$(20.0)**	$(14.4)	**$(21.2)**
Other events impacting comparability:				
Impairment of inventory recorded in cost of sales	$	**$**	$(1.7)	**$**
Asset dispositions and legal settlements		**(1.6)**	38.2	**(28.2)**
Acquired research and development		**(3.4)**		**(3.4)**
Investment gains		**3.1**		**7.6**
Tax items		**63.3**		**48.8**

Employee-Related Charges, Asset Impairments and Other

The following items have been recorded in the condensed consolidated statements of operations in employee-related charges, asset impairments and other, except as noted.

4

Back to Index

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

Applied Biosystems group

Fiscal 2005

During the first nine months of fiscal 2005, the Applied Biosystems group recorded pre-tax charges of $12.5 million, of which $10.2 million was for employee terminations and $2.3 million related to the cost of excess lease space at a facility in Massachusetts. Of the $12.5 million in charges, $5.2 million was recorded in the second quarter of fiscal 2005, consisting of $2.9 million for employee terminations and $2.3 million related to the cost of excess lease space. The remaining balance was recorded in the first quarter of fiscal 2005. The charge for the excess lease space represented the estimated cost of excess facility space less estimated future sublease income for a lease that extends through fiscal 2011. In the third quarter of fiscal 2005, the Applied Biosystems group recorded a pre-tax benefit of $0.2 million for reductions in anticipated employee-related costs associated with severance and benefit charges recorded in fiscal 2003 through fiscal 2005. Additionally, in the third quarter of fiscal 2005, the Applied Biosystems group recorded a pre-tax benefit of $0.7 million as a result of the repayment of a loan by HTS Biosystems, Inc. that was previously written off in the fourth quarter of fiscal 2004.

The severance charges for the first nine months of fiscal 2005 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 Applied Biosystems/MDS Sciex Instruments business, a 50/50 joint venture between the Applied Biosystems group and 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. In regards to the excess lease space charge, through the nine months ended March 31, 2006, we had made cash payments of $0.3 million. The cash expenditures were funded by cash provided by operating activities.

Fiscal 2006

In the second quarter of fiscal 2006, the Applied Biosystems group recorded pre-tax charges of $1.5 million for employee terminations related to the Applied Biosystems/MDS Sciex Instruments joint venture. MDS recorded a restructuring charge for a reduction in workforce as part of its strategy to focus on the life sciences market. The $1.5 million represents the Applied Biosystems group s share of the restructuring charge.

The Applied Biosystems group recorded pre-tax benefits of $1.4 million in the first nine months of fiscal 2006 for reductions in anticipated employee-related costs associated with the severance and benefit charges 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. In the third quarter of fiscal 2006, the Applied Biosystems group entered into an agreement to sell the facility and recognized a $0.9 million pre-tax favorable adjustment to the charges previously recorded based on the sales price per the agreement. The sale is expected to be completed in the fourth quarter of fiscal 2006. Please see Note 8 for additional information.

Other

During the first nine months of fiscal 2006, the Applied Biosystems group made cash payments of $10.6 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 March 31, 2006.

Back to Index

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

(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	**0.2**	Fiscal 2006	Fiscal 2007
Fiscal 2005 excess lease space and other charges	**2.2**	Fiscal 2006	Fiscal 2011
	$2.9		

Celera Genomics group

Fiscal 2005

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. Due to a shift in focus, 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 nine months of fiscal 2006, we made cash payments of $1.5 million related to the excess lease space charge. The cash expenditures were funded by available cash. The remaining cash expenditures of approximately $3.6 million related to excess lease space are expected to be disbursed by fiscal 2011.

Fiscal 2006

In the third quarter of fiscal 2006, the Celera Genomics group recorded pre-tax charges of $20.9 million related to its decision to partner or sell its small molecule drug discovery and development programs and the integration of Celera Diagnostics into the Celera Genomics group. The charge consisted of $10.7 million for severance and benefit costs, $8.0 million for asset impairments, $0.8 million for excess lease space, and $1.4 million for other disposal costs. The severance charges related primarily to staff reductions in small molecule drug discovery and development. The asset impairment charges primarily related to a write-down of the carrying amount of an owned facility to its current estimated market value less estimated selling costs, as well as write-offs of leasehold improvements. As of March 31, 2006, all of the affected employees had been notified and the majority of them had been terminated. We anticipate that all affected employees will be terminated by June 30, 2006. Through March 31, 2006, we made cash payments of $4.9 million related to the employee terminations and $0.6 million related to other disposal costs.

Other

In the fourth quarter of fiscal 2005, the Celera Genomics group recorded a pre-tax charge of $3.4 million related to the 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 nine months of fiscal 2006, the Celera Genomics group made cash payments of $1.5 million for severance and employee benefits and $1.5 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 $0.2 million are expected to be disbursed by the end of fiscal 2006.

6

Back to Index

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

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 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 patent infringement and breach of contract claims.

In the second quarter of fiscal 2005, the Applied Biosystems group recorded a net pre-tax gain of $29.7 million for the sale of intellectual property, manufacturing inventory, and research and development assets related to the expansion of the scope of the Applied Biosystems/MDS Sciex Instruments joint venture with MDS Inc. Under the terms of the transaction, we received $8 million in cash and a $30 million note receivable for a 50 percent interest in intellectual property assets related to current Applied Biosystems MALDI TOF mass spectrometry systems and next-generation product-related manufacturing and research and development assets. The note receivable is due in 5 years, of which $6 million is payable in October 2006 and $8 million in October 2007, 2008, and 2009.

In the first quarter of fiscal 2006, we recorded a $23.5 million pre-tax charge related to an outstanding litigation matter and an award in an arbitration proceeding with Amersham Biosciences, now GE Healthcare. We recorded the pre-tax charge as follows: $22.8 million at the Applied Biosystems group and $0.7 million at the Celera Genomics group. The charge included an estimate of the liability that would be incurred by us to resolve the litigation matter and the arbitration award described below. In the second quarter of fiscal 2006, we recorded an additional pre-tax charge of $3.1 million as a result of the final determination of interest related to the arbitration award. We paid all amounts related to this arbitration matter in January 2006. The arbitration 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. 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. As mentioned above, the Applied Biosystems group recorded an additional charge of $3.1 million in the second quarter of fiscal 2006 related to the award.

On April 26, 2006, we joined with Beckman Coulter, Inc. in announcing the establishment of terms of a settlement to resolve all outstanding legal disputes between us regarding claims to some patented capillary electrophoresis technology and PCR instrumentation technology. As part of the settlement, the parties agreed to grant royalty-bearing licenses to each other. Additionally, the Applied Biosystems group will make a special payment to Beckman Coulter for rights to some Beckman Coulter technology and for the release of any and all claims of infringement relating to DNA sequencer and thermal cycler products. Beckman Coulter will make quarterly payments to the Celera Genomics group for diagnostic rights to some Applera technology. The U.S. District Court for the Central District of California has stayed its proceedings for 90 days pending completion of definitive agreements based on these terms.

In the third quarter of fiscal 2006, we recorded a net pre-tax charge of $1.6 million, primarily comprised of a charge of $35.0 million related to the settlement with Beckman Coulter described above and a benefit of $33.4 million related to a settlement agreement involving patent infringement claims brought by us against Bio-Rad Laboratories, Inc. and MJ Research, Inc. The Bio-Rad Laboratories settlement resolves litigation brought by Bio-Rad against us for patent and trademark infringement, and counterclaims by us against Bio-Rad. By March 31, 2006, we had received all amounts related to the Bio-Rad settlement. See Note 13 for further information on these settlements.

Back to Index

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

Acquired research and development

In the third quarter of fiscal 2006, the Applied Biosystems group recorded a $3.4 million charge to write-off the value of acquired in-process research and development (IPR&D) in connection with the acquisition of the Research Products Division of Ambion, Inc. As of the acquisition date, the technological feasibility of the related projects had not been established, and it was determined that the acquired projects had no future alternative uses. The amount attributed to acquired IPR&D was based on an independent appraisal. See Note 3 for more information on this acquisition.

Investments

The Celera Genomics group recorded pre-tax gains of $4.5 million in the first quarter and $3.1 million in the third quarter of fiscal 2006 in the condensed consolidated statements of operations in gain on investments, net from the sale of non-strategic minority equity investments.

Tax items

In 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. In the second quarter of fiscal 2006, the Applied Biosystems group recorded tax charges of $28.0 million related to repatriation of cash balances held outside the U.S. This charge included the estimated tax on a $500 million repatriation of cash as well as anticipated taxes on additional overseas dividends. Additionally, in the third quarter of fiscal 2006, the Applied Biosystems group recorded tax benefits of $63.3 million related to a completed Internal Revenue Services (IRS) exam, state valuation allowance reversal, and R&D credits. The IRS completed the audit of Applera for the fiscal years 1996 through 2003 and as a result, the Applied Biosystems group recorded favorable adjustments of $32.2 million to existing tax liabilities. A net of federal tax $24.8 million increase in the net state deferred tax assets primarily related to a reduction in valuation allowance and the write-off of some state deferred tax assets. The reduction in the valuation allowance was due to management s reassessment of the future realization of deferred tax assets based on revised forecasted taxable income which includes the impacts of a change in the apportionment of income to California, a reduction in R&D spending, and increased revenues and profits from our worldwide operations. Also, Applera completed its assessment of fiscal years 2001 through 2004 R&D activities and as a result, the Applied Biosystems group recorded a net benefit of $6.3 million for additional R&D credits.

Note 3 Acquisition

Effective March 1, 2006, we acquired the Research Products Division of Ambion, Inc. for approximately $279 million in cash, including closing transaction costs. Ambion, which is based in Austin, Texas, is a leading supplier of ribonucleic acid (RNA) based reagents for life science research and drug development. Ambion develops and supplies innovative consumable products for stabilizing, synthesizing, handling, isolating, storing, detecting, and quantifying RNA. We believe that the acquisition will drive growth by delivering more complete customer workflow solutions and by expanding the Applied Biosystems group s consumables product offering. We expect that Ambion s RNA R&D expertise, consumables manufacturing capabilities, and culture of scientific innovation will complement our existing strengths. Ambion will continue to be based in Austin, Texas.

Back to Index

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

We allocated the purchase price of $279.3 million to tangible net assets and intangible assets as follows:

(Dollar amounts in millions)	
Current assets	$28.2
Long-term assets	16.0
Current liabilities	(8.5)
Long-term liabilities	(23.4)
Tangible net assets acquired, at approximate fair value	12.3
Goodwill	206.5
Customer relationships	27.1
Existing technology	24.8
Trade name	4.9
Acquired IPR&D	3.4
Purchase order backlog	0.3
Total intangible assets	267.0
Total purchase price	$279.3

We are amortizing the recorded values of the intangible assets, other than the acquired IPR&D and the trade name, over their expected period of benefit, which on a weighted average basis is 5.5 years. An established client list, a recognized company name in the RNA field, a strong scientific employee base, and operations in a complementary consumables business were among the factors that contributed to a purchase price resulting in the recognition of goodwill. The goodwill and the trade name will be tested for impairment as part of our annual impairment test at the reporting unit level. In the third quarter of fiscal 2006, the Applied Biosystems group recorded approximately $1 million of amortization of intangible assets and a $3.4 million charge to write-off the value of acquired IPR&D (see Note 2) from this acquisition. We recorded a $7.9 million deferred tax asset, included in current assets, for net operating loss carryforwards and other temporary differences of Ambion that we expect to use. The goodwill recognized will not be deductible for federal income tax purposes.

The net assets and results of operations of Ambion have been included in our condensed consolidated financial statements since the date of the acquisition, and have been allocated to the Applied Biosystems group. The following selected pro forma financial information for Applera and the Applied Biosystems group has been prepared assuming the acquisition had occurred at the beginning of fiscal 2005 and gives effect to purchase accounting adjustments:

	Three months ended March 31,		**Nine months ended March 31,**	
(Dollar amounts in millions except per share amounts)	**2005**	**2006**	**2005**	**2006**
Applera Corporation				
Net revenues	$482.0	**$507.9**	$1,388.1	**$1,446.8**
Net income	33.7	**86.4**	101.1	**123.8**

Applied Biosystems Group				
Net revenues	$467.4	**$500.8**	$1,342.5	**$1,425.2**
Net income, as allocated	54.6	**109.7**	161.8	**181.2**
Basic per share	0.28	**0.60**	0.83	**0.96**
Diluted per share	0.27	**0.58**	0.81	**0.94**

There was no impact on the Celera Genomics group related to this acquisition.

On consummation of the acquisition, the Applied Biosystems group recorded a $3.4 million non-cash charge to write-off the value of acquired IPR&D, which has been included in the pro forma results above. This unaudited pro forma data is for informational purposes only and may not be indicative of the actual results that would have occurred had the acquisition been consummated at the beginning of fiscal 2005 or of the future operations of the combined companies.

Back to Index

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

Note 4 Earnings (Loss) per Share

The following table presents a reconciliation of basic and diluted earnings (loss) per share for the three months ended March 31:

	Applied Biosystems Group		Celera Genomics Group	
(Dollar amounts in millions, except per share amounts)	**2005**	**2006**	**2005**	**2006**
Net income (loss)	$55.5	**$124.4**	$(21.0)	**$(23.3)**
Allocated interperiod taxes	0.1	**(0.6)**		
Total net income (loss) allocated	55.6	**123.8**	(21.0)	**(23.3)**
Less dividends declared on common stock	8.4	**7.9**		
Undistributed earnings (loss)	$47.2	**$115.9**	$(21.0)	**$(23.3)**
Allocation of basic earnings (loss) per share				
Basic distributed earnings per share(1)	$0.04	**$0.04**	$	**$**
Basic undistributed earnings (loss) per share	0.24	**0.63**	(0.29)	**(0.31)**
Total basic earnings (loss) per share	$0.28	**$0.67**	$(0.29)	**$(0.31)**
Allocation of diluted earnings (loss) per share				
Diluted distributed earnings per share(1)	$0.04	**$0.04**	$	**$**
Diluted undistributed earnings (loss) per share	0.24	**0.61**	(0.29)	**(0.31)**
Total diluted earnings (loss) per share	$0.28	**$0.65**	$(0.29)	**$(0.31)**
Weighted average number of common shares				
Basic	196.4	**183.5**	73.4	**75.8**
Common stock equivalents	2.7	**7.0**		
Diluted	199.1	**190.5**	73.4	**75.8**

(1) Amounts represent actual dividends per share distributed.

Back to Index

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

The following table presents a reconciliation of basic and diluted earnings (loss) per share for the nine months ended March 31:

	Applied Biosystems Group		Celera Genomics Group	
(Dollar amounts in millions, except per share amounts)	**2005**	**2006**	**2005**	**2006**
Net income (loss)	$165.3	**$198.4**	$(60.8)	**$(57.4)**
Allocated intercompany sales of assets		**0.1**		
Allocated interperiod taxes	1.1	**(1.3)**		
Total net income (loss) allocated	166.4	**197.2**	(60.8)	**(57.4)**
Less dividends declared on common stock	25.0	**24.0**		
Undistributed earnings (loss)	$141.4	**$173.2**	$(60.8)	**$(57.4)**
Allocation of basic earnings (loss) per share				
Basic distributed earnings per share(1)	$0.13	**$0.13**	$	**$**
Basic undistributed earnings (loss) per share	0.72	**0.92**	(0.83)	**(0.77)**
Total basic earnings (loss) per share	$0.85	**$1.05**	$(0.83)	**$(0.77)**
Allocation of diluted earnings (loss) per share				
Diluted distributed earnings per share(1)	$0.13	**$0.13**	$	**$**
Diluted undistributed earnings (loss) per share	0.71	**0.89**	(0.83)	**(0.77)**
Total diluted earnings (loss) per share	$0.84	**$1.02**	$(0.83)	**$(0.77)**
Weighted average number of common shares				
Basic	195.9	**188.3**	73.2	**75.0**
Common stock equivalents	2.7	**4.7**		
Diluted	198.6	**193.0**	73.2	**75.0**

(1) Amounts represent actual dividends 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 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 at March 31:

(Shares in millions)	2005	2006
Applera Corporation-Applied Biosystems Group Common Stock	20.1	**5.9**
Applera-Celera Genomics stock	11.5	**9.1**

Note 5 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. For information on our share-based plans, refer to Note 6 to our consolidated financial statements included in our 2005 Annual Report to Stockholders and Note 4 to our condensed consolidated financial statements in our first quarter 2006 Quarterly Report on Form 10-Q (which information is incorporated in this quarterly report by reference).

Back to Index

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

We recognize share-based compensation costs on a straight-line basis over the requisite service period for the entire grant. For the three and nine months ended March 31, 2006, total share-based compensation expense and the earnings per share effects of adopting the provisions of SFAS No. 123R were as follows:

	Applera-Applied Biosystems Stock		Applera-Celera Genomics Stock	
(Dollar amounts in millions, except per share amounts)	Three months ended March 31	Nine months ended March 31	Three months ended March 31	Nine months ended March 31
Pre-tax share-based compensation expense	$3.7	$7.4	$0.4	$1.0
Tax benefit	1.1	2.2	0.1	0.2
Net expense	$2.6	$5.2	$0.3	$0.8
Basic earnings per share	$0.01	$0.03	$	$0.01
Diluted earnings per share	0.01	0.03		0.01

The amounts above include pre-tax charges of $3.2 million for the third quarter and $5.8 million for the first nine months for our restricted stock plans, primarily allocated to the Applied Biosystems group, 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 $124.6 million and the total intrinsic value of options exercised was $38.4 million in the first nine months of fiscal 2006. In connection with these exercises, we realized a tax benefit of $11.9 million in the first nine months of fiscal 2006.

We settle employee stock option exercises primarily with treasury shares, if available. As of March 31, 2006, we had 28.5 million treasury shares of Applera Corporation-Applied Biosystems Group Common Stock (Applera-Applied Biosystems stock), and 13,500 treasury shares of Applera-Celera Genomics stock, including the 1993 Director Stock Purchase and Deferred Compensation Plan shares described below. In January 2006, we announced that our board of directors authorized the repurchase of up to 5 million shares of Applera-Applied Biosystems stock. This authorization supplements our existing authority to repurchase shares of Applera-Applied Biosystems stock and Applera-Celera Genomics stock from time to time to replenish shares issued under our various employee stock benefit plans. This new authorization has no time restrictions and delegates to 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.

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

Applera-Applied Biosystems Stock			
Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining	Aggregate Intrinsic Value

			Contractual Life (in years)	
Outstanding at June 30, 2005	35,348,668	$ 30.91		
Granted	**565,250**	**23.95**		
Exercised	**(5,386,542)**	**18.69**		
Cancelled	**(2,216,485)**	**47.87**		
Outstanding at March 31, 2006	**28,310,891**	**32.04**	**5.75**	**$ 149.4 million**
Exercisable at March 31, 2006	**27,550,596**	**$ 32.30**	**5.66**	**145.8 million**

12

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		
Granted	**74,800**	**11.52**		
Exercised	**(897,075)**	**9.53**		
Cancelled	**(733,992)**	**49.84**		
Outstanding at March 31, 2006	**8,856,533**	**17.69**	**5.68**	**$ 14.3 million**
Exercisable at March 31, 2006	**8,792,925**	**$ 17.73**	**5.65**	**14.3 million**

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

	Applera-Applied Biosystems Stock			Applera-Celera Genomics Stock		
	Number of		Weighted-Average Grant-Date Fair Value	Number of		Weighted-Average Grant-Date Fair Value
	Shares	Units*		Shares	Units*	
Nonvested at June 30, 2005	209,448		$ 20.98	60,834		$ 10.44
Granted	**23,400**	**1,131,613**	**26.58**	**9,000**	**133,630**	**12.52**
Vested	**(74,166)**		**21.23**	**(29,306)**		**10.12**
Cancelled		**(19,250)**	**26.62**		**(1,775)**	**12.54**
Nonvested at March 31, 2006	**158,682**	**1,112,363**	**$ 25.98**	**40,528**	**131,855**	**$ 12.19**

* Each restricted stock unit represents the right to receive a share of the corresponding class of common stock on satisfaction of the applicable vesting conditions.

As of March 31, 2006, we had $27.1 million of total unrecognized compensation costs related to nonvested awards and units that are expected to be recognized over a weighted average period of less than two years. At March 31, 2006, we had 50,800 shares of Applera-Applied Biosystems stock and 13,500 shares of Applera-Celera Genomics stock that have been deferred under our 1993 Director Stock Purchase and Deferred Compensation Plan and are treated as treasury shares for accounting purposes.

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 the exercise price of stock options granted to employees, generally, 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 the vesting period. We recorded pre-tax charges of $1.0 million ($0.7 million net of tax) for the third quarter and $3.1 million ($2.0 million net of tax) for the first nine months of fiscal 2005 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 third quarter and first nine months 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.

In the third quarter of fiscal 2005, our board of directors accelerated the vesting of substantially all unvested stock options previously awarded to employees, officers, and directors in light of the new accounting requirements of SFAS No. 123R. As a result of this acceleration, during the third quarter of fiscal 2005 the Applied Biosystems group recorded

13

Back to Index

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

a pre-tax charge of $1.7 million and the Celera Genomics group recorded a pre-tax charge of $1.1 million of compensation cost that represents the intrinsic value measured at the acceleration date for the estimated number of awards that, absent the acceleration, would have expired unexercisable. Our pro forma tables below include the acceleration of the unamortized portion of unvested stock options, which resulted in an additional pre-tax amount of approximately $97 million for the Applied Biosystems group and approximately $19 million for the Celera Genomics group for the third quarter of fiscal 2005.

The earnings (loss) per share and pro forma effects on results for the three months ended March 31, 2005, are presented below:

(Dollar amounts in millions)	**Applera Corporation**	**Applied Biosystems Group**	**Celera Genomics Group**
Net income (loss), as allocated	$34.7	$55.6	$(21.0)
Add: Share-based employee compensation expense included in allocated net income, net of tax	2.9	1.8	1.1
Deduct: Share-based employee compensation expense determined under fair value based method, net of tax	110.5	91.6	18.9
Pro forma net loss	$(72.9)	$(34.2)	$(38.8)
Earnings (loss) per share			
Basic and diluted - as reported		$0.28	$(0.29)
Basic and diluted - pro forma		(0.17)	(0.53)

The earnings (loss) per share and pro forma effects on results for the nine months ended March 31, 2005, are presented below:

(Dollar amounts in millions)	**Applera Corporation**	**Applied Biosystems Group**	**Celera Genomics Group**
Net income (loss), as allocated	$105.6	$166.4	$(60.8)
Add: Share-based employee compensation expense included in allocated net income, net of tax	4.3	2.7	1.6
Deduct: Share-based employee compensation expense determined under fair value based method, net of tax	145.6	120.5	25.1
Pro forma net income (loss)	$(35.7)	$48.6	$(84.3)
Earnings (loss) per share			
Basic as reported		$0.85	$(0.83)
Basic - pro forma		0.25	(1.15)
Diluted - as reported		0.84	(0.83)
Diluted - pro forma		0.24	(1.15)

14

Back to Index

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

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 March 31,		Nine months ended March 31,	
	2005	**2006**	**2005**	**2006**
Applied Biosystems Group				
Dividend yield	0.9%	**0.6%**	0.9%	**0.7%**
Risk-free interest rate	3.7%	**4.6%**	3.5%	**4.3%**
Expected option life in years	5	**4**	5	**4**
Volatility	65%	**23%**	68%	**25%**
Weighted-average fair value per option granted	$11.06	**$6.91**	$11.10	**$7.60**
Celera Genomics Group				
Risk-free interest rate	3.6%	**4.6%**	3.5%	**4.3%**
Expected option life in years	4	**5**	4	**5**
Volatility	45%	**36%**	53%	**35%**
Weighted-average fair value per option granted	$4.93	**$4.44**	$5.24	**$4.36**

Prior to fiscal 2006, we determined the expected term of our options primarily based on the average life of our options for both Applera-Applied Biosystems stock and 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.

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 6 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:

15

Back to Index

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

	Three months ended March 31,		Nine months ended March 31,	
(Dollar amounts in millions)	**2005**	**2006**	**2005**	**2006**
Net income	$34.7	**$100.5**	$105.6	**$139.8**
Other comprehensive gain (loss):				
Net unrealized gains (losses) on investments	(3.6)	**0.2**	(5.0)	**0.1**
Net unrealized gains (losses) on hedge contracts	8.1	**(2.2)**	(11.8)	**4.8**
Net unrealized (gains) losses on hedge contracts reclassified into earnings	2.3	**(5.8)**	10.0	**(6.8)**
Foreign currency translation adjustments	(25.2)	**4.1**	27.4	**(10.4)**
Total other comprehensive gain (loss)	(18.4)	**(3.7)**	20.6	**(12.3)**
Total comprehensive gain	$16.3	**$96.8**	$126.2	**$127.5**

Note 7 Inventories

Inventories included the following components:

(Dollar amounts in millions)	**June 30, 2005**	**March 31, 2006**
Raw materials and supplies	$45.9	**$48.9**
Work-in-process	5.3	**11.9**
Finished products	75.3	**88.8**
Total inventories, net	$126.5	**$149.6**

Note 8 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 and recorded a $1.7 million pre-tax charge that represented the write-down of the carrying amount of this facility to its estimated market value less estimated selling costs. As discussed in Note 2, the Applied Biosystems group adjusted the carrying value of this facility in both the first and third quarters of fiscal 2006. The Applied Biosystems group entered into an agreement to sell the facility, and the sale of this facility is expected to occur by June 30, 2006.

Also, during the second quarter of fiscal 2006, we reclassified property, plant and equipment into assets held for sale. This reclassification is for a facility in Connecticut that was previously used for manufacturing and administration. The facility was vacant but we have entered into a contract to sell this facility and expect the sale to close by June 30, 2006.

In connection with the Celera Genomics group s decision to partner or sell its small molecule drug discovery and development programs as discussed in Note 2, the Celera Genomics group decided to pursue the sale of its South San Francisco, California facility. As a result of this decision, we reclassified property, plant and equipment into assets held for sale in the third quarter of fiscal 2006 and recorded a $5.8 million pre-tax charge that represented the write-down of the carrying amount of this facility to its current estimated market value less estimated selling costs. We expect the sale of this facility to occur during the next twelve months.

Back to Index

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

As of March 31, 2006, the carrying amounts for the following facilities were recorded in assets held for sale within prepaid expenses and other current assets:

(Dollar amount in millions)	
San Jose, California	$6.4
Connecticut facility	3.6
South San Francisco, California	11.5
Total assets held for sale	$21.5

Note 9 Goodwill and Intangible Assets

The carrying amounts of our intangible assets were as follows:

	June 30, 2005		March 31, 2006	
(Dollar amounts in millions)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Acquired technology	$60.5	$ 42.7	**$82.9**	**$ 41.0**
Patents	25.5	20.7	**29.9**	**22.2**
Customer relationships			**27.1**	**0.3**
Favorable operating leases	11.6	10.5		
Other			**0.3**	**0.2**
Total amortized intangible assets	$97.6	$ 73.9	**$140.2**	**$ 63.7**
Unamortized intangible assets:				
Trade name			**4.9**	
Total	$97.6	$ 73.9	**$145.1**	**$ 63.7**

Aggregate amortization expense was as follows:

Three months ended March 31,	Nine months ended March 31,

(Dollar amounts in millions)	2005	2006	2005	2006
Applied Biosystems group	$1.7	**$3.1**	$5.2	**$6.6**
Celera Genomics group	1.3	**0.6**	3.8	**2.8**
Consolidated	$3.0	**$3.7**	$9.0	**$9.4**

The Applied Biosystems group records amortization expense in cost of sales and SG&A and the Celera Genomics group records amortization expense in costs of sales and amortization of intangible assets. The Applied Biosystems group recorded the following amortization of acquisition-related intangible assets:

	Three months ended March 31,		**Nine months ended March 31,**	
(Dollar amounts in millions)	**2005**	**2006**	**2005**	**2006**
Amortization of purchased intangible assets	$0.3	**$1.3**	$1.0	**$1.9**

At March 31, 2006, 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.

Back to Index

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

(Dollar amounts in millions)	Applied Biosystems Group	Celera Genomics Group	Consolidated
Remainder of fiscal 2006	**$ 4.6**	**$0.6**	**$ 5.2**
2007	**16.7**	**2.1**	**18.8**
2008	**14.0**	**0.5**	**14.5**
2009	**13.0**	**0.1**	**13.1**
2010	**12.6**	**0.1**	**12.7**

The change in the carrying amount of goodwill for the nine months ended March 31, 2006 is as follows:

(Dollar amounts in millions)	Applied Biosystems Group	Celera Genomics Group	Consolidated
Balance as of June 30, 2005	$ 36.7	$2.7	$ 39.4
Goodwill acquired	**206.5**		**206.5**
Balance as of March 31, 2006	**$ 243.2**	**$2.7**	**$ 245.9**

Refer to Note 3 for information on the goodwill we acquired in connection with the Ambion acquisition.

Note 10 Supplemental Cash Flow Information

Significant non-cash financing activity for the nine months ended March 31 was as follows:

(Dollar amounts in millions)	2005	2006
Dividends declared but not paid	$	**$7.9**

Note 11 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 on 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 on 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 March 31, 2006, the financing companies outstanding balance of lease receivables with recourse to us was $8.6 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 $55 million at March 31, 2006, is not expected to have a material adverse effect on our condensed 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

Back to Index

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

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.

The following table provides an analysis of the warranty reserve for the nine months ended March 31:

(Dollar amount in millions)	2005	2006
Balance beginning of period	$15.9	**$14.0**
Accruals for warranties	16.0	**13.3**
Usage of reserve	(16.8)	**(13.6)**
Other	(0.7)	**(2.5)**
Balance at March 31	$14.4	**$11.2**

Other consists of accrual adjustments to reflect actual experience and currency translation.

Note 12 Pension and Other Postretirement Benefits

The components of net pension and postretirement benefit expenses for the three and nine-month periods ended March 31 were as follows:

	Three months ended March 31,		Nine months ended March 31,	
(Dollar amounts in millions)	2005	2006	2005	2006
Pension				
Service cost	$0.8	**$0.9**	$1.8	**$2.4**
Interest cost	9.9	**8.9**	29.8	**27.0**
Expected return on plan assets	(10.4)	**(9.5)**	(31.4)	**(28.7)**
Amortization of prior service cost		**0.2**	(0.1)	**0.2**
Amortization of losses	0.9	**2.1**	2.7	**6.0**

Net periodic expense	$1.2	**$2.6**	$2.8	**$6.9**
Postretirement Benefit				
Service cost	$0.1	**$0.1**	$0.2	**$0.2**
Interest cost	1.0	**0.5**	3.0	**2.1**
Amortization of (gains) losses	(0.1)		(0.4)	**0.1**
Net periodic expense	$1.0	**$0.6**	$2.8	**$2.4**

We contributed approximately $31 million to our pension plans during the nine months ended March 31, 2006. We do not expect to fund material additional amounts during the remainder of fiscal 2006. We made benefit payments of approximately $5 million to the postretirement plan during the nine months ended March 31, 2006, and we expect to make approximately $2 million of additional benefit payments during the remainder of fiscal 2006 under our postretirement plan**.**

Back to Index

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

Note 13 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 March 31, 2006, the Applied Biosystems group had an accounts receivable balance of approximately $7 million and an accounts payable balance of approximately $4 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 contract in effect between the companies.

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 were 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 licensed and enforced these patents through anticompetitive conduct in violation of federal and state antitrust laws, that some of our patents were unenforceable because of patent misuse, and that some of our patents were invalid and unenforceable because of inequitable conduct. MJ Research was 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 was 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 filed notices of appeals

20

Back to Index

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

of some of the rulings in the case, including the damages award and the order enjoining MJ Research. However, all of these legal proceedings were terminated by the parties pursuant to a settlement agreement signed on February 9, 2006. As part of the settlement, the parties filed with the court, and the court signed into effect, a consent judgment and permanent injunction. In connection with the settlement, Bio-Rad s existing license to some of Applera s thermal cycler patents and Roche Molecular Systems PCR patents has been amended to include the MJ Research thermal cyclers that were subject to this litigation. The settlement agreement, which we refer to in this Legal Proceedings section as the Bio-Rad Settlement Agreement, resolved other legal proceedings as further described below.

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 was 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 were 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 asserted 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 was seeking monetary damages, costs and expenses, injunctive relief, transfer of ownership of the patents in dispute, and other relief as the court deemed proper. MJ Research claimed to be suing in the name of the U.S. government although the government declined to participate in the suit. On October 9, 2003, the case against us was dismissed but MJ Research filed an appeal. On November 21, 2005, the U.S. Court of Appeals for the Ninth Circuit affirmed the dismissal. Pursuant to the Bio-Rad Settlement Agreement described above, MJ Research agreed not to pursue an appeal of this decision and therefore these legal proceedings have terminated.

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 alleged that we were 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 were instruments using, and reagents used for, capillary electrophoresis, and products using the BioCAD® name. Bio-Rad was seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper. However, these legal proceedings were terminated by the parties pursuant to the Bio-Rad Settlement Agreement described above. As part of the settlement, the parties filed with the court, and the court signed into effect, a consent judgment and permanent injunction. Also as part of the settlement, Applera has entered into a license agreement with Bio-Rad relating to capillary electrophoresis technology.

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 and MJ Research answered the complaint and counterclaimed for declaratory relief that the 934 patent was invalid and not infringed. Bio-Rad and MJ Research were 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 deemed proper. Pursuant to the Bio-Rad Settlement Agreement described above, Bio-Rad, MJ Research, and Applera settled the claims and counter-claims against each other described in this paragraph, and they filed with the court, and the court signed into effect, a consent judgment and permanent injunction. In addition, Bio-Rad has entered into a license agreement with Applera relating to real-time thermal cyclers sold in the U.S. and Canada, and a limited license for real-time thermal cyclers sold in Europe and Japan. Stratagene also answered the complaint and counterclaimed for declaratory relief that the 934 patent is invalid and not infringed. Stratagene is 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.

Back to Index

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

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. Because of settlement negotiations, the case was dismissed on October 29, 2002. However, the case was dismissed without prejudice, which means that Promega could re-file its claim against us.

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. On April 26, 2006, we joined with Beckman Coulter in announcing the establishment of terms of a settlement to resolve all outstanding legal disputes between us, and the court has stayed its proceedings for 90 days pending completion of definitive agreements based on these terms.

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 alleges 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 seeks 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.

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.

We are involved in several legal actions with Thermo Electron Corporation and its subsidiary Thermo Finnigan LLC. These legal actions commenced when we, together with MDS, Inc. and our Applied Biosystems/MDS Sciex Instruments joint venture with MDS, filed a patent infringement action against Thermo Electron in the U.S. District Court for the District of Delaware on September 3, 2004. The complaint alleges infringement by Thermo Electron of U.S. Patent No. 4,963,736, and seeks monetary damages, costs, expenses, and other relief as the court deems proper. Thermo Electron has answered the complaint and counterclaimed for declaratory relief that the 736 patent is invalid, not infringed, and unenforceable, and is seeking dismissal of our complaint, a judgment that the 736 patent is invalid, not infringed, and unenforceable, costs and expenses, and other relief as the court deems proper. Subsequent to the filing of the action against Thermo Electron, on December 8, 2004, Thermo Finnigan filed a patent infringement action against us in the U.S. District Court for the District of Delaware. 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. We have answered the complaint and counterclaimed for declaratory relief that the 654 patent is invalid, not infringed, and unenforceable, and are seeking dismissal of Thermo Finnigan s complaint, a judgment that the 654 patent is invalid, not infringed, and unenforceable, costs and expenses, and other relief as the court deems proper. Thermo Finnigan subsequently filed a second patent infringement action against us, MDS, and the Applied Biosystems/MDS Sciex Instruments joint venture, in the U.S. District Court for the District of Delaware on February 23, 2005. The complaint alleges that we and the other defendants have infringed U.S. Patent No. 6,528,784 as a result of, for example, our commercialization of the API 5000 LC/MS/MS system. Thermo Finnigan is seeking monetary damages, costs, expenses, and other relief as the court deems proper. We have answered the complaint and counterclaimed for declaratory relief that the 784 patent is invalid and not infringed, and are seeking dismissal of Thermo Finnigan s complaint, a judgment that the 784 patent is invalid and not infringed, costs and expenses, and other relief as the court deems proper.

Other than the charge recorded for the Beckman settlement (as discussed in Note 2) and for items deemed not material, we have not accrued for potential future losses, if any, in the ongoing 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 ongoing 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 14 Celera Diagnostics and Abbott Alliance Restructuring

Celera Diagnostics Restructuring

In January 2006, we announced that our board of directors had approved a restructuring of the Celera Diagnostics joint venture between the Applied Biosystems group and the Celera Genomics group. The joint venture was formed pursuant to a Celera Diagnostics Joint Venture Agreement dated as of April 1, 2001, and amended as of June 22, 2004.

Back to Index

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

As a result of the restructuring, effective as of January 1, 2006, the Applied Biosystems group s interest in Celera Diagnostics was transferred to the Celera Genomics group in exchange for various considerations to the Applied Biosystems group. In determining that the restructuring was in the best interests of the Company and its stockholders, our board of directors considered numerous factors and used the assistance and advice of several independent advisors. Included in the process were independent analyses of: the Applied Biosystems group s 50 percent interest in Celera Diagnostics; the various considerations made to the Applied Biosystems group in the restructuring; and the pro forma impact of the restructuring on the Applied Biosystems group and the Celera Genomics group businesses.

The financial elements of the consideration made to the Applied Biosystems group in connection with the restructuring of Celera Diagnostics included:

- The Applied Biosystems group gained the right to sell instrument platforms to end-user diagnostic customers, a field of activity previously reserved for Celera Diagnostics. The Applied Biosystems group anticipates its entry into the clinical diagnostic instrumentation market will increase revenue and margin. The Applied Biosystems group will also be the preferred supplier of some diagnostic instruments to the Celera/Abbott alliance, and the Celera/Abbott alliance will be the preferred diagnostics company marketing some of the Applied Biosystems group s instruments. Please refer to the Abbott Alliance Restructuring discussion below for more information.
- The Celera Genomics group provides some R&D and regulatory support to the Applied Biosystems group at cost, including assistance in the development of new PCR reagents and clinical diagnostic instrument systems that are expected to lead to increased revenue and margin for the Applied Biosystems group. Additionally, the Celera Genomics group will use its GMP reagent manufacturing capability to manufacture selected products for the Applied Biosystems group s customers.
- The Celera Genomics group forgave future royalties due through 2017 on sales of selected Applied Biosystems group s products under the terms of a marketing and distribution agreement between the Groups.
- The Celera Genomics group paid the Applied Biosystems group $30 million in cash.

Abbott Alliance Restructuring

In January 2006, we also announced that we had restructured our strategic alliance agreement with Abbott Laboratories. The restructured agreement was entered into on January 9, 2006. This agreement was originally entered into to discover, develop, and commercialize a broad range of *in vitro* diagnostic products for disease detection, prediction of disease predisposition, disease progression monitoring, and therapy selection. Under the agreement prior to the restructuring of the Abbott alliance, the parties were obligated to work exclusively with each other in the commercialization of nucleic acid-based (DNA or RNA) diagnostic products. Under the relationship as restructured, the companies will continue to work with each other exclusively through a profit sharing arrangement in specifically agreed areas of nucleic acid-based diagnostic products, and both companies may work independently outside the exclusive areas. This restructuring also enables the Applied Biosystems group to develop and sell diagnostic instruments to end-users for clinical diagnostic applications, an activity that was previously restricted under the Abbott alliance agreement.

Under the Abbott alliance agreement as restructured, the companies will continue to jointly fund their separate but coordinated research and development activities that are within the scope of the alliance. Generally, Abbott markets products developed and manufactured by the parties that are covered by the alliance. The Celera Genomics group believes that Abbott s expertise in the diagnostics industry and its global distribution system enhances the Celera Genomics group s ability to bring diagnostic products to market. Under the terms of its strategic alliance with Abbott, Abbott serves as the Celera Genomics group s exclusive worldwide distributor of nucleic acid-based diagnostic products developed under the agreement. Under the Abbott alliance agreement as restructured, the Celera Genomics group is entitled to a royalty based on sales by Abbott of nucleic acid-based products that are within the scope of the alliance but which are manufactured by other companies. These products had previously been part of the profit sharing arrangement. The Celera Genomics group is also exploring alternatives to commercialize its diagnostic products and technology that are not part of its alliance with Abbott.

Back to Index

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

The Celera Genomics group expects to rely substantially on its alliance with Abbott for the success of a major portion of its diagnostic products business strategy for the foreseeable future. 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; or either company s dissatisfaction with the financial performance of the alliance according to specifically-agreed parameters and a measurement period set forth in the alliance agreement. Also, the Celera Genomics group cannot ensure that Abbott will perform its obligations as expected. If Abbott terminates the alliance or otherwise fails to conduct its collaborative activities in a timely manner, the Celera Genomics group s development or commercialization of diagnostic products may be delayed or otherwise adversely affected.

Note 15 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.

As a result of the restructuring effective January 1, 2006, Celera Diagnostics is no longer a separate segment within Applera. For comparative purposes, we have restated prior period condensed consolidating financial information to reflect this change in our reportable segments. 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:

	Three months ended March 31,		Nine months ended March 31,	
(Dollar amounts in millions)	**2005**	**2006**	**2005**	**2006**
Applied Biosystems Group				
Sales to the Celera Genomics group (a)	$ 1.8	**$ 1.9**	$ 4.4	**$ 4.8**
Celera Genomics Group				
Royalties from the Applied Biosystems group (b)	$ 0.8	**$ (0.1)**		