APPLERA CORP
Form 10-Q
May 14, 2003

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 March 31, 2003

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 Number)

301 Merritt 7,
Norwalk, Connecticut 06851-1070
(Address of Principal Executive Offices, Including 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 x No ____

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

Yes x No ____

As of the close of business on May 9, 2003, there were 208,965,952 shares of Applera Corporation - Applied Biosystems Group Common Stock and 72,026,950 shares of Applera Corporation - Celera Genomics Group Common Stock outstanding.

APPLERA CORPORATION

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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,	
	2002	2003	2002	2003
Net Revenues	$ 434,437	$ 431,006	$ 1,259,457	$ 1,321,3

Cost of sales	202,951	206,123	595,777	631,3
Gross Margin	231,486	224,883	663,680	690,0
Selling, general and administrative	108,582	105,345	325,011	324,8
Research, development and engineering	103,638	96,963	276,607	303,5
Amortization of intangible assets	2,636	725	4,742	5,1
Other special charges	22,959		22,959	24,3
Acquired research and development			101,181	
Operating Income (Loss)	(6,329)	21,850	(66,820)	32,1
Loss on investments, net	(350)	(2,147)	(350)	(2,4
Interest expense	(500)	(211)	(1,128)	(6
Interest income	9,797	7,156	36,123	23,6
Other income (expense), net	(3,516)	(13,392)	(5,244)	(12,4
Income (Loss) Before Income Taxes	(898)	13,256	(37,419)	40,2
Provision (benefit) for income taxes	1,959	(329)	9,886	1,1
Income (Loss) From Continuing Operations	(2,857)	13,585	(47,305)	39,0
Loss from discontinued operations, net of income taxes				(16,4
Net Income (Loss)	$ (2,857)	$ 13,585	$ (47,305)	$ 22,6
Applied Biosystems Group (see Note 5)				
Income From Continuing Operations	$ 49,111	$ 40,123	$ 130,341	$ 103,5
Basic per share	$ 0.23	$ 0.19	$ 0.62	$ 0.
Diluted per share	$ 0.23	$ 0.19	$ 0.60	$ 0.
Loss From Discontinued Operations	$ --	$ --	$ --	$ (16,4
Basic and diluted per share	$ --	$ --	$ --	$ (0.
Net Income	$ 49,111	$ 40,123	$ 130,341	$ 87,1
Basic per share	$ 0.23	$ 0.19	$ 0.62	$ 0.
Diluted per share	$ 0.23	$ 0.19	$ 0.60	$ 0.
Dividends per share	$ 0.0425	$ 0.0850	$ 0.1275	$ 0.17
Celera Genomics Group (see Note 5)				
Net Loss	$ (49,496)	$ (26,743)	$ (182,998)	$ (62,5
Basic and diluted per share	$ (0.72)	$ (0.37)	$ (2.82)	$ (0.

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

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

	At June 30, 2002	At March 31, 2003
		(unaudited)

Assets		
Current assets		
Cash and cash equivalents	$ 470,218	$ 542,126
Short-term investments	889,685	803,439
Accounts receivable, net	406,244	386,559
Inventories, net	146,804	154,153
Prepaid expenses and other current assets	99,547	85,279
Total current assets	2,012,498	1,971,556
Property, plant and equipment, net	488,744	519,515
Other long-term assets	574,157	608,781
Total Assets	$ 3,075,399	$ 3,099,852
Liabilities And Stockholders' Equity		
Current liabilities		
Loans payable	$ 299	$ --
Accounts payable	168,218	154,030
Accrued salaries and wages	82,165	77,480
Accrued taxes on income	101,209	92,360
Other accrued expenses	275,348	288,969
Total current liabilities	627,239	612,839
Long-term debt	17,983	17,321
Other long-term liabilities	205,234	224,175
Total Liabilities	850,456	854,335
Stockholders' Equity		
Capital stock		
Applera Corporation - Applied Biosystems Group	2,128	2,128
Applera Corporation - Celera Genomics Group	710	720
Capital in excess of par value	2,086,929	2,099,470
Retained earnings	292,690	277,407
Accumulated other comprehensive loss	(91,574)	(63,326)
Treasury stock, at cost	(65,940)	(70,882)
Total Stockholders' Equity	2,224,943	2,245,517
Total Liabilities And Stockholders' Equity	$ 3,075,399	$ 3,099,852

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

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

	Nine months ended March 31,

	2002	2003
Operating Activities Of Continuing Operations		
Income (loss) from continuing operations	$ (47,305)	$ 39,074
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	84,422	105,639
Asset impairments	15,563	10,017
Provisions for excess lease space, office closures and severance costs	10,311	23,744
Long-term compensation programs	5,522	4,524
(Gain) loss on sale of assets	(51)	1,330
Deferred income taxes	(29,049)	(55,067)
Loss from equity method investees	4,027	19,171
Acquired research and development	101,181	
Changes in operating assets and liabilities:		
Accounts receivable	16,583	28,717
Inventories	6,240	(10,725)
Prepaid expenses and other assets	(49,423)	(9,476)
Accounts payable and other liabilities	4,374	(43,994)
Net Cash Provided By Operating Activities Of Continuing Operations	122,395	112,954
Investing Activities Of Continuing Operations		
Additions to property, plant and equipment, net	(78,005)	(109,299)
(Purchases) proceeds from short-term investments, net	(15,215)	86,725
Purchases of long-term investments		(16,834)
Acquisitions and other investments, net	(41,314)	(105)
Proceeds from the sale of assets, net	5,228	6,579
Net Cash Used By Investing Activities Of Continuing Operations	(129,306)	(32,934)
Net Cash Used By Operating Activities Of Discontinued Operations	(2,230)	(2,526)
Financing Activities		
Net change in loans payable	(14,520)	(290)
Principal payments on long-term debt	(38,973)	
Dividends	(26,984)	(26,691)
Purchases of common stock for treasury	(941)	(19,779)
Proceeds from stock issued for stock plans	36,597	27,507
Net Cash Used By Financing Activities	(44,821)	(19,253)
Effect Of Exchange Rate Changes On Cash	7,078	13,667
Net Change In Cash And Cash Equivalents	(46,884)	71,908
Cash And Cash Equivalents Beginning Of Period	608,535	470,218
Cash And Cash Equivalents End Of Period	$ 561,651	$ 542,126

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

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Interim Condensed Consolidated Financial Statements

We prepare our unaudited interim condensed consolidated financial statements 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 judgment. While we believe we have considered all available information, actual results could affect the reported amounts of assets and liabilities, revenues, costs and expenses and contingent assets and liabilities. We have reclassified certain amounts in the condensed consolidated financial statements for comparative purposes.

We consistently applied the accounting policies described in our 2002 Annual Report to Stockholders in preparing these unaudited interim financial statements. 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 certain notes and other information included in our 2002 Annual Report to Stockholders. You should read these unaudited interim condensed consolidated financial statements in conjunction with our consolidated financial statements presented in our 2002 Annual Report to Stockholders.

The results for the interim periods are not necessarily indicative of trends or future financial results.

Note 2 - Stock-Based Compensation

On January 1, 2003, we adopted the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," which amended SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation and requires more prominent and frequent disclosures about the effects of stock-based compensation.

We continue to apply the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations in accounting for stock-based compensation. In accordance with APB Opinion No. 25, compensation cost for stock options is recognized in income based on the excess, if any, of the quoted market price of the stock over the exercise price of the stock options at the grant date of the award. Generally, the exercise price of stock options granted to employees equals the fair market value of our stock prices at the date of grant; therefore, no compensation expense is recorded.

We determined pro forma net income and earnings per share information for employee stock plans under the fair value method of SFAS No. 123. The fair value of the options was estimated at the grant date using the Black-Scholes option-pricing model with the following weighted average assumptions for the nine months ended March 31:

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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	2002	2003
Applied Biosystems Group		
Dividend yield	.92%	1.07%
Volatility	77.85%	72.03%
Risk-free interest rate	3.58%	3.01%
Expected option life in years	4	5
Celera Genomics Group		
Dividend yield	-- %	-- %
Volatility	101.17%	96.88%
Risk-free interest rate	3.71%	3.03%
Expected option life in years	3.5	4

The pro forma information for the three months ended March 31 is presented below:

	Applied Biosystems Group		Celera Ge Grou
(Dollar amounts in millions, except per share amounts)	2002	2003	2002
Income (loss) from continuing operations, as reported	$ 49.1	$ 40.1	$ (49.5)
Add: Stock-based employee compensation expense included in reported income (loss) from continuing operations, net of tax	0.8	0.4	0.2
Deduct: Stock-based employee compensation expense determined under fair value based method, net of tax	26.2	27.5	8.4
Pro forma income (loss) from continuing operations	$ 23.7	$ 13.0	$ (57.7)
Earnings (loss) per share from continuing operations			
Basic - as reported	$ 0.23	$ 0.19	$ (0.72)
Basic - pro forma	$ 0.11	$ 0.06	$ (0.84)
Diluted - as reported	$ 0.23	$ 0.19	$ (0.72)
Diluted - pro forma	$ 0.11	$ 0.06	$ (0.84)

	Applera Corporation	
(Dollar amounts in millions)	2002	2003
Income (loss) from continuing operations, as reported	$ (2.9)	$ 13.6
Add: Stock-based employee compensation expense included in reported income (loss) from continuing operations, net of tax	1.0	0.6
Deduct: Stock-based employee compensation expense determined under fair value based method, net of tax	34.6	34.3

Pro forma loss from continuing operations	$ (36.5)	$ (20.1)

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

The pro forma information for the nine months ended March 31 is presented below:

	Applied Biosystems Group		Celera Ge Grou
(Dollar amounts in millions, except per share amounts)	2002	2003	2002
Income (loss) from continuing operations, as reported	$ 130.3	$ 103.5	$ (183.0)
Add: Stock-based employee compensation expense included in reported income (loss) from continuing operations, net of tax	2.6	1.9	0.7
Deduct: Stock-based employee compensation expense determined under fair value based method, net of tax	78.6	87.0	24.5
Pro forma income (loss) from continuing operations	$ 54.3	$ 18.4	$ (206.8)
Earnings (loss) per share from continuing operations			
Basic - as reported	$ 0.62	$ 0.50	$ (2.82)
Basic - pro forma	$ 0.25	$ 0.09	$ (3.19)
Diluted - as reported	$ 0.60	$ 0.49	$ (2.82)
Diluted - pro forma	$ 0.25	$ 0.09	$ (3.19)

	Applera Corporation	
(Dollar amounts in millions)	2002	2003
Income (loss) from continuing operations, as reported	$ (47.3)	$ 39.1
Add: Stock-based employee compensation expense included in reported income (loss) from continuing operations, net of tax	3.3	2.6
Deduct: Stock-based employee compensation expense determined under fair value based method, net of tax	103.1	110.0
Pro forma loss from continuing operations	$(147.1)	$ (68.3)

Note 3 - Special Charges

During the second quarter of fiscal 2003, the Applied Biosystems group recorded pre-tax charges totaling $33.8 million for organization-wide cost reductions in response to uncertain economic conditions as well as its overall long-term strategy to return research and development investment to more traditional levels, following completion of the research phase of the Applera Genomics Initiative. The Applera Genomics Initiative includes the resequencing of genes and regulatory regions at the Celera Genomics group, validation of single nucleotide polymorphisms at the Applied Biosystems group, and disease gene association studies at Celera Diagnostics, a 50/50 joint venture between the Applied Biosystems group and the Celera Genomics group. The economic uncertainties included delays in appropriations for the National Institutes of Health for the current federal government fiscal year and uncertainty about funding levels in Japan and parts of Europe as well as within the pharmaceutical industry. The Applied Biosystems group recorded $24.3 million in other special charges comprised of $22.9 million for severance and benefits costs and $1.4 million for office closures. The Applied Biosystems group also recorded $9.5 million for the impairment of assets in cost of sales.

The severance and benefits charge related to the termination of approximately 400 employees worldwide. Positions are being eliminated mainly in the U.S. and Europe and primarily within the areas of research, manufacturing, sales, marketing and administration. The workforce reduction commenced in January 2003. The asset impairment charges resulted primarily from uncertainties surrounding the commercial introduction of products based on a collaboration with Illumina, Inc. and from a revised focus on products designed to offer the most efficient and newest technology with long-term earnings growth potential. The charge for office closures was primarily for one-time payments to terminate the leases of excess facilities and to write off the fixed assets and leasehold improvements related to these facilities.

The following table details the major components of the special charges:

(Dollar amounts in millions)	Employee-Related Charges	Asset Impairment	Office Closures	Total
Total charges	$22.9	$9.5	$ 1.4	$33.8
Cash payments	11.2		0.2	11.4
Non-cash charges		9.5	0.5	10.0
Balance at March 31, 2003	$11.7	$ --	$ 0.7	$12.4

Approximately 300 employees had been terminated as of March 31, 2003. The termination of the remaining employees and the cash expenditures relating to the workforce reductions and office closures are expected to be substantially complete by the end of calendar year 2003, and will be funded primarily by cash provided by operating activities.

The Celera Genomics group recorded a restructuring charge of $2.8 million during the fourth quarter of fiscal 2002 for severance costs associated with the termination of 132 employees primarily within the areas of DNA sequencing, data

management and analysis support, sales, and general administration. All actions under this plan were taken as of June 30, 2002, and all cash payments were made by March 31, 2003.

Note 4 - Comprehensive Gain (Loss)

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) for the three and nine months ended March 31 was as follows:

	Three months ended March 31,		Nine months ended March 31,	
(Dollar amounts in millions)	2002	2003	2002	2003
Net income (loss)	$ (2.9)	$ 13.6	$ (47.3)	$ 22.7
Other comprehensive gain (loss):				
Net unrealized losses on investments	(12.0)	(0.4)	(23.7)	(6.5)
Net unrealized losses on investments reclassified into earnings		0.9		0.8
Net unrealized gains (losses) on hedge contracts	2.6	(4.1)	4.7	(3.3)
Net unrealized (gains) losses on hedge contracts reclassified into earnings	(4.9)	9.1	(10.3)	17.3
Foreign currency translation adjustments	(4.6)	6.2	1.2	19.9
Other comprehensive gain (loss)	(18.9)	11.7	(28.1)	28.2
Comprehensive gain (loss)	$ (21.8)	$ 25.3	$ (75.4)	$ 50.9

Note 5 - Earnings (Loss) Per Share

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

	Applied Biosystems Group	Celera Genomics Group

(Amounts in thousands except per share amounts)	2002	2003	2002	2003
Weighted average number of common shares used in the calculation of basic earnings (loss) per share	212,289	209,068	68,406	71,676
Common stock equivalents	4,915	1,297		
Shares used in the calculation of diluted earnings (loss) per share	217,204	210,365	68,406	71,676
Income (loss) from continuing operations used in the calculation of earnings (loss) per share from continuing operations	$ 49,111	$ 40,123	$(49,496)	$(26,743)
Income (loss) per share from continuing operations Basic and diluted	$ 0.23	$ 0.19	$ (0.72)	$ (0.37)

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

	Applied Biosystems Group		Celera Genomics Group	
(Amounts in thousands except per share amounts)	2002	2003	2002	2003
Weighted average number of common shares used in the calculation of basic earnings (loss) per share	211,802	208,993	64,987	71,3
Common stock equivalents	4,395	1,314		
Shares used in the calculation of diluted earnings (loss) per share	216,197	210,307	64,987	71,3
Income (loss) from continuing operations used in the calculation of earnings (loss) per share from continuing operations	$ 130,341	$ 103,532	$(182,998)	$ (62,5
Income (loss) per share from continuing operations Basic	$ 0.62	$ 0.50	$ (2.82)	$ (0.
Diluted	$ 0.60	$ 0.49	$ (2.82)	$ (0.

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 stock") were excluded in 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.

	Three months ended March 31,		Nine months en March 31,	
(Shares in millions)	2002	2003	2002	2
Applera Corporation - Applied Biosystems Group Common Stock	14.0	27.3	10.1	2
Applera - Celera Stock	13.4	12.9	13.4	1

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Note 6 - Inventories

Inventories included the following components:

(Dollar amounts in millions)	June 30, 2002	March 31, 2003
Raw materials and supplies	$ 71.3	$ 59.3
Work-in-process	11.1	6.7
Finished products	64.4	88.2
Total inventories	$ 146.8	$ 154.2

Note 7 - Goodwill And Intangible Assets

The following table presents our intangible assets subject to amortization:

	June 30, 2002		March 31, 2003	
(Dollar amounts in millions)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	$ 44.7	$ 16.4	$ 44.7	$ 20.1
Acquired technology	54.6	20.3	55.4	28.3
Favorable operating leases	11.6	1.8	11.6	4.0
Total	$ 110.9	$ 38.5	$ 111.7	$ 52.4

Aggregate amortization expense through March 31 was as follows:

	March 31,	
(Dollar amounts in millions)	2002	2003
Three months ended	$ 5.5	$ 3.7
Nine months ended	$ 11.3	13.9

The amortization expense in fiscal 2003 included the amortization of intangible assets acquired as part of the acquisition of Axys Pharmaceuticals, Inc. and Boston Probes, Inc. in November of fiscal 2002. 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 March 31, 2003, we expected annual amortization expense of our intangible assets for each of the next five fiscal years to be 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
2003	$ 9.5	$ 5.9	$ 2.0	$ 17.4
2004	9.0	2.9	2.1	14.0
2005	8.7	2.9	2.1	13.7
2006	8.6	1.1	2.1	11.8
2007	7.7		1.9	9.6

The carrying amount of goodwill at March 31, 2003 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.

Note 8 - Patent Litigation

In October 2002, we received an adverse jury verdict in connection with a patent lawsuit between TA Instruments, Inc., a subsidiary of Waters Corporation, and The Perkin-Elmer Corporation relating to thermal analysis products. The Applied Biosystems group is involved as the successor to The Perkin-Elmer Corporation, having sold the thermal instruments product line as part of the sale of its Analytical Instruments division to EG&G, Inc. (now named PerkinElmer, Inc.) in 1999. We retained liability with respect to the litigation, which has gone through several stages since it was initiated in 1995.

The jury awarded TA Instruments $13.3 million based on lost sales, price erosion, and reasonable royalties. This award is subject to entry of a final order by the court, where interest and additional damages may be added. We

recorded a charge of $16.4 million, net of income taxes, as part of discontinued operations in the quarter ended September 30, 2002. However, we intend to appeal the judgment.

Note 9 - Supplemental Cash Flow Information

Significant non-cash financing activities were as follows:

	Nine months ended March 31,	
(Dollar amounts in millions)	2002	2003
Tax benefit related to employee stock options	$ 11.6	$ 1.1
Dividends declared but not paid	$ 9.0	$ 17.7
Equity instruments issued in Axys acquisition	$ 181.9	
Debt and capital lease obligation assumed in Axys acquisition	$ 39.1	

Note 10 - Guarantees

In November 2002, the FASB issued FASB Interpretation No. ("FIN") 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of Statement of Financial Accounting Standards Nos. 5, 57, and 107 and rescission of FIN 34." FIN 45 extends the disclosures to be made by a guarantor about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of certain guarantees, a liability for the fair value of the obligation under these guarantees. The disclosure provisions of FIN 45 were effective for financial statements for periods ending after December 15, 2002. The provisions for initial recognition and measurement of guarantees were effective on a prospective basis for guarantees issued or modified after December 31, 2002.

The application of FIN 45 did not have an impact on our consolidated financial statements. There are three types of guarantees related to our business activities that are included in the scope of FIN 45: leases with recourse provisions; the guarantee of pension benefits for a divested business; and product warranties.

Leases

We provide lease-financing options to our customers through third party financing companies. For certain leases, the financing companies have recourse to us for any unpaid principal balance upon default by the customer. The leases typically have terms of 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 such transactions upon the shipment 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, 2003, the financing companies' outstanding balance of lease receivables with recourse to us was $10.5 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 the 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 $43.2 million at March 31, 2003, is not expected to have a material adverse effect on our consolidated financial position.

Product warranties

Warranty costs for product sales are accrued at the time of shipment based on historical experience as well as anticipated product performance. The 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. 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 the analysis of the warranty reserve:

(Dollar amounts in millions)	
Balance at June 30, 2002	$ 12.8
Accruals for warranties during the period	20.7
Usage of reserve during the period	(18.6)
Other	0.7
Balance at March 31, 2003	$ 15.6

Note 11 - Debt

During the second quarter of fiscal 2003, we purchased $18.1 million of non-callable U.S. government obligations to serve as collateral for the 8% senior secured convertible notes acquired as part of the acquisition of Axys. We substituted these government obligations for our shares of Discovery Partners International, Inc. ("DPI") common stock that originally collateralized the notes. The government obligations are required to be held in a trust and the proceeds from the maturation of, and interest payments on, these obligations will fund the interest and principal payments under the notes. The DPI shares were released to us during the third quarter of fiscal 2003. The government obligations, which mature over the next two fiscal years, are classified as available for sale at March 31, 2003, with $0.9 million in short-term investments, and $16.7 million in other long-term assets.

Note 12 - Contingencies

Litigation

We are involved in various legal proceedings from time to time, including actions with respect to 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 certain claims we are currently defending.

Applera and some of its officers were served in five lawsuits between April and May, 2000, purportedly on behalf of purchasers of Applera - Celera stock in our follow-on public offering of Applera - Celera stock completed on March 6, 2000. In the offering, we sold an aggregate of approximately 4.4 million shares of Applera - Celera stock at a public offering price of $225 per share. All of these lawsuits have been consolidated into a single case and are 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 it 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.

We are involved in several litigation matters with MJ Research, Inc., commencing with our filing claims against MJ Research based on its alleged infringement of certain polymerase chain reaction, or PCR, patents. MJ Research filed an action against us in the U.S. District Court for the District of Columbia on September 21, 2000. The 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.

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.

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," although it does not identify the specific facts on which this allegation is based. 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. Our counterclaim also alleges that Beckman Coulter has engaged in unfair business practices against us under the California Business and Professions Code. We are seeking dismissal of Beckman Coulter's complaint, monetary damages, costs and expenses, declaratory and injunctive relief, and other relief as the court deems proper.

Henry Huang (an individual) filed an action against us and the Applied Biosystems group and the other parties described below in the U.S. District Court for the Central District of California on February 19, 2003. Mr. Huang's complaint seeks to change inventorship of the patents described below, and claims breach of contract, fraud, conversion, and unjust enrichment. The complaint relates to 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." U.S. Patent Nos. 5,171,534, 5,821,058, and 6,200,748 are assigned to the California Institute of Technology and licensed by the Applied Biosystems group. U.S. Patent No. 4,811,218 is assigned to the Applied Biosystems group. Also named in the complaint are the California Institute of Technology, Lloyd Smith, Leroy Hood, Michael Hunkapiller, Timothy Hunkapiller, Charles Connell, John Lytle, William Mordan, and John Bridgham. Lloyd Smith, Leroy Hood, Michael Hunkapiller, Timothy Hunkapiller, and Charles Connell are the inventors named on U.S. Patent Nos. 5,171,534, 5,821,058, and 6,200,748. Michael Hunkapiller, Charles Connell, John Lytle, William Mordan, and John Bridgham are the inventors named on U.S. Patent No. 4,811,218. The issues involved in this litigation are related to the issues in the MJ Research, Inc. litigation that was filed September 21, 2000, which is described above. Mr. Huang is alleging that he is the sole inventor on U.S. Patent Nos. 5,171,534, 5,821,058, 6,200,748, and 4,811,218. He is seeking to substitute himself for the named inventors on the relevant patents, and to have himself named as the sole assignee of the patents, and is also seeking monetary damages, costs, expenses, 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. The 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." The allegedly infringing products are cystic fibrosis reagent kits sold through Celera Diagnostics, and our products that are described in the complaint as "relating to non-coding variation". Genetic

Technologies Limited is seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper.

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 dismissed all claims brought by On-Line Technologies, Inc. On-Line Technologies filed a notice of appeal on April 24, 2003.

We have not accrued for any potential losses in the cases described above because we believe that an adverse determination is not probable, and potential losses cannot be reasonably estimated, in any of these cases. However, the outcome of litigation is inherently uncertain, and we cannot be sure that we will prevail in any of the cases described above or in our other current litigation. An adverse determination in certain of our current litigation, particularly the cases described above, could have a material adverse effect on our consolidated financial statements.

Note 13 - Subsequent Event

On March 12, 2003, the U.S. Court of Appeals for the Federal Circuit upheld the judgment of the U.S. Court of the District of Delaware ruling in favor of the Applied Biosystems group and MDS Inc. in a patent infringement lawsuit against Micromass U.K. Ltd. and its U.S. subsidiary, Micromass, Inc., both divisions of Waters Corporation. On April 15, 2003, the Applied Biosystems group received a payment of approximately $26 million that represents its share of the judgment proceeds. Accordingly, during the fourth quarter of fiscal 2003, the amount received will be recorded in other income and is expected to increase net income by approximately $17 million, net of the related tax effects.

Note 14 - Segment And Consolidating Information

Presented below is our segment and consolidating financial information, including the allocation of expenses between the 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 determines earnings attributable to each group. This determination is generally based on net income or loss amounts of the corresponding group determined in accordance with GAAP.

See Note 14 to our consolidated financial statements included in our 2002 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 herein by reference).

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

(Dollar amounts in millions)	Three Months Ended March 31, 2002	Three Months Ended March 31, 2003	Nine Months Ended March 31, 2002	Nine Months Ended March 31, 2003
Applied Biosystems group				
Sales to the Celera Genomics group (1)	$ 4.6	$ 1.0	$ 19.5	$ 2.6
Sales to Celera Diagnostics (1)	$ 0.6	$ 1.3	$ 1.0	$ 3.3
Nonreimbursable utilization of tax benefits (2)	$ 7.2	$ 7.4	$ 15.7	$ 23.7
Payments for reimbursable utilization of tax benefits (3)	$ 5.3	$ 5.4	$ 12.8	$ 15.2
Funding of Celera Diagnostics (4)	$ 1.6	$ 2.7	$ 1.4	$ 5.8
Celera Genomics group				
Revenues from royalties (5)	$ --	$ 0.5	$ --	$ 1.3
Funding of Celera Diagnostics (6)	$ 13.2	$ 13.1	$ 29.3	$ 37.5
Celera Diagnostics				
Sales to the Applied Biosystems group (7)	$ 2.5	$ 0.1	$ 6.0	$ 3.2

(1) The Applied Biosystems group recorded net revenues from leased instruments, consumables, project materials, and contracted R&D services to the Celera Genomics group and Celera Diagnostics.

(2) The Applied Biosystems group utilized, without reimbursement, tax benefits generated by the Celera Genomics group.

(3) The Applied Biosystems group paid the Celera Genomics group for the utilization of certain tax benefits, including those associated with Celera Diagnostics.

(4) The Applied Biosystems group recorded its portion of capital expenditures and the net impact of working capital changes relating to Celera Diagnostics.

(5) The Celera Genomics group recorded net revenues for royalties generated by sales of certain products of the Knowledge Business under an online marketing and distribution agreement with the Applied Biosystems group. Pursuant to this agreement, the Applied Biosystems group became the exclusive distributor of the Celera Discovery SystemTM online platform, beginning July 1, 2002.

(6) The Celera Genomics group recorded operating losses and its portion of capital expenditures and the net impact of working capital changes relating to Celera Diagnostics.

(7) Celera Diagnostics recorded net revenues from the sale of diagnostics products to the Applied Biosystems group under a distribution agreement. On October 1, 2002, sales responsibilities for products manufactured by Celera Diagnostics were largely transferred to the diagnostic division of Abbott Laboratories, pursuant to the profit-sharing alliance announced on June 30, 2002.

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

For the three and nine month periods ended March 31, 2002 and 2003, 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 of Celera Diagnostics, which is included both in the "Celera Diagnostics" column and net within the "Celera Genomics group" column as "Loss from joint venture."

Consolidating Statement of Operations For the Three Months Ended March 31, 2003

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Conso
Net revenues from external customers	$ 407,107	$ 19,744	$ 4,155	$ --	$ 43
Intersegment revenues	2,330	509	138	(2,977)	
Net Revenues	409,437	20,253	4,293	(2,977)	43
Cost of sales	202,340	2,950	2,315	(1,482)	20
Gross Margin	207,097	17,303	1,978	(1,495)	22
Selling, general and administrative	84,702	6,389	2,287	11,967	10
Corporate allocated expenses	9,807	1,563	597	(11,967)	
Research, development and engineering	59,973	26,923	11,708	(1,641)	9
Amortization of intangible assets		725			
Operating Income (Loss)	52,615	(18,297)	(12,614)	146	2
Loss on investments, net	(2,086)	(61)			(
Interest expense	(107)	(104)			
Interest income	3,218	3,938			
Other income (expense), net	1,323	(14,715)			(1
Loss from joint venture		(12,614)		12,614	
Income (Loss) Before Income Taxes	54,963	(41,853)	(12,614)	12,760	1
Provision (benefit) for income taxes	14,840	(15,110)		(59)	
Net Income (Loss)	$ 40,123	$ (26,743)	$ (12,614)	$ 12,819	$ 1

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Condensed Consolidating Statement of Operations For the Nine Months Ended March 31, 2003

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminati
Net revenues from external customers	$ 1,244,060	$ 65,415	$ 11,881	$ --
Intersegment revenues	5,960	1,339	3,236	(10,5
Net Revenues	1,250,020	66,754	15,117	(10,5
Cost of sales	621,376	10,075	6,901	(7,0
Gross Margin	628,644	56,679	8,216	(3,5
Selling, general and administrative	263,157	16,784	6,774	38,1
Corporate allocated expenses	31,172	5,162	1,823	(38,1
Research, development and engineering	180,178	92,357	35,461	(4,4
Amortization of intangible assets		5,148		
Other special charges	24,313			
Operating Income (Loss)	129,824	(62,772)	(35,842)	9
Loss on investments, net	(2,086)	(334)		
Interest expense	(197)	(417)		
Interest income	9,456	14,164		
Other income (expense), net	4,828	(17,285)		
Loss from joint venture		(35,842)		35,8
Income (Loss) Before Income Taxes	141,825	(102,486)	(35,842)	36,7
Provision (benefit) for income taxes	38,293	(39,970)		2,8
Income (Loss) From Continuing Operations	103,532	(62,516)	(35,842)	33,9
Loss from discontinued operations, net of income taxes	(16,400)			
Net Income (Loss)	$ 87,132	$ (62,516)	$ (35,842)	$ 33,9

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Condensed Consolidating Statement of Financial Position At March 31, 2003

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Elimination
Assets				
Current assets				
Cash and cash equivalents	$ 521,273	$ 20,853	$ --	$ --
Short-term investments		803,439		
Accounts receivable, net	365,123	19,246	3,410	(1,220
Inventories, net	144,755	2,538	7,000	(140
Prepaid expenses and other current assets	75,961	11,103	1,433	(3,218
Total current assets	1,107,112	857,179	11,843	(4,578

Property, plant and equipment, net	397,179	110,403	12,571	(638
Other long-term assets	439,824	183,159	9,185	(23,387
Total Assets	$1,944,115	$1,150,741	$ 33,599	$ (28,603
Liabilities And Stockholders' Equity				
Current liabilities				
Accounts payable	$ 144,175	$ 6,783	$ 7,149	$ (4,077
Accrued salaries and wages	62,647	11,291	3,542	
Accrued taxes on income	80,252	12,108		
Other accrued expenses	233,646	54,226	1,458	(361
Total current liabilities	520,720	84,408	12,149	(4,438
Long-term debt		17,321		
Other long-term liabilities	198,740	25,302	133	
Total Liabilities	719,460	127,031	12,282	(4,438
Total Stockholders' Equity	1,224,655	1,023,710	21,317	(24,165
Total Liabilities And Stockholders' Equity	$1,944,115	$1,150,741	$ 33,599	$ (28,603

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Condensed Consolidating Statement of Cash Flows For the Nine Months Ended March 31, 2003

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics
Operating Activities Of Continuing Operations			
Income (loss) from continuing operations	$ 103,532	$ (62,516)	$ (35,842)
Adjustments to reconcile income (loss) from continuing operations to net cash provided (used) by operating activities:			
Depreciation and amortization	74,247	28,171	4,145
Asset impairments	10,017		
Provisions for office closures and severance costs	23,744		
Long-term compensation programs	3,179	1,345	
Loss on sale of assets	996	334	
Deferred income taxes	(52,239)	(5,367)	
Loss from joint venture and equity method investees		55,013	
Nonreimbursable utilization of intergroup tax benefits	23,655	(23,655)	
Changes in operating assets and liabilities:			
Accounts receivable	20,284	10,704	(3,233)
Inventories	(5,255)	(678)	(4,785)
Prepaid expenses and other assets	(9,473)	(1,694)	(1,469)
Accounts payable and other liabilities	(19,235)	(25,258)	4,287
Net Cash Provided (Used) By Operating Activities			

Of Continuing Operations	173,452	(23,601)	(36,897)
Investing Activities Of Continuing Operations			
Additions to property, plant and equipment, net	(99,292)	(4,694)	(6,431)
Proceeds from short-term investments, net	29,646	57,079	
Purchases of long-term investments		(16,834)	
Investments in joint venture and other, net	(5,921)	(37,513)	
Proceeds from the sale of assets, net	5,463	2,235	
Net Cash Provided (Used) By Investing Activities Of Continuing Operations	(70,104)	273	(6,431)
Net Cash Used By Operating Activities Of Discontinued Operations	(2,526)		
Financing Activities			
Net change in loans payable	(290)		
Dividends	(26,691)		
Net cash funding from groups			43,328
Purchases of common stock for treasury	(19,779)		
Proceeds from stock issued for stock plans	12,216	15,291	
Net Cash Provided (Used) By Financing Activities	(34,544)	15,291	43,328
Effect Of Exchange Rate Changes On Cash	13,667		
Net Change In Cash And Cash Equivalents	79,945	(8,037)	
Cash And Cash Equivalents Beginning Of Period	441,328	28,890	
Cash And Cash Equivalents End Of Period	$ 521,273	$ 20,853	$ --

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Consolidating Statement of Operations For the Three Months Ended March 31, 2002

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Conso
Net revenues from external customers	$ 403,831	$ 30,487	$ 119	$ --	$ 43
Intersegment revenues	5,185		2,528	(7,713)	
Net Revenues	409,016	30,487	2,647	(7,713)	43
Cost of sales	192,564	15,402	1,887	(6,902)	20
Gross Margin	216,452	15,085	760	(811)	23
Selling, general and administrative	83,589	11,693	1,499	11,801	10
Corporate allocated expenses	9,382	1,943	476	(11,801)	
Research, development and engineering	56,666	37,629	11,138	(1,795)	10
Amortization of intangible assets		2,636			
Other special charges		22,959			2

Operating Income (Loss)	66,815	(61,775)	(12,353)	984	(
Loss on investments, net	(350)				
Interest expense	(291)	(209)			
Interest income	2,992	6,805			
Other income (expense), net	5	(3,521)			(
Loss from joint venture		(12,353)		12,353	
Income (Loss) Before Income Taxes	69,171	(71,053)	(12,353)	13,337	
Provision (benefit) for income taxes	20,060	(21,557)		3,456	
Net Income (Loss)	$ 49,111	$ (49,496)	$ (12,353)	$ 9,881	$ (

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Condensed Consolidating Statement of Operations For the Nine Months Ended March 31, 2002

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations
Net revenues from external customers	$ 1,166,293	$ 92,815	$ 349	$ --
Intersegment revenues	20,464		5,998	(26,462)
Net Revenues	1,186,757	92,815	6,347	(26,462)
Cost of sales	568,729	45,309	4,494	(22,755)
Gross Margin	618,028	47,506	1,853	(3,707)
Selling, general and administrative	249,490	34,426	4,947	36,148
Corporate allocated expenses	28,870	5,771	1,507	(36,148)
Research, development and engineering	161,649	95,982	25,616	(6,640)
Amortization of intangible assets		4,742		
Other special charges		22,959		
Acquired research and development	2,200	98,981		
Operating Income (Loss)	175,819	(215,355)	(30,217)	2,933
Loss on investments, net	(350)			
Interest expense	(781)	(347)		
Interest income	9,764	26,359		
Other income (expense), net	26	(5,270)		
Loss from joint venture		(30,217)		30,217
Income (Loss) Before Income Taxes	184,478	(224,830)	(30,217)	33,150
Provision (benefit) for income taxes	54,137	(41,832)		(2,419)
Net Income (Loss)	$ 130,341	$ (182,998)	$ (30,217)	$ 35,569

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Condensed Consolidating Statement of Financial Position At June 30, 2002

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Elimination
Assets				
Current assets				
Cash and cash equivalents	$ 441,328	$ 28,890	$ --	$ --
Short-term investments	29,653	860,032		
Accounts receivable, net	376,375	29,950	177	(258
Inventories, net	142,876	1,860	2,215	(147
Prepaid expenses and other current assets	81,759	17,082	764	(58
Total current assets	1,071,991	937,814	3,156	(463
Property, plant and equipment, net	354,536	127,024	8,746	(1,562
Other long-term assets	392,055	185,206	9,924	(13,028
Total Assets	$1,818,582	$1,250,044	$ 21,826	$ (15,053
Liabilities and Stockholders' Equity				
Current liabilities				
Loans payable	$ 299	$ --	$ --	$ --
Accounts payable	152,959	12,276	3,241	(258
Accrued salaries and wages	65,187	13,585	3,393	
Accrued taxes on income	92,972	8,237		
Other accrued expenses	210,731	63,409	1,266	(58
Total current liabilities	522,148	97,507	7,900	(316
Long-term debt		17,983		
Other long-term liabilities	171,203	33,936	95	
Total Liabilities	693,351	149,426	7,995	(316
Total Stockholders' Equity	1,125,231	1,100,618	13,831	(14,737
Total Liabilities and Stockholders' Equity	$1,818,582	$1,250,044	$ 21,826	$ (15,053

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APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Condensed Consolidating Statement of Cash Flows For the Nine Months Ended March 31, 2002

	Applied	Celera

(Dollar amounts in thousands)	Biosystems Group	Genomics Group	Celer Diagnos
Operating Activities Of Continuing Operations			
Net income (loss)	$ 130,341	$(182,998)	$ (30,
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	58,357	26,791	2,
Asset impairments		15,563	
Provision for excess lease space and severance costs		10,311	
Long-term compensation programs	4,210	1,312	
Gain (loss) on sale of assets	350	(401)	
Deferred income taxes	(11,249)	(15,381)	
Loss from joint venture and equity method investees		34,244	
Nonreimbursable utilization of intergroup tax benefits	15,663	(15,663)	
Acquired research and development	2,200	98,981	
Changes in operating assets and liabilities:			
Accounts receivable	19,500	666	(
Inventories	4,037	821	1,
Prepaid expenses and other assets	(46,017)	(223)	(3,
Accounts payable and other liabilities	7,564	(11,733)	5,
Net Cash Provided (Used) By Operating Activities Of Continuing Operations	184,956	(37,710)	(24,
Investing Activities Of Continuing Operations			
Additions to property, plant and equipment, net	(57,169)	(14,944)	(5,
Purchases of short-term investments, net		(15,215)	
Acquisitions and investments in joint ventures and others, net	(37,993)	(34,064)	
Proceeds from the sale of assets, net	5,228		
Net Cash Used By Investing Activities Of Continuing Operations	(89,934)	(64,223)	(5,
Net Cash Used By Operating Activities Of Discontinued Operations	(2,230)		
Financing Activities			
Net change in loans payable	(6,077)	(8,443)	
Principal payments on long-term debt	(28,973)	(10,000)	
Dividends	(26,984)		
Net cash funding from groups			30,
Purchases of common stock for treasury		(941)	
Proceeds from stock issued for stock plans	17,394	19,203	
Net Cash Provided (Used) By Financing Activities	(44,640)	(181)	30,
Effect Of Exchange Rate Changes On Cash	7,078		
Net Change In Cash And Cash Equivalents	55,230	(102,114)	
Cash And Cash Equivalents Beginning Of Period	392,459	216,076	
Cash And Cash Equivalents End Of Period	$ 447,689	$ 113,962	$ -

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 the 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 future results. You should read this discussion in conjunction with our consolidated financial statements and related notes included in this report and in our 2002 Annual Report to Stockholders. Historical results and percentage relationships are not necessarily indicative of operating results for future periods.

Overview

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

The Applied Biosystems group develops and markets instrument-based systems, reagents, software, and contract services to the life science industry and research community. Customers use these tools to analyze nucleic acids ("DNA" and "RNA"), small molecules, and proteins to make scientific discoveries, develop new pharmaceuticals, and conduct standardized testing.

The Celera Genomics group is engaged principally in integrating advanced technologies to discover and develop new therapeutics. The Celera Genomics group intends to leverage its proteomic, bioinformatic, and genomic capabilities to identify and validate drug targets, and to discover and develop new therapeutics. Its Celera Discovery SystemTM ("CDS") online platform, marketed exclusively through the Applied Biosystems group's Knowledge Business, is an integrated source of information based on the human genome and other biological and medical sources.

Celera Diagnostics was established in fiscal 2001 as a 50/50 joint venture between the Applied Biosystems group and the Celera Genomics group. This venture is focused on the discovery, development, and commercialization of novel diagnostic products.

In fiscal 1999, following a recapitalization, 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 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 Applied Biosystems group. Applera Corporation - Celera Genomics Group Common Stock ("Applera - Celera 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 Corporation as a whole, nor is there a separate security traded for Celera Diagnostics.

RESULTS OF OPERATIONS continued

Holders of Applera - Applied Biosystems stock and Applera - Celera 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.

Our fiscal year ends on June 30. The financial information for each segment is presented in Note 14 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.

The following noteworthy developments have occurred since the beginning of fiscal 2003:

Applied Biosystems Group

- In August 2002, the Applied Biosystems group announced two collaborations to develop new technologies and applications for proteomics, one with Myriad Proteomics, Inc. and the other with the Institute for Systems Biology.

- In September 2002, Applied Biosystems/MDS SCIEX Instruments, a partnership between the Applied Biosystems group and MDS Inc., introduced the QSTAR(R) XL LC/MS/MS system. This system is designed to provide improved sensitivity and resolution to proteomics researchers as well as improved sensitivity and mass accuracy to pharmaceutical drug discovery researchers.

- In October 2002, the Applied Biosystems group, as successor to The Perkin-Elmer Corporation, received an adverse jury verdict in a patent lawsuit with TA Instruments, Inc., a subsidiary of Waters Corporation, relating to thermal analysis products. Please refer to Note 8 to our condensed consolidated financial statements for more information.

- In December 2002, the Applied Biosystems group announced organization-wide cost reductions in response to uncertain economic conditions and to return long-term research and development investment to more traditional levels. Please refer to Note 3 to our condensed consolidated financial statements for more information.

- In January 2003, the Applied Biosystems group announced the SNPlex(TM) system, a reagent and software product, designed to allow researchers to conduct ultra high throughput genotyping. This genotyping product could enable production scale laboratories to analyze more than one million genotypes per instrument per day, at an expected cost as low as one cent or less per genotype.

- In March 2003, the U.S. Court of Appeals for the Federal Circuit upheld a ruling in favor of the Applied Biosystems group and MDS Inc. in a patent infringement lawsuit against Micromass U.K. Ltd. and its U.S. subsidiary Micromass, Inc., both divisions of Waters Corporation. Please refer to Note 13 to our condensed consolidated financial statements for more information.

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

Celera Genomics Group

- In August 2002, Robert Booth, Ph.D. joined the Celera Genomics group, as Senior Vice President of Research & Development, responsible for integrating and leading all of the Celera Genomics group's therapeutic discovery and development activities.

- In December 2002, the Celera Genomics group announced its refined business and scientific plan, which supports increased investment in clinical programs, and greater efficiency and economy in target discovery, while continuing to place emphasis on management of the Celera Genomics group's cash as a strategic asset.

- In January 2003, James P. Yee, M.D., Ph.D. joined the Celera Genomics group as Head of Development, responsible for building the development organization at the group's facilities in South San Francisco, California, and for leading therapeutic development activities and clinical trial processes at the Celera Genomics group.

- In April 2003, Steven M. Ruben, Ph.D., joined the Celera Genomics group as Vice President, Protein Therapeutics, responsible for programs to discover and validate novel targets for therapeutic antibody intervention.

Celera Diagnostics

- In October 2002, Celera Diagnostics announced three new collaborations, with:

  - Bristol-Meyers Squibb to study genes that may be useful in the diagnosis and treatment of cardiovascular disease and diabetes;

  - Laboratory Corporation of America to establish the clinical utility of laboratory tests based on novel diagnostic markers for Alzheimer's disease, breast cancer and prostate cancer; and

  - Quest Diagnostics Incorporated to establish the clinical utility of laboratory tests based on novel diagnostic markers for cardiovascular disease and diabetes.

- In November 2002, Celera Diagnostics announced a research initiative with the University of California, San Francisco (UCSF) to develop new diagnostic tools for breast cancer. The UCSF research activities will be funded in part by the UC Discovery Grant from the Industry-University Cooperative Research Program, and in part by Celera Diagnostics.

- In December 2002, Celera Diagnostics received marketing clearance from the U.S. Food and Drug Administration for its 510(k) submission of the ViroSeq(TM) HIV-1 Genotyping System as an in vitro diagnostic product. The system is being manufactured by Celera Diagnostics and distributed

by Abbott Diagnostics. In February 2003, the U.S. Food and Drug Administration granted additional marketing clearance for the ViroSeq(TM) HIV-1 Genotyping System.

- In January 2003, Celera Diagnostics announced a collaborative agreement with Genomics Collaborative, Inc. supporting Celera Diagnostics' efforts to identify genetic patterns associated with rheumatoid arthritis.

Critical Accounting Policies

Please refer to the discussion of our critical accounting policies contained in the Management's Discussion and Analysis section of our 2002 Annual Report to Stockholders (which discussion is incorporated herein by reference).

Events Impacting Comparability

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

Acquisitions

We acquired Axys Pharmaceuticals, Inc. and Boston Probes, Inc. during the second quarter of fiscal 2002. The results of operations for these acquired businesses, which were accounted for under the purchase method of accounting, have been included in the consolidated financial statements since the date of the acquisitions. The net assets and results of operations of Axys have been allocated to the Celera Genomics group. The net assets and results of operations of Boston Probes have been allocated to the Applied Biosystems group. A discussion of these acquisitions was provided in Note 2 to our consolidated financial statements contained in our 2002 Annual Report to Stockholders.

Acquired In-Process Research and Development

During fiscal 2002, we recorded charges to write off the value of acquired in-process research and development ("IPR&D") in connection with the Axys and Boston Probes acquisitions. The Applied Biosystems group recorded a charge of $2.2 million related to Boston Probes and the Celera Genomics group recorded a charge of $99.0 million related to Axys. There was no tax benefit associated with these acquired IPR&D charges. As of the acquisition dates, 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 Axys projects acquired as part of the acquisition are in various stages of research and development and will require additional research and development efforts by the Celera Genomics group or its collaborators before any eventual products can be marketed, if ever. These efforts include extensive pre-clinical and clinical testing and are subject to lengthy regulatory review and approval by the U.S. Food and Drug Administration. The nature and timing of these

remaining efforts are dependent on successful testing and approval of the products as well as maintaining the existing collaborative relationships and entering into new collaborative relationships. If collaboration partners terminate or elect to cancel their agreements or otherwise fail to conduct their collaborative activities in a timely manner, the development or commercialization process could be delayed or abandoned.

Since June 30, 2002, we have taken the following actions:

- In the second quarter of fiscal 2003, the Serm-beta research project was completed and the project is not expected to be pursued.

- In October 2002, the Celera Genomics group purchased from Bayer AG a number of pre-clinical tryptase inhibitors, including study data and a broad intellectual property estate pertaining to use of these compounds in all fields, for the treatment of asthma. These compounds were generated under a prior collaboration between Axys and Bayer. The Celera Genomics group is no longer pursuing the original lead compound acquired from Bayer but has shifted its efforts to other compounds in the tryptase program.

- Our portion of the Cathepsin K collaboration was completed in February 2003.

- As of April 2003, pre-clinical studies of Cathepsin F inhibitors are no longer being pursued.

During the third quarter of fiscal 2003, we continued to pursue all other acquired active projects and the pre-clinical studies for these projects are expected to continue through calendar year 2003, with the anticipation that at least one of the compounds, most likely from one of the partnered projects, could enter clinical trials during calendar year 2003.

As of March 31, 2003, the Celera Genomics group's portion of the estimated costs to complete the partnered projects is not expected to be significant. The costs to complete the proprietary projects depend on how the Celera Genomics group decides to commercialize the projects, including whether to partner the projects, and at what stage to partner. The Celera Genomics group has in the past reviewed and continues to review the proprietary pre-clinical projects, which may lead to revised prioritization, resourcing and strategy to move toward clinical trials and commercialization. As a result of these actions, actual results for some programs have varied, and for others in the future may vary, from the valuation assumptions outlined in Note 2 to our consolidated financial statements contained in our 2002 Annual Report to Stockholders.

Other Special Charges

Fiscal year 2003 charges:

During the second quarter of fiscal 2003, we recorded pre-tax charges totaling $33.8 million for organization-wide cost reductions in response to uncertain economic conditions as well as the Applied Biosystems group's overall strategy to return long-term research and development investment to more traditional levels, following the completion of the research phase of the Applera Genomics

Initiative. The Applera Genomics Initiative includes the resequencing of genes and regulatory regions at the Celera Genomics group, validation of single nucleotide polymorphisms at the Applied Biosystems group, and disease gene association studies at Celera Diagnostics. The economic uncertainties included delays in appropriations for the National Institutes of Health for the current federal government fiscal year and uncertainty about funding levels in Japan and parts of Europe as well as within the pharmaceutical industry. The Applied Biosystems group recorded $24.3 million in other special charges comprised of $22.9 million for severance and benefits costs and $1.4 million for office closures. The Applied Biosystems group also recorded $9.5 million for the impairment of assets in cost of sales.

The severance and benefits charge related to the termination of approximately 400 employees worldwide. Positions are being eliminated mainly in the U.S. and Europe and primarily within the areas of research, manufacturing, sales, marketing and administration. The workforce reduction commenced in January 2003. The asset impairment charges resulted primarily from uncertainties surrounding the commercial introduction of products based on a collaboration with Illumina, Inc. and from a revised focus on products designed to offer the most efficient and newest technology with long-term earnings growth potential. The charge for office closures was primarily for one-time payments to terminate the leases of excess facilities and to write off the fixed assets and leasehold improvements related to these facilities.

The following table details the major components of the special charges:

(Dollar amounts in millions)	Employee-Related Charges	Asset Impairment	Office Closures	Total
Total charges	$ 22.9	$ 9.5	$ 1.4	$ 33.8
Cash payments	11.2		0.2	11.4
Non-cash charges		9.5	0.5	10.0
Balance at March 31, 2003	$ 11.7	$ --	$ 0.7	$ 12.4

Approximately 300 employees had been terminated as of March 31, 2003. The termination of the remaining employees and the cash expenditures relating to the workforce reductions and office closures are expected to be substantially complete by the end of calendar year 2003, and will be funded primarily by cash provided by operating activities.

These actions are expected to make funds available for certain new research and development programs and marketing initiatives.

Fiscal year 2002 charges:
During the third quarter of fiscal 2002, the Celera Genomics group recorded a before-tax charge of $25.9 million related to Paracel, a company we acquired in fiscal 2000. This charge was comprised of $23.0 million recorded in other special charges primarily for the impairment of goodwill and other intangible assets and estimated cost of excess lease space. This charge also included $2.9 million recorded in cost of sales for impairment of Paracel inventory.

Investments

Our investment in Discovery Partners International, Inc. ("DPI") common stock, which resulted from our acquisition of Axys, is accounted for under the equity method of accounting. Based on the decline in its market capitalization, DPI re-assessed the value of its goodwill and other long-lived assets and recorded an impairment charge as a result of this evaluation. Accordingly, the Celera Genomics group recognized a non-cash charge of $15.1 million in other income (expense), net in the third quarter of fiscal 2003, representing its share of the impairment charge.

Discussion of Consolidated Operations

Results of Operations--The Three Months Ended March 31, 2003 Compared With The Three Months Ended March 31, 2002

We reported net income of $13.6 million in the third quarter of fiscal 2003 compared with a net loss of $2.9 million in the third quarter of fiscal 2002. Net income for the third quarter of fiscal 2003 included the loss from our equity interest in DPI described above, while the net loss for the third quarter of fiscal 2002 included the Paracel-related charges described above. Also impacting the increase in net income were lower R&D and SG&A expenses and a change in the effective tax rate, partially offset by lower gross margin. Please refer to the discussion on pages 38 to 52 of this quarterly report for further information on the financial results of our segments.

Our net revenues in the third quarter of fiscal 2003 decreased slightly compared with the prior year quarter. Revenues were flat at the Applied Biosystems group, due primarily to delays in government funding, both domestically and abroad, weak economic conditions, and reduced purchases by pharmaceutical customers, and decreased at the Celera Genomics group, primarily resulting from the group's decision not to pursue additional contract sequencing service business. The effects of foreign currency increased net revenues by approximately $12 million, or 3%, for the same period.

Gross margin, as a percentage of net revenues, was 52.2% for the third quarter of fiscal 2003 compared with 53.3% for the third quarter of fiscal 2002. The lower gross margin percentage in fiscal 2003 was due primarily to a change in product sales and geographic mix and an increase in lower margin service business at the Applied Biosystems group, partially offset by a decrease in the lower margin sequencing service business for the Celera Genomics group. The special charges in the third quarter of fiscal 2002 reduced gross margin by approximately one percentage point.

Our SG&A expenses, as a percentage of net revenues, decreased to 24.4% for the third quarter of fiscal 2003 compared to 25.0% for the third quarter of fiscal 2002 primarily due to a workforce reduction at the Celera Genomics group, resulting from the June 2002 restructuring of the organization, partially offset by increased staffing at Celera Diagnostics.

R&D expenses decreased by $6.6 million for the third quarter of fiscal 2003 to $97.0 million from $103.6 million for the third quarter of fiscal 2002. This decrease was primarily due to a decline in the funding of the Applera Genomics Initiative, the costs of which are shared among our three businesses, and fewer

DNA sequencing programs at the Celera Genomics group resulting from the June 2002 restructuring of the organization. This decrease was partially offset by spending on: the development of new products and technologies by the Applied Biosystems group, including support for Knowledge Business initiatives; therapeutic discovery and development programs by the Celera Genomics group; and diagnostics discovery and development programs by Celera Diagnostics.

Interest income, net decreased slightly for the third quarter of fiscal 2003, primarily due to lower average interest rates as compared to the third quarter of fiscal 2002.

Other expense, net increased in the third quarter of fiscal 2003 primarily due to losses recorded for equity method investments, including the DPI charge described above, offset by benefits associated with our foreign currency risk management program and miscellaneous non-operating income. In the third quarter of fiscal 2002, other expense, net included our share of losses from equity method investments.

The change in the effective tax rate is primarily due to increased R&D and foreign tax credits, which partially offset the impact of higher forecasted taxable income, as well as the previously discussed special charges recorded in both periods. The effective income tax rate for the third quarter of fiscal 2003 included a non-cash charge related to amended returns, offset by the release of valuation allowances on deferred tax assets. The valuation allowance release resulted from the realization of foreign tax credits.

Results of Continuing Operations--The Nine Months Ended March 31, 2003 Compared With The Nine Months Ended March 31, 2002

We reported income from continuing operations of $39.1 million for the first nine months of fiscal 2003 compared with a loss from continuing operations of $47.3 million in the same period last year. Income from continuing operations for fiscal 2003 included the cost reduction, asset impairment and other special charges and the loss from our equity interest in DPI described above, while the loss from continuing operations for fiscal 2002 included the acquired IPR&D and Paracel-related charges described above. Also impacting the increase in income from continuing operations were higher revenues and a change in the effective tax rate, partially offset by higher R&D expenses and lower interest income. Please refer to the discussion on pages 38 to 52 of this quarterly report for further information on the financial results of our segments.

Our net revenues increased 4.9% in the first nine months of fiscal 2003 compared with the prior year period. Revenues increased primarily due to improved instrument sales at the Applied Biosystems group, partially offset by lower revenues at the Celera Genomics group primarily resulting from the group's decision not to pursue additional sequencing service business. The effects of foreign currency increased net revenues by approximately $20 million, or 2%, for the same period.

Gross margin, as a percentage of net revenues, was 52.2% for the first nine months of fiscal 2003 compared with 52.7% for the first nine months of fiscal 2002. The lower gross margin percentage in fiscal 2003 was due primarily to higher asset impairment charges recorded in fiscal 2003 and a change in product sales and geographic mix at the Applied Biosystems group, partially offset by a

decrease in the lower margin sequencing service business for the Celera Genomics group. The fiscal 2003 and 2002 special charges reduced gross margin by less than one percentage point in both periods.

Our SG&A expenses, as a percentage of net revenues, decreased to 24.6% for the first nine months of fiscal 2003 compared with 25.8% for the first nine months of fiscal 2002. This decrease was primarily due a workforce reduction at the Celera Genomics group, resulting from the June 2002 restructuring of the organization, partially offset by an increased number of employees resulting from the acquisition of Axys in November 2001 and increased staffing at Celera Diagnostics.

R&D expenses increased by $26.9 million for the first nine months of fiscal 2003 to $303.5 million from $276.6 million for the first nine months of fiscal 2002. This increase was primarily due to spending on: the Applera Genomics Initiative, the costs of which are shared among our three businesses; the development of new products and technologies by the Applied Biosystems group, including support for Knowledge Business initiatives; therapeutic discovery and development programs by the Celera Genomics group, including the programs acquired with Axys; and diagnostics discovery and development programs by Celera Diagnostics.

Interest income, net decreased by $12.0 million for the first nine months of fiscal 2003, primarily due to lower average interest rates and, to a lesser extent, lower average cash and cash equivalents and short-term investment balances during the first nine months of fiscal 2003 as compared to the first nine months of fiscal 2002.

Other expense, net increased in the first nine months of fiscal 2003 due primarily to losses recorded for equity method investments, including the DPI charge described above, partially offset by benefits associated with our foreign currency risk management program. In the first nine months of fiscal 2002, other expense, net included our share of losses from equity method investments.

The change in the effective tax rate is primarily due to increased R&D and foreign tax credits, which partially offset the impact of higher forecasted taxable income, as well as the previously discussed special charges recorded in both periods. The effective income tax rate for the first nine months of fiscal 2003 included a non-cash charge related to amended returns, offset by the release of valuation allowances on deferred tax assets. The valuation allowance release resulted from the realization of foreign tax credits.

Discussion of Condensed Consolidated Financial Resources and Liquidity

We had cash and cash equivalents and short-term investments of $1.3 billion at March 31, 2003 and $1.4 billion at June 30, 2002. We maintain a $50 million revolving credit agreement with three banks that expires on April 20, 2005, under which there were no borrowings outstanding at March 31, 2003. 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 adequate to satisfy our normal operating cash flow needs, planned capital expenditures, and dividends for the foreseeable future. However, we may raise additional capital from time to time.

In connection with the adverse jury verdict against Applera in the TA Instruments patent lawsuit, we expect to be required to extend a financial guarantee for the amount of the damages awarded plus interest. If and when such a guarantee is extended, the cash applied to secure the guarantee will be reclassified to other assets as restricted cash.

(Dollar amounts in millions)	June 30, 2002	March 31, 2003
Cash and cash equivalents	$ 470.2	$ 542.1
Short-term investments	889.7	803.4
Total cash and cash equivalents and short-term investments	$ 1,359.9	$ 1,345.5
Total debt	18.3	17.3
Working capital	1,385.3	1,358.7
Debt to total capitalization	0.8%	0.8%

During the second quarter of fiscal 2003, we purchased $18.1 million of non-callable U.S. government obligations to serve as collateral for the 8% senior secured convertible notes acquired as part of the acquisition of Axys. We substituted these government obligations for our shares of DPI common stock that originally collateralized the notes. The government obligations are required to be held in a trust and the proceeds from the maturation of and interest payments on these obligations will fund the interest and principal payments under the notes. The DPI shares were released to us during the third quarter of fiscal 2003. The government obligations, which mature over the next two fiscal years, are classified as available for sale at March 31, 2003, with $0.9 million in short-term investments, and $16.7 million in other long-term assets.

Cash and cash equivalents increased in the first nine months of fiscal 2003 as cash generated from operating activities and proceeds from the sales and maturities of short-term investments and proceeds from stock issuances were only partially offset by expenditures for capital assets and long-term investments, payment of dividends, and the repurchase of Applera - Applied Biosystems stock. Net cash flows of continuing operations for the nine months ended March 31 were as follows:

(Dollar amounts in millions)	2002	2003
Net cash from operating activities	$ 122.4	$ 113.0
Net cash from investing activities	(129.3)	(32.9)
Net cash from financing activities	(44.8)	(19.3)

Operating activities:

Net cash from operating activities of continuing operations for the first nine months of fiscal 2003 decreased $9.4 million in comparison to the first nine months of fiscal 2002 resulting primarily from higher inventory levels due to the timing of shipments and to support fiscal year-to-date sales activity, higher compensation-related payments, the timing of income tax payments,

approximately $13 million of severance payments made under the fiscal 2002 restructuring program and the fiscal 2003 cost reduction program, and lower deferred revenues. Partially offsetting this decrease is the timing of accounts receivable collections, lower payments under supply agreements and for purchased licensed technology, timing of vendor and value added tax payments, and slightly higher income-related cash flows.

Investing activities:

Capital expenditures, net of disposals, increased approximately $31 million over the prior fiscal year period primarily related to the expansion of the Applied Biosystems group's facilities, primarily in Pleasanton, CA. During the first nine months of fiscal 2003, approximately $87 million was generated from the sales and maturities of short-term investments, of which approximately $17 million of these proceeds was used to purchase long-term investments to secure the 8% senior secured convertible notes described above. During the second quarter of fiscal 2002, we acquired the remaining shares of Boston Probes, not previously owned, for approximately $37 million in cash.

Financing activities:

Financing activities for the first nine months of fiscal 2002 included the repayment of a yen loan at its maturity date and a portion of the debt assumed in the Axys acquisition. During the first nine months of fiscal 2003, we repurchased 1.1 million shares of Applera - Applied Biosystems stock for $19.8 million and during the first nine months of fiscal 2002, we repurchased 47,700 shares of Applera - Celera stock for $0.9 million. These purchases are made from time to time under standing resolutions of our board of directors to replenish shares issued under our various stock plans.

Discussion of Segments' Operations, Financial Resources and Liquidity

Applied Biosystems Group

Results of Operations--The Three Months Ended March 31, 2003 Compared With The Three Months Ended March 31, 2002

(Dollar amounts in millions)	2002	2003	% Increase/ (Decrease)
Net revenues	$ 409.0	$ 409.4	0.1%
Cost of sales	192.6	202.3	5.0%
Gross margin	216.4	207.1	(4.3%)
SG&A expenses	93.0	94.5	1.6%
R&D	56.6	60.0	6.0%

Operating income	66.8	52.6	(21.3%)
Loss on investments, net	(0.4)	(2.1)	425%
Interest income, net	2.7	3.1	14.8%
Other income (expense), net		1.3	
Income before income taxes	69.1	54.9	(20.5%)
Provision for income taxes	20.0	14.8	(26.0%)
Net income	$ 49.1	$ 40.1	(18.3%)
Percentage of net revenues:			
Gross margin	52.9%	50.6%	
SG&A expenses	22.7%	23.1%	
R&D	13.8%	14.7%	
Operating income	16.3%	12.8%	
Effective income tax rate	29%	27%	

Net income decreased in the third quarter of fiscal 2003 primarily due to lower gross margin, primarily resulting from a change in product sales and geographic mix, and higher spending related to new products in development and support for Knowledge Business initiatives, partially offset by a decrease in the effective tax rate. The foreign currency impact on net income was immaterial for the quarter.

Net revenues increased slightly over the prior year quarter due to increases in service and royalty revenue, offset by decreased spending by both institutional and commercial customers due to delays in government funding, both domestically and abroad, and weak economic conditions. Net revenues from the Celera Genomics group and Celera Diagnostics, primarily from leased instruments, consumables, and project materials, and contracted R&D services, were $2.3 million for the third quarter of fiscal 2003, or 0.6% of the Applied Biosystems group's net revenues, and $5.2 million for the third quarter of fiscal 2002, or 1.3%. The favorable effects of foreign currency increased net revenues during the third quarter of fiscal 2003 by approximately $12 million, or 3%, as compared to the prior year period. The following table sets forth the Applied Biosystems group's revenues by geographic area for the quarters ended March 31:

(Dollar amounts in millions)	2002	2003	% Increase/ (Decrease)
United States	$ 182.7	$ 187.0	2.4%
Europe	107.5	113.4	5.5%
Asia Pacific	107.2	95.4	(11.0%)
Latin America and other markets	11.6	13.6	17.2%
Total	$ 409.0	$ 409.4	0.1%

Excluding the effects of foreign currency, revenues decreased approximately 3% in Europe and decreased approximately 15% in Asia Pacific during the third quarter of fiscal 2003 compared to the prior year period. The decrease in Asia

Pacific was due in large part to the delays by the Japanese government in releasing appropriated funds from the budget.

For the third quarter of fiscal 2003, revenues from instrument sales were $199.0 million, a decrease of 1.1% from $201.3 million in the prior year period. Revenue growth for the Applied Biosystems 3730 DNA Analyzer product line, the ABI PRISM(R) 3100-Avant Genetic Analyzer, and most mass spectrometry instruments was offset by revenue declines in other instrument product lines, including the ABI PRISM(R) 3100 Genetic Analyzer, Sequence Detection System (SDS) instruments and PCR thermal cyclers. Demand in the drug metabolism and pharmacokinetics and the protein discovery markets helped drive sales increases of mass spectrometry instruments compared to the prior year quarter.

Consumables sales were $143.8 million in the third quarter of fiscal 2003 compared to $149.1 million in the third quarter of fiscal 2002, a decrease of 3.6%. This decrease was primarily due to declines in sales of core DNA synthesis and PCR consumables, and, to a lesser degree, DNA sequencing consumables, which more than offset the growth of SDS and other consumables revenues. Within the SDS and Other Applied Genomics product category, revenue from the TaqMan(R) chemistry-based consumable products, which are used for both gene expression and genotyping, increased.

Revenues from other sources, which included service, royalties, and licenses, increased 13.7% to $66.6 million in the third quarter of fiscal 2003 from $58.6 million in the third quarter of fiscal 2002. The increase in revenues resulted primarily from higher service and royalty revenues.

The following table sets forth the Applied Biosystems group's revenues by product categories for the three-month periods ended March 31:

(Dollar amounts in millions)	2002	2003	% Change
DNA sequencing products	$149.2	$ 143.6	(4%)
% of total revenues	36%	35%	
SDS and other applied genomics products	86.7	86.6	-- %
% of total revenues	21%	21%	
Mass Spectrometry	75.7	91.5	21%
% of total revenues	19%	22%	
Core DNA synthesis and PCR products	58.2	50.7	(13%)
% of total revenues	14%	13%	
Other	39.2	37.0	(6%)
% of total revenues	10%	9%	
Total	$ 409.0	$ 409.4	-- %

Gross margin, as a percentage of net revenues, decreased from the prior year quarter, due primarily to changes in product sales mix, including increased sales of lower-margin LC/MS products and lower-margin service revenues, and changes in geographic mix, including lower sales in Japan.

As a percentage of net revenues, SG&A expenses increased over the third quarter of fiscal 2002 due primarily to the unfavorable effects of currency.

As a percentage of net revenues, R&D expenses increased over the third quarter of fiscal 2002 primarily as a result of increased support for Knowledge Business initiatives and new products in development, which more than offset the decline in funding for the Applera Genomics Initiative.

Interest income, net increased slightly primarily due to higher average cash and cash equivalents for the third quarter of fiscal 2003 compared with the third quarter of fiscal 2002, offset to some degree by lower average interest rates.

The effective income tax rate was 27% in the third quarter of fiscal 2003 compared to 29% in the third quarter of fiscal 2002. The decrease in the effective tax rate was primarily due to the implementation of certain tax planning strategies allowing for the increased utilization of foreign tax credits. The effective income tax rate for fiscal 2003 included a non-cash charge related to amended returns, offset by the release of valuation allowances on deferred tax assets. The valuation allowance release resulted from the utilization of foreign tax credits.

Results of Continuing Operations--The Nine Months Ended March 31, 2003 Compared With The Nine Months Ended March 31, 2002

(Dollar amounts in millions)	2002	2003	% Increase/ (Decrease)
Net revenues	$ 1,186.7	$ 1,250.0	5.3%
Cost of sales	568.7	621.4	9.3%
Gross margin	618.0	628.6	1.7%
SG&A expenses	278.4	294.3	5.7%
R&D	161.6	180.2	11.5%
Other special charges		24.3	
Acquired IPR&D	2.2		(100.0%)
Operating income	175.8	129.8	(26.2%)
Loss on investments, net	(0.4)	(2.1)	425%
Interest income, net	9.0	9.3	3.3%
Other income (expense), net		4.8	
Income before income taxes	184.4	141.8	(23.1%)
Provision for income taxes	54.1	38.3	(29.2%)
Income from continuing operations	$ 130.3	$ 103.5	(20.6%)
Percentage of net revenues:			
Gross margin	52.1%	50.3%	
SG&A expenses	23.5%	23.5%	
R&D	13.6%	14.4%	
Operating income	14.8%	10.4%	
Effective income tax rate	29%	27%	

As previously described in events impacting comparability, the nine month results for fiscal 2003 and 2002 were impacted by the following pre-tax items:

- $2.2 million charge to write off acquired IPR&D in fiscal 2002 and
- $33.8 million charge, including $9.5 million recorded in cost of sales, for cost reductions, asset impairments, and other special charges in fiscal 2003.

There was no tax effect on the acquired IPR&D charge in fiscal 2002. The total tax benefit recorded on the cost reductions and other special charges in fiscal 2003 was $10.9 million.

Income from continuing operations decreased for the first nine months of fiscal 2003 primarily due to the special charges described above, as well as due to higher R&D spending related to products in development and support for Knowledge Business initiatives. Partially offsetting this decrease were higher instrument, service, and license revenues and a lower effective income tax rate. The foreign currency impact on net income was immaterial for the first nine months of fiscal 2003.

Net revenues from the Celera Genomics group and Celera Diagnostics, primarily from leased instruments, consumables, and project materials, and contracted R&D services, were $5.9 million for the first nine months of fiscal 2003, or 0.5% of the Applied Biosystems group's net revenues, and $20.5 million for the first nine months of fiscal 2002, or 1.7%. The favorable effects of foreign currency increased net revenues during the nine months of fiscal 2003 by approximately $20 million, or 2%, as compared to the prior year period. The following table sets forth the Applied Biosystems group's revenues by geographic area for the nine months ended March 31:

(Dollar amounts in millions)	2002	2003	% Increase/ (Decrease)
United States	$ 560.8	$ 606.3	8.1%
Europe	323.2	352.6	9.1%
Asia Pacific	270.4	253.8	(6.1%)
Latin America and other markets	32.3	37.3	15.5%
Total	$ 1,186.7	$ 1,250.0	5.3%

Excluding the effects of foreign currency, revenues increased approximately 3% in Europe and decreased approximately 7% in Asia Pacific during the first nine months of fiscal 2003 compared to the prior year period. The decrease in Asia Pacific was due in large part to the delays by the Japanese government in releasing appropriated funds from the budget.

For the first nine months of fiscal 2003, revenues from instrument sales were $613.9 million, an increase of 9.0% from $563.3 million in the prior year period. Instrument sales increased in the DNA sequencing and mass spectrometry product lines and decreased in the SDS product line. The DNA sequencing

instrument growth was driven by shipments of the 3730xl DNA Analyzer to some of the large genome centers, as well as demand for the ABI PRISM(R) 3100-Avant Genetic Analyzer, 3730 and the 3730xl systems from smaller academic and commercial laboratories. This growth was partially offset by revenue declines in other DNA sequencing instruments, including the ABI PRISM(R) 3100 Genetic Analyzer. Although the overall SDS and other applied genomics product line grew in the first nine months of fiscal 2003 compared to the prior year period, SDS instrument sales decreased due primarily to restrained pharmaceutical spending on certain high-end instruments, partially offset by strong sales of the ABI Prism(R) 7000 system. Demand in the drug metabolism and pharmacokinetics and the protein discovery markets helped drive sales increases of mass spectrometry instruments compared to the prior year period.

Consumables sales were $426.2 million for the first nine months of fiscal 2003 compared to $448.5 million for the first nine months of fiscal 2002, a decrease of 5.0%. This decrease was primarily due to declines in sales of core DNA synthesis and PCR consumables, and, to a lesser degree, DNA sequencing consumables, which more than offset the growth of SDS and other consumables revenues. Within the SDS and Other Applied Genomics product category, revenue from the TaqMan(R) chemistry-based consumable products, which are used for both gene expression and genotyping, increased.

Revenues from other sources, which included service, royalties, and licenses, increased 20.0% to $209.9 million for the first nine months of fiscal 2003 from $174.9 million for the first nine months of fiscal 2002. The increase in revenues resulted from higher service revenues, license fees, and royalties, including $5.4 million for licenses related to certain mass spectrometry technology and $6.7 million for licenses related to genetic analysis technology.

The following table sets forth the Applied Biosystems group's revenues by product categories for the nine-month periods ended March 31:

(Dollar amounts in millions)	2002	2003	% Change
DNA sequencing products	$ 455.7	$ 467.5	3%
% of total revenues	39%	37%	
SDS and other applied genomics products	234.0	255.3	9%
% of total revenues	20%	21%	
Mass Spectrometry	206.1	266.5	29%
% of total revenues	17%	21%	
Core DNA synthesis and PCR products	179.9	151.6	(16%)
% of total revenues	15%	12%	
Other	111.0	109.1	(2%)
% of total revenues	9%	9%	
Total	$ 1,186.7	$ 1,250.0	5%

Gross margin, as a percentage of net revenues, decreased from the prior year period, as the asset impairment charges and changes in product sales mix,

including increased sales of lower-margin LC/MS products and lower-margin service revenues, and geographic mix, including lower sales in Japan, were only partially offset by higher margins from royalty and license revenues and the favorable effects of foreign currency. The asset impairment charges reduced gross margin by less than one percentage point for the nine month period.

As a percentage of net revenues, SG&A expenses were the same as the first nine months of fiscal 2002.

As a percentage of net revenues, the increase in R&D expenses was primarily due to the support for Knowledge Business initiatives and new products in development.

Interest income, net was essentially unchanged as higher average cash and cash equivalents and short-term investments balances for the first nine months of fiscal 2003 compared with the first nine months of fiscal 2002 was almost entirely offset by the impact of lower average interest rates.

Other income, net increased primarily due to benefits associated with our foreign currency risk management program.

The effective income tax rate was 27% for the first nine months of fiscal 2003 compared to 29% for the first nine months of fiscal 2002. The decrease in the effective income tax rate was primarily due to the implementation of certain tax planning strategies allowing for the increased utilization of foreign tax credits, as well as the previously discussed special charges recorded in both periods. The effective income tax rate for fiscal 2003 included a non-cash charge related to amended returns, offset by the release of valuation allowances on deferred tax assets. The valuation allowance release resulted from the realization of foreign tax credits.

Discussion of Financial Resources and Liquidity

The Applied Biosystems group had cash and cash equivalents and short-term investments of $521.3 million at March 31, 2003 and $471.0 million at June 30, 2002. We maintain a $50 million revolving credit agreement with three banks that expires on April 20, 2005, under which there were no borrowings outstanding at March 31, 2003. Cash provided by operating activities has been the Applied Biosystems group's primary source of funds.

We believe that existing funds, cash generated from operations, and existing sources of debt financing are adequate to satisfy the Applied Biosystems group's normal operating cash flow needs, planned capital expenditures, funding of the Celera Diagnostics joint venture, and dividends for the foreseeable future. However, we may raise additional capital from time to time and allocate it to the Applied Biosystems group.

In connection with the adverse jury verdict against Applera in the TA Instruments patent lawsuit, we expect to be required to extend a financial guarantee for the amount of the damages awarded plus interest. If and when such a guarantee is extended, the cash applied to secure the guarantee will be reclassified to other assets as restricted cash.

We manage the investment of surplus cash and the issuance and repayment of

short-term 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, 2002	March 31, 2003
Cash and cash equivalents	$ 441.3	$ 521.3
Short-term investments	29.7	
Total cash and cash equivalents and short-term investments	$ 471.0	$ 521.3
Total debt	0.3	
Working capital	549.8	586.4
Debt to total capitalization	-- %	

Cash and cash equivalents for the nine months ended March 31, 2003 increased as cash generated from operating activities, maturities of short-term investments and proceeds from stock issuances were only partially offset by expenditures for capital assets, the funding of the Celera Diagnostics joint venture, the payment of dividends, and the repurchase of Applera - Applied Biosystems stock. Net cash flows of continuing operations for the nine months ended March 31 were as follows:

(Dollar amounts in millions)	2002	2003
Net cash from operating activities	$ 185.0	$ 173.5
Net cash from investing activities	(89.9)	(70.1)
Net cash from financing activities	(44.6)	(34.5)

Operating activities:

Net cash from operating activities of continuing operations for the first nine months of fiscal 2003 was $11.5 million lower than the first nine months of fiscal 2002. This decrease resulted primarily from lower income-related cash flows, higher inventory levels due to the timing of shipments and to support fiscal year-to-date sales activity, higher compensation-related payments, the timing of income tax payments, and $11.2 million of severance payments made under the fiscal 2003 cost reduction program. Partially offsetting this decrease were lower payments under supply agreements and for purchased licensed technology, and the timing of vendor and value added tax payments. The Applied Biosystems group's days sales outstanding was 73 days at March 31, 2003 compared to 72 days at June 30, 2002 and 68 days at March 31, 2002. Inventory on hand was 3.4 months at March 31, 2003 compared to 3.3 months at June 30, 2002.

Investing activities:

Capital expenditures for the first nine months of fiscal 2003, net of disposals, increased approximately $42 million over the prior fiscal year period primarily related to the expansion of facilities, primarily in Pleasanton, CA. During the first nine months of fiscal 2002, the Applied Biosystems group acquired the remaining shares of Boston Probes for approximately $37 million in cash.

Financing activities:

Financing activities for the first nine months of fiscal 2002 included the repayment of a yen loan at its maturity date. During the first nine months of fiscal 2003, we repurchased 1.1 million shares of Applera - Applied Biosystems stock for $19.8 million. These purchases are made from time to time under standing resolutions of our board of directors to replenish shares issued under our various stock plans.

Celera Genomics Group

Results of Operations--The Three Months Ended March 31, 2003 Compared With The Three Months Ended March 31, 2002

(Dollar amounts in millions)	2002	2003	% Increase/ (Decrease)
Net revenues	$ 30.5	$20.3	(33.4%)
Cost of sales	15.4	3.0	(80.5%)
R&D	37.6	27.0	(28.2%)
SG&A expenses	13.7	7.9	(42.3%)
Amortization of intangible assets	2.6	0.7	(73.1%)
Other special charges	23.0		(100%)
Operating loss	(61.8)	(18.3)	(70.4%)
Loss on investments, net		(0.1)	
Interest income, net	6.6	3.8	(42.4%)
Other income (expense), net	(3.6)	(14.6)	306%
Loss from joint venture	(12.3)	(12.6)	2.4%
Loss before income taxes	(71.1)	(41.8)	(41.2%)
Benefit for income taxes	21.6	15.1	(30.1%)
Net loss	$ (49.5)	$ (26.7)	(46.1%)
Effective income tax benefit rate	30%	36%	

As previously described in events impacting comparability, the three month results for fiscal 2003 and 2002 were impacted by the following pre-tax items:

- $25.9 million charge, including $2.9 million recorded in cost of sales, for asset impairments and excess lease space related to the Paracel business in fiscal 2002, and

- $15.1 million charge included in the loss from our equity interest in DPI in fiscal 2003. This amount was recorded in other income (expense), net.

The total tax benefit recorded was $4.9 million on the fiscal 2002 charge and $5.9 million on the fiscal 2003 charge.

The lower net loss in the third quarter of fiscal 2003 primarily resulted from

the special items recorded in fiscal 2003 and 2002 described above, as well as lower R&D and SG&A expenses in fiscal 2003, partially offset by lower interest income in fiscal 2003. Higher Online/Information Business operating income of $5.2 million in the third quarter of fiscal 2003 compared to $4.6 million in the third quarter of fiscal 2002 resulted from reduced operating expenses as a result of the online marketing and distribution agreement with the Applied Biosystems group. Expenses related to the Applera Genomics Initiative are not allocated to the Online/Information Business.

Revenues decreased primarily as a result of the Celera Genomics group's decision not to pursue additional contract sequencing service business. Online/Information Business revenues decreased to $16.4 million in the third quarter of fiscal 2003, compared to $18.5 million in the third quarter of fiscal 2002.

Cost of sales decreased primarily due to the decrease in the sequencing service business and the Paracel inventory-related write-offs recorded in fiscal 2002 as described above.

R&D expenses decreased in the third quarter of fiscal 2003 in comparison to the same quarter last year due primarily to the wind down of the research phase of the Applera Genomics Initiative and the elimination of programs as a result of the June 2002 restructuring of the organization. This decrease was partially offset by higher expenses for therapeutic discovery and development programs.

SG&A expenses decreased in the third quarter of fiscal 2003 compared to the prior year quarter primarily due to a workforce reduction resulting from the June 2002 restructuring of the organization.

Interest income, net decreased primarily due to lower average interest rates and, to a lesser extent, lower average cash and cash equivalents and short-term investments balances during the third quarter of fiscal 2003 compared to the prior year quarter.

In the third quarter of fiscal 2003, other expense, net consisted primarily of the loss for the DPI equity method investment, which included our share of the impairment charge described above. In the third quarter of fiscal 2002, other expense, net reflected the losses recorded for equity method investments.

The effective income tax benefit rate was 36% in the third quarter of fiscal 2003 compared to 30% in the third quarter of fiscal 2002. The increase in the effective income tax benefit rate was primarily attributable to the impact of increased R&D credits and the previously discussed special charges recorded in both periods.

Results of Operations--The Nine Months Ended March 31, 2003 Compared With The Nine Months Ended March 31, 2002

(Dollar amounts in millions)	2002	2003	% Increase/ (Decrease)
Net revenues	$ 92.8	$ 66.8	(28.0%)
Cost of sales	45.3	10.1	(77.7%)
R&D	96.0	92.3	(3.9%)

SG&A expenses	40.2	22.0	(45.3%)
Amortization of intangible assets	4.7	5.2	10.6%
Other special charges	23.0		(100.0%)
Acquired IPR&D	99.0		(100.0%)
Operating loss	(215.4)	(62.8)	(70.8%)
Loss on investments, net		(0.3)	
Interest income, net	26.0	13.7	(47.3%)
Other income (expense), net	(5.3)	(17.3)	(226%)
Loss from joint venture	(30.2)	(35.8)	18.5%
Loss before income taxes	(224.9)	(102.5)	(54.4%)
Benefit for income taxes	41.9	40.0	(4.5%)
Net loss	$(183.0)	$ (62.5)	(65.8%)
Effective income tax benefit rate	19%	39%	

As previously described in events impacting comparability, the nine month results for fiscal 2003 and 2002 were impacted by the following pre-tax items:

- $25.9 million charge, including $2.9 million recorded in cost of sales, for asset impairments and excess lease space related to the Paracel business in fiscal 2002;

- $99.0 million charge to write off acquired IPR&D in fiscal 2002; and

- $15.1 million charge included in the loss from our equity interest in DPI in fiscal 2003. This amount was recorded in other income (expense), net.

The total tax benefit recorded was $4.9 million on the fiscal 2002 charges and $5.9 million on the fiscal 2003 charge. There was no tax benefit associated with the fiscal 2002 acquired IPR&D charge.

The lower net loss for the first nine months of fiscal 2003 primarily resulted from the special charges recorded in fiscal 2003 and 2002, as well as lower cost of sales, and R&D and SG&A expenses in fiscal 2003, partially offset by lower interest income in fiscal 2003. Higher Online/Information Business operating income of $23.6 million for the first nine months fiscal 2003 compared to $8.2 million for the first nine months of fiscal 2002 resulted from higher subscription revenue and reduced operating expenses as a result of the online marketing and distribution agreement with the Applied Biosystems group. Expenses related to the Applera Genomics Initiative are not allocated to the Online/Information Business.

Revenues decreased as a result of the Celera Genomics group's decision not to pursue additional contract sequencing service business. This decrease was partially offset by an increase in subscription revenue. Online/Information Business revenues increased to $57.3 million for the first nine months of fiscal 2003, compared to $52.8 for the first nine months of fiscal 2002.

Cost of sales decreased primarily due to the decrease in the sequencing service

business and the Paracel inventory-related write-offs recorded in fiscal 2002 as described above.

R&D expenses decreased for the first nine months of fiscal 2003 in comparison to the same period last year due primarily to: lower R&D expenses related to programs eliminated in the June 2002 restructuring of the organization, partially offset by higher expenses for therapeutic discovery and development programs, including programs acquired with Axys; and $2.9 million recorded in the third quarter of fiscal 2002 for asset write-downs associated with the Rockville sequencing facility due to the group's decision not to pursue additional sequencing service business.

SG&A expenses decreased for the first nine months of fiscal 2003 compared to the prior year period primarily due to a workforce reduction resulting from the June 2002 restructuring of the organization, partially offset by an increased number of employees resulting from the acquisition of Axys in November 2001.

Interest income, net decreased primarily due to lower average interest rates and, to a lesser extent, lower average cash and cash equivalents and short-term investments balances during the first nine months of fiscal 2003 compared to the prior year period.

Other expense, net increased for the first nine months of fiscal 2003 due primarily to losses recorded for equity method investments, including our share of the impairment charge recorded by DPI described above.

The effective income tax benefit rate was 39% for the first nine months of fiscal 2003 compared to 19% for the first nine months of fiscal 2002. The increase in the effective income tax benefit rate was primarily attributable to the impact of increased R&D credits and the previously discussed special charges recorded in both periods.

Discussion of Financial Resources and Liquidity

The Celera Genomics group had cash and cash equivalents and short-term investments of $824.3 million at March 31, 2003 and $888.9 million at June 30, 2002. We maintain a $50 million revolving credit agreement with three banks that expires on April 20, 2005, under which there were no borrowings outstanding at March 31, 2003.

We believe that existing funds and existing sources of debt financing are adequate to satisfy the Celera Genomics group's normal operating cash flow needs, planned capital expenditures and funding of the Celera Diagnostics joint venture for the foreseeable future. However, we may raise additional capital from time to time and allocate it to the Celera Genomics group.

We manage the investment of surplus cash and the issuance and repayment of short-term 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, 2002	March 31, 2003
Cash and cash equivalents	$ 28.9	$ 20.9

Short-term investments	860.0	803.4
Total cash and cash equivalents and short-term investments	$ 888.9	$ 824.3
Total debt	18.0	17.3
Working capital	840.3	772.8
Debt to total capitalization	1.6%	1.7%

During the second quarter of fiscal 2003, the Celera Genomics group purchased $18.1 million of non-callable U.S. government obligations to serve as collateral for the 8% senior secured convertible notes acquired as part of the acquisition of Axys. We substituted these government obligations for our shares of DPI common stock that originally collateralized the notes. The government obligations are required to be held in a trust and the proceeds from the maturation of, and interest payments on, these obligations will fund the interest and principal payments under the notes. The DPI shares were released to us during the third quarter of fiscal 2003. The government obligations, which mature over the next two fiscal years, are classified as available for sale at March 31, 2003, with $0.9 million in short-term investments and $16.7 million in other long-term assets.

Cash and cash equivalents for the first nine months of fiscal 2003 decreased as proceeds from the sales and maturities of short-term investments and proceeds from stock issuances were expended on operations, the funding of the Celera Diagnostics joint venture and the purchase of capital assets and long-term investments. Net cash flows for the nine months ended March 31 were as follows:

(Dollar amounts in millions)	2002	2003
Net cash from operating activities	$ (37.7)	$ (23.6)
Net cash from investing activities	(64.2)	0.3
Net cash from financing activities	(0.2)	15.3

Operating activities:

Net cash used by operating activities for the first nine months of fiscal 2003 was $14.1 million lower than the first nine months of fiscal 2002. The lower use of cash resulted from lower net cash operating losses and a decrease in accounts receivable in fiscal 2003, partially offset by lower deferred revenues.

Investing activities:

For the first nine months of fiscal 2003, cash was generated from the sales and maturities of short-term investments. These proceeds were almost fully offset by increased funding of the Celera Diagnostics joint venture in the first nine months of fiscal 2003 and the purchase of investments to secure the 8% senior secured convertible notes.

Financing activities:

Net cash from financing activities for the first nine months of fiscal 2003 increased due to proceeds received from employee stock option exercises. The

first nine months of fiscal 2002 included the repayment of a portion of the debt assumed in the Axys acquisition. During the first nine months of fiscal 2002, we repurchased 47,700 shares of Applera - Celera stock for $0.9 million. These purchases are made from time to time under standing resolutions of our board of directors to replenish shares issued under our various stock plans.

Celera Diagnostics

Results of Operations--The Three Months Ended March 31, 2003 Compared With The Three Months Ended March 31, 2002

(Dollar amounts in millions)	2002	2003	% Increase/ (Decrease)
Net revenues	$ 2.7	$ 4.3	59.3%
Cost of sales	1.9	2.3	21.1%
R&D	11.1	11.7	5.4%
SG&A expenses	2.0	2.9	45.0%
Operating loss	$ (12.3)	$ (12.6)	2.4%

Revenues for the third quarter of fiscal 2003 increased due to higher sales of cystic fibrosis analyte specific reagents and the inclusion of revenue relating to the profit-sharing alliance between Abbott Laboratories and Celera Diagnostics. The Applied Biosystems group distributed Celera Diagnostics' products and recorded end-user sales through September 2002. On October 1, 2002, pursuant to the profit-sharing alliance announced in June 2002, sales responsibilities for products manufactured by Celera Diagnostics were largely transferred to the diagnostic division of Abbott, which now records end-user sales for those products. End-user product sales were $5.8 million for the third quarter of fiscal 2003 and $3.4 million for the third quarter of fiscal 2002. Sales of products by Celera Diagnostics to Abbott are recorded at cost. The third quarter of fiscal 2003 included $2.6 million of revenue recorded under the Abbott alliance for the equalization of gross margin and relative expenses incurred by the parties.

R&D expenses increased in the third quarter of fiscal 2003 as a result of increased spending for discovery programs and product development.

Results of Operations--The Nine Months Ended March 31, 2003 Compared With The Nine Months Ended March 31, 2002

(Dollar amounts in millions)	2002	2003	% Increase/ (Decrease)
Net revenues	$ 6.4	$ 15.1	135.9%
Cost of sales	4.5	6.9	53.3%
R&D	25.6	35.4	38.3%
SG&A expenses	6.5	8.6	32.3%
Operating loss	$ (30.2)	$ (35.8)	18.5%

Revenues for the first nine months of fiscal 2003 increased due to higher sales of cystic fibrosis analyte specific reagents and the inclusion of revenue relating to the profit-sharing alliance between Abbott Laboratories and Celera Diagnostics. End-user product sales were $14.7 million for the first nine months of fiscal 2003 and $8.0 million for the first nine months of fiscal 2002. Fiscal 2003 included $7.7 million of revenue recorded under the Abbott alliance for the equalization of gross margin and relative expenses incurred by the parties.

R&D expenses increased in the first nine months of fiscal 2003 as a result of increased spending for discovery programs and product development.

Recently Issued Accounting Standards

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation and requires more prominent and frequent disclosures about the effects of stock-based compensation. The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for interim periods beginning after December 15, 2002.

We continue to apply the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation - An Interpretation of Accounting Principles Board Opinion No. 25." We adopted the disclosure provisions of SFAS No. 148 in our fiscal 2003 third quarter. See Note 2 to our condensed consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation No. ("FIN") 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of Statement of Financial Accounting Standards Nos. 5, 57, and 107 and rescission of FIN 34." FIN 45 extends the disclosures to be made by a guarantor about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of certain guarantees, a liability for the fair value of the obligation under these guarantees. The disclosure provisions of FIN 45 were effective for financial statements for periods ending after December 15, 2002. The provisions for initial recognition and measurement of guarantees were effective on a prospective basis for guarantees issued or modified after December 31, 2002. The application of FIN 45 did not have a material impact on our consolidated financial statements. See Note 10 to our condensed consolidated financial statements for a description of the types of guarantees we have issued.

RESULTS OF OPERATIONS continued

Outlook

Applied Biosystems Group

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. From a macro perspective, governments in all three of our major geographic markets presently face fiscal and economic problems. In recent months, the governments in the U.S. and Japan approved healthy funding increases for the life sciences. However, in view of weak economic conditions and increasing public deficits, the Applied Biosystems group cannot be certain that those increases will be realized. Within Europe's Economic Union, negotiated ceilings on deficit spending as a percentage of gross domestic product continue to put pressure on appropriations for life science research. Similarly, throughout most of the Applied Biosystems group's geographic markets, commercial customers' purchasing patterns appear cautious. The current situation in the Middle East has also increased the business uncertainty for both customers and the Applied Biosystems group. Additional factors affecting our outlook for the Applied Biosystems group include difficulty in predicting the level of customer dilution of sequencing consumables and the rate of adoption of new products and technologies. As a result of these and other factors, the Applied Biosystems group cannot provide guidance on revenues or diluted earnings per share for the fourth quarter of fiscal 2003 to the degree of accuracy that is normally expected.

The Applied Biosystems group expects the effective tax rate for fiscal 2003 to be approximately 27 percent. However, future tax legislation may repeal or replace the existing U.S. export tax regime, as well as significantly change other international tax provisions of the Internal Revenue Code. Such changes may result in a change in the effective tax rate for the Applied Biosystems group.

Capital spending in fiscal 2003 is anticipated to be approximately $140 million, including approximately $70 million for the facilities expansion in Pleasanton, CA.

Celera Genomics Group

Although the Celera Genomics group's partners will make clinical development decisions with respect to partnered compounds, the Celera Genomics group continues to believe that one of its compounds, most likely one of its partnered compounds, could enter clinical trials during calendar year 2003. The Celera Genomics group also plans to initiate at least one new pre-clinical development program and to make significant progress in building its development organization to support these programs during this calendar year.

The financial outlook for the Celera Genomics group for fiscal 2003 is as follows:

The Celera Genomics group's cash use is expected to be between $83 and $89 million, due to lower than previously anticipated R&D expenses. This outlook includes the Celera Genomics group's portion of the funding for the Celera Diagnostics joint venture and the conversion of $17 million of short-term investments to long-term investments that occurred during the second fiscal quarter.

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

The Celera Genomics group anticipates R&D expenses to be in the range of $118 to $123 million, reflecting both lower than expected costs and expenditure delays. SG&A expenses are expected to be at the low end of the previously anticipated $30 to $35 million range. Pre-tax losses related to the Celera Diagnostics joint venture are expected to be at the low end of the previously forecasted $50 to $60 million range.

The Celera Genomics group anticipates total revenues between $85 and $90 million. Revenues from subscriptions to CDS and from Knowledge Business royalties are expected to be between $71 and $76 million.

Celera Diagnostics

For fiscal 2003, Celera Diagnostics anticipates end-user sales, including those from its alliance with Abbott Laboratories, to be near the top of the previous $18 to $22 million outlook range. This outlook assumes continued demand growth. For fiscal 2003, Celera Diagnostics now anticipates pretax losses to be at the low end of the previously forecasted $50 to $60 million range, and net cash use of $55 to $65 million, including capital spending of approximately $10 million.

During calendar year 2003, Celera Diagnostics continues to anticipate that it will launch several new products, including new analyte specific reagents for at least two diseases, contingent upon success of its disease association studies.

Forward-Looking Statements

Certain statements contained in this report, including the Outlook section, are forward-looking and are subject to a variety of risks and uncertainties. These statements may be identified by the use of forward-looking words or phrases such as "expect," "anticipate," "forecast," "believe," "should," "plan," "intend," "estimate," and "potential," among others. These forward-looking statements are based on our current expectations. The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for such 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 the anticipated results or other expectations expressed in such forward-looking statements. The risks and uncertainties that may affect the operations, performance, development and results of our businesses include, but are not limited to:

Factors Relating to the Applied Biosystems Group

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

Rapidly changing technology in life sciences could make the Applied Biosystems group's product line obsolete unless it continues to improve existing products, develop new products, and pursue new market opportunities. A significant portion of the net revenues for the Applied Biosystems group each year is derived from products that did not exist in the prior year. The Applied Biosystems group's future success depends on its ability to continually improve its current products, develop and introduce, on a timely and cost-effective basis, new products 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. The Applied Biosystems group's products are based on complex technology which is subject to rapid change as new technologies are developed and introduced in the marketplace. Unanticipated difficulties or delays in replacing existing products with new products, or the inability to gain market acceptance of new products on a timely basis, could adversely affect the Applied Biosystems group's future operating results. The pursuit of new market opportunities will add further complexity and require additional management attention and resources as these markets are addressed.

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. 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.

The Applied Biosystems group's new Knowledge Business may not be successful. In April 2002, the Applied Biosystems group became the exclusive distributor of the Celera Genomics group's Celera Discovery System and related human genomic and other biological and medical information under the terms of a 10-year marketing and distribution agreement. The Applied Biosystems group expects to integrate the Celera Discovery System and the Celera Genomics group's related information into a new Knowledge Business that combines current Applied Biosystems assay, human identification and forensics, and cell biology products with new biological information content and analytical tools. The Knowledge Business is an emerging business and the Applied Biosystems group believes that in order for it to be successful the Applied Biosystems group may have to devote a significant amount of resources to researching, developing, marketing, and distributing Knowledge Business products and services. The market for these products and services is intensely competitive, and there can be no assurance that there will be market acceptance of the utility and value of the product and service offerings of the Knowledge Business.

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, 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. Although research funding has increased during the past several years, grants have, in the past, 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 claims for infringement of patents and other intellectual property rights. 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, there are relatively few decided court cases interpreting the scope of patent claims in these technologies, and 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. 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 theft of trade secret claim against the Applied Biosystems group asserting that the Applied Biosystems group's products improperly use technologies which are not patented but which are protected as trade secrets. The Applied Biosystems group has been made a party to litigation regarding intellectual property matters, including the litigation described in the following paragraph and elsewhere in this quarterly report, some of which, if determined adversely, could have a material adverse effect on the Applied Biosystems group. Due to the fact that the Applied Biosystems group's business depends in large part on rapidly developing and dynamic technologies, there remains a constant risk of intellectual property litigation affecting the group. The Applied Biosystems group has from time to time been notified that it may be infringing patents and other intellectual property rights of others. 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.

MJ Research, Inc. has 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 one of the alleged inventors, whose work was funded in part by the United States government, was knowingly omitted from the patent applications. MJ Research claims to be suing in the name of the United States government although the government has to date declined to participate in the lawsuit. Promega Corporation has filed a lawsuit against us alleging that the Applied Biosystems group, along with certain 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, although it has not identified the specific facts on which the allegation is based. If any of these matters proceed to trial, the cost of the litigation, and the amount of management time that will be devoted to the litigation, will be significant. There can be no assurance that these matters will be resolved favorably, that our company, the Applied Biosystems

group, or the Celera Genomics group will not be enjoined from selling the products in question or other products 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, or the Celera Genomics group.

Since the Applied Biosystems group's business is dependent on foreign sales, fluctuating currencies will make revenues and operating results more volatile. Approximately 50% of the Applied Biosystems group's net revenues for fiscal 2002 were derived from sales to customers outside of the United States. 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.

Integrating acquired technologies may be costly and may not result in technological advances. The future growth of the Applied Biosystems group depends in part on its ability to acquire complementary technologies through acquisitions and investments. The consolidation of employees, operations, and marketing and distribution methods could present significant managerial challenges. For example, the Applied Biosystems group may encounter operational difficulties in the integration of manufacturing or other facilities. In addition, technological advances resulting from the integration of technologies may not be achieved as successfully or rapidly as anticipated, if at all.

The Applied Biosystems group's Knowledge Business depends on the continuous, effective, reliable, and secure operation of its computer hardware, software, and Internet applications and related tools and functions. Because the Applied Biosystems group's Knowledge 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, the Applied Biosystems group 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 Knowledge Business research personnel or Knowledge Business customers through the Internet is interrupted, the Knowledge 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, and similar events. In addition, the Knowledge Business online products 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 the Knowledge Business product 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 Knowledge Business.

Earthquakes could disrupt operations in California. The headquarters and principal operations of the Applied Biosystems group are located in Foster City, California. Foster City is located 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 is volatile. The market price of Applera - Applied Biosystems stock has been and may continue to be volatile due to the risks and uncertainties described in this section of this quarterly 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 the Applied Biosystems 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 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.

SARS (Severe Acute Respiratory Syndrome) could disrupt the Applied Biosystems group's operations. The Applied Biosystems group has significant instrument manufacturing operations in Singapore. In addition, Applied Biosystems/MDS SCIEX Instruments, a joint venture between the Applied Biosystems group and MDS Inc., manufactures mass spectrometry instruments sold by the Applied Biosystems group at its facility in Toronto, Canada. The Applied Biosystems group also relies on suppliers located in other countries in Asia for various raw materials and components used in its manufacturing operations. Singapore and a number of other countries in Asia and, to a lesser degree, Toronto have been identified by world health organizations as among the areas most affected by SARS. The Applied Biosystems group's operations could be disrupted if it or one of its key suppliers is forced to close its facilities or otherwise limit operations in Singapore or in another affected Asian country or if Applied Biosystems/MDS SCIEX Instruments is forced to close its facility or otherwise limit operations in Toronto due to SARS. Similarly, sales of the Applied Biosystems group's products could be adversely affected if customers or potential customers are forced to close facilities or otherwise limit operations due to SARS. Sales of the Applied Biosystems group's products could also be adversely affected if potential customers are unable or unwilling to travel to one of the Applied Biosystems group's sales offices or if employees of the Applied Biosystems group

are unable or unwilling to visit existing and potential customer sites due to SARS.

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 $639.3 million as of March 31, 2003, and expects that it will continue to incur additional 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 its therapeutics business, 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 utilized 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 $77.6 million as of March 31, 2003. As an early stage business, the Celera Genomics group faces significant challenges in expanding its operations into the therapeutics research and development business. As a result, there is a high degree of uncertainty that the Celera Genomics group will be able to achieve profitable operations.

The Celera Genomics group has entered into an exclusive arrangement with the Applied Biosystems group to distribute the Celera Discovery System and related information as part of the Applied Biosystems group's new Knowledge Business, and the revenue that the Celera Genomics group receives from the Applied Biosystems group will depend heavily on the Applied Biosystems group's ability to market and distribute its Knowledge Business products. Effective April 2002, the Applied Biosystems group became the exclusive distributor of the Celera Discovery System and the Celera Genomics group's related human genomic and other biological and medical information under the terms of a ten-year marketing and distribution agreement. The Celera Genomics group expects that the Applied Biosystems group will integrate the Celera Discovery System and the related information into a new Knowledge Business that combines current Applied Biosystems assay, human identification and forensics, and cell biology products with new biological information content and analytical tools.

Under the terms of the agreement, the Applied Biosystems group is obligated to pay a royalty to the Celera Genomics group based on sales of certain Knowledge Business products after July 1, 2002. The amount of any royalty paid to the Celera Genomics group depends on the Applied Biosystems group's ability to successfully commercialize Knowledge Business products subject to the royalty. The Knowledge Business is an emerging business, and the Applied Biosystems group has not proven its ability to successfully commercialize these products. The Celera Genomics group believes that in order for the Knowledge Business to be successful, the Applied Biosystems group may have to devote a significant amount of its resources to researching, developing, marketing, and distributing Knowledge Business products and services. However, the Celera Genomics group has

no control over the amount and timing of the Applied Biosystems group's use of its resources, including for products subject to the Celera Genomics group's royalty. In addition, the market for these products is intensely competitive, and there can be no assurance that there will be market acceptance of the utility and value of the product offerings of the Knowledge Business.

The Celera Genomics group has not sought any new customers for its Celera Discovery System and related information products and services since June 30, 2002, and therefore its future revenues from these products and services will be limited. Under the terms of the marketing and distribution agreement between the Celera Genomics group and the Applied Biosystems group, the Celera Genomics group will receive all revenues under, and be responsible for all costs and expenses associated with, Celera Discovery System and related information contracts that were in effect on April 1, 2002, the effective date of the agreement, or which were entered into during a three-month transition period ended June 30, 2002 (as well as renewals of these contracts, if any). However, the revenue anticipated by the Celera Genomics group under these contracts could be adversely impacted as a result of changes made to Celera Discovery System products by or at the request of the Applied Biosystems group pursuant to the agreement, although the Applied Biosystems group has agreed to reimburse the Celera Genomics group for any shortfall in earnings before interest, taxes, depreciation, and amortization from these contracts (as well as renewals, if any) below $62.5 million during the four fiscal years ending with the 2006 fiscal year if the shortfall is due to these changes, provided the Celera Genomics group otherwise continues to perform under these contracts. However, during the term of the marketing and distribution agreement (other than the transition period), the Celera Genomics group will not be marketing Celera Discovery System products and services to, and will not be contracting with, new customers. Accordingly, except for the anticipated revenue under Celera Discovery System contracts existing on June 30, 2002 and renewals of these contracts, if any, and the Applied Biosystems group's corresponding reimbursement obligation, the Celera Genomics group does not expect any revenues from Celera Discovery System and related products and services other than the potential royalty payments from the Applied Biosystems group under the marketing and distribution agreement. Although under certain contracts with existing Celera Discovery System customers the Celera Genomics group is entitled to milestone payments or future royalties based on products developed by its customers, the Celera Genomics group believes these arrangements are unlikely to produce any significant revenue for the group.

The Celera Genomics group's ability to maintain its relationships with existing Celera Discovery System customers depends heavily on the continued updating of the assembly and annotation of the human and mouse genomes. In June 2000, the Celera Genomics group and the Human Genome Project each announced the "first assembly" of the human genome, and in April 2001, the Celera Genomics group announced the assembly of the mouse genome. Assembly is the process by which individual fragments of DNA, the molecule that forms the basis of the genetic material in virtually all living organisms, are pieced together into their appropriate order and place on each chromosome within the genome. The Celera Genomics group's first assembly of the human genome covered approximately 95% of that genome, and its assembly of the mouse genome covered approximately 99% of that genome. The Celera Genomics group intends to continue updating the assembly of the human and mouse genomes as it continues to annotate these genomes. Annotation is the process of assigning features or characteristics to each

chromosome. Each gene on each chromosome is given a name, its structural features are described, and proteins encoded by genes are classified into possible or known function. The Celera Genomics group's ability to maintain its relationship with the existing Celera Discovery System customers depends heavily upon the continued updating of the assembly and annotation of these genomes. Failure to continue to update the assembly and annotation efforts in a timely manner may have a material adverse effect on the Celera Genomics group's revenues.

The Celera Genomics group's ability to develop and commercialize proprietary therapeutics is unproven. As the Celera Genomics group expands its therapeutics discovery and development business, it faces the difficulties inherent in developing and commercializing therapeutic products. It is possible that the Celera Genomics group's discovery and development efforts will not result in any commercial products. In particular, the Celera Genomics group and its collaborators are seeking to develop new therapeutic products based on information derived from the study of the genetic material of organisms, or genomics, and the study of proteins, or proteomics. These methods are unproven, as few therapeutic products based on genomic or proteomic discoveries have been developed and commercialized and, to date, no one has developed or commercialized any therapeutic products based on the Celera Genomics group's technologies.

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 and clearance or approval by the United States 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 a 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 any 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;

- 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 collaborator's 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 physicians 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 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 certain circumstances. In addition, the amount and timing of resources to be devoted to research, development, eventual 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 certain development programs.

RESULTS OF OPERATIONS continued

If the Celera Genomics group fails to satisfy regulatory requirements for any therapeutic product candidate, the Celera Genomics group will be unable to complete the development and commercialization of that product. The Celera Genomics group does not currently have the internal capability to move potential products through clinical testing, manufacturing and the approval processes of the United States Food and Drug Administration and comparable agencies in other countries. In the United States, 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 therapeutic product candidates is safe and effective in humans for each indication before obtaining regulatory clearance from the United States Food and Drug Administration for the commercial sale of that product. Outside of the United States, the regulatory requirements vary from country to country. If the Celera Genomics group or its collaborator fails to adequately show the safety and effectiveness of a therapeutic 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 large-scale clinical trials. The Celera Genomics group cannot be certain that it will show sufficient safety and effectiveness in its clinical trials to allow it 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. Many companies in the therapeutic industry, including biotechnology companies, have suffered significant setbacks in advanced clinical trials, even after promising results in earlier studies.

Even if the Celera Genomics group obtains regulatory clearance or approval, it will be subject to certain risks and uncertainties relating to regulatory compliance, including: post-approval clinical studies and inability to meet the compliance requirements of the United States Food and Drug Administration's Good Manufacturing Practices regulations. In addition, identification of certain 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.

For certain 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. In addition, government regulation in the United States 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.

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;
- develop therapeutic products which are more effective or more

cost-effective than those developed by the Celera Genomics group;

- obtain regulatory approvals of their therapeutic products more rapidly than the Celera Genomics group; or

- obtain patent protection or other intellectual property rights that would limit the Celera Genomics group's ability 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 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 therapeutics discovery and development business is highly technical, and there is a competitive market for personnel with the necessary expertise to develop and expand the Celera Genomics group's therapeutics business. The Celera Genomics group believes that in order to develop and commercialize therapeutic products, it will need to recruit and retain scientific and management personnel having specialized training 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 therapeutics discovery and development business 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 hazardous materials, chemicals and various radioactive materials. In the event of an accidental contamination or injury from these materials, the Celera Genomics group could be held liable for damages in excess of its resources.

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. Because 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 and to its customers via the Internet, the Celera Genomics group 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 or customers through the Internet is interrupted, its 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, and similar events. In addition, the Celera Genomics group's online products 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 Celera Genomics group fails to maintain and further develop the necessary computer capacity and data to support its computational needs and its customers' therapeutics 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 the Celera Genomics group's business.

The Celera Genomics group's competitive position depends on maintaining its intellectual property protection and obtaining licenses to intellectual property it may need from others. The Celera Genomics group's ability to compete and to achieve and maintain profitability depends on its ability to protect its proprietary discoveries and technologies, in large part, 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 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 United States 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. Although others have been successful in obtaining patents to biotechnology inventions, since the adoption of these guidelines, these patents have been issued with increasingly less frequency. As a result, patents may not issue from patent applications that the Celera Genomics group may own or license if the applicant is unable to satisfy the new guidelines.

The United States Patent and Trademark Office has issued several patents to third parties covering inventions involving single nucleotide polymorphisms ("SNPs"), naturally occurring genetic variations that scientists believe can be correlated with susceptibility to disease, disease prognosis, therapeutic efficiency, and therapeutic toxicity. These inventions are subject to the same new guidelines as other biotechnology inventions. In addition, the Celera Genomics group may need to obtain rights to patented SNPs in order to develop, use and sell analyses of the overall human genome or particular full-length genes. These licenses may not be available to the Celera Genomics group on commercially acceptable terms, or at all.

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

In some instances, patent applications in the United States are maintained in secrecy until a patent issues. In most instances, the content of United States 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 United States Patent and Trademark Office. These proceedings determine the priority of invention and the right to a patent for the claimed invention in the United States.

Furthermore, lawsuits may be necessary to enforce any patents issued to the Celera Genomics group or to determine the scope and validity of the rights of third parties. Lawsuits and interference proceedings, even if they are successful, are expensive to pursue, and the Celera Genomics group could use a substantial amount of its financial resources in either case. An adverse outcome could subject the Celera Genomics group to significant liabilities to third parties and require the Celera Genomics group to license disputed rights from third parties or to cease using the technology.

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.

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

The Celera Genomics group may infringe the intellectual property rights of third parties and may become involved in expensive intellectual property litigation. The intellectual property rights of biotechnology companies, including the Celera Genomics group, are generally uncertain and involve complex legal, scientific and factual questions. The Celera Genomics group's success in therapeutics 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.

There has been substantial litigation regarding patents and other intellectual property rights in the biotechnology and pharmaceutical industries. The Celera Genomics group may become a party to patent litigation or proceedings at the United States Patent and Trademark Office to determine its patent rights with respect to third parties. Interference proceedings may be necessary to establish which party was the first to make the invention sought to be patented. The Celera Genomics group may become involved in patent litigation against third parties to enforce its patent rights, to invalidate patents held by the third parties, or to defend against these claims. The cost to the Celera Genomics group of any patent litigation or similar proceeding could be substantial, and it may absorb significant management time. If infringement litigation against the Celera Genomics group is 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. The Celera Genomics group may not be able to obtain a license on commercially acceptable terms, or at all.

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 certain diseases, particularly those that have no known cure. Any of these scenarios could reduce the potential markets for products of the Celera Genomics group.

Future acquisitions and other transactions may absorb significant resources, may be unsuccessful and could dilute the holders of Applera - Celera stock. The Celera Genomics group expects to pursue acquisitions, investments and other strategic relationships and alliances. Acquisitions, investments and other strategic relationships and alliances 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:

- difficulties integrating acquired technologies and personnel into the business of the Celera Genomics group;
- diversion of management from daily operations;
- 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.

It may be difficult for the Celera Genomics group to complete these transactions quickly and to integrate these businesses efficiently into its current business. 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. For example, future acquisitions may not be as successful as originally anticipated and may result in special charges. We have incurred special charges in recent years as a result of acquisitions. As a result of the Celera Genomics group's acquisition of Paracel, Inc., we incurred charges for impairment of goodwill, intangibles and other assets and other charges in the amounts of $69.1 million during fiscal 2001 and $25.9 million during fiscal 2002. Similarly, as a result of the Applied Biosystems group's acquisition of Molecular Informatics, Inc., we incurred charges related to the impairment of assets in the amount of $14.5 million during fiscal 1999.

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

Earthquakes could disrupt operations in California. The Celera Genomics group has research and development 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 stock price is volatile. The market price of Applera - Celera stock has been and may continue to be volatile due to the risks and uncertainties described in this section of this quarterly 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 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 purported class action lawsuit relating to its 2000 offering of shares of Applera - Celera stock that may be expensive and time consuming. Our company and some of its officers were served in five lawsuits purportedly on behalf of purchasers of Applera - Celera stock in our company's follow-on public offering of Applera - Celera stock completed on March 6, 2000. In the offering, our company sold an aggregate of approximately 4.4 million shares of Applera - Celera stock at a public offering price of $225 per share. All of these lawsuits have been consolidated into a single case 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 United States and the United Kingdom, to providing patent protection to our company's 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 our company did not adequately disclose the risk that it 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. Our company and the other defendants have filed a motion to dismiss the case, which motion is pending before the court. Although our company believes the asserted claims are without merit and intends 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 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 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 United States 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 any 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;
- 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 fails to satisfy regulatory requirements for any diagnostic product candidate, it 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 United States Food and Drug Administration and comparable agencies in other countries. In the United States, either Celera Diagnostics or its collaborators must show through pre-clinical studies and clinical trials that each of Celera Diagnostics' diagnostic product candidates is safe and effective for each indication before obtaining regulatory clearance or approval from the United States Food and Drug Administration for the commercial sale of that product. Outside of the United States, the regulatory requirements vary from country to country. If Celera Diagnostics or its collaborator fails 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 large-scale clinical trials. Celera Diagnostics cannot be certain that it will show sufficient safety and effectiveness in its clinical trials to allow it 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 obtains regulatory clearance or approval, it will be subject to certain risks and uncertainties relating to regulatory compliance, including: post-clearance or approval clinical studies and inability to meet the compliance requirements of the United States Food and Drug Administration's Quality System Regulations. 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 certain diseases, particularly those that have no known cure. Any of these scenarios could reduce the potential markets for products of Celera Diagnostics.

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 United States, 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 has entered into a strategic alliance agreement with Abbott Laboratories for the joint discovery, development, manufacturing, and commercialization of nucleic acid-based diagnostic products. The Abbott Laboratories agreement may be terminated by the non-breaching party in the event of a material breach and, under certain circumstances, by either party in the event of a change in control of the other party. 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 collaborations with other third parties are likely to be subject to similar terms and conditions. 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 certain development programs.

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 or work with Abbott Laboratories under their current agreement, or a combination of both. 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 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 United States Food and Drug Administration'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 has relocated most of its manufacturing operations to a new facility in Alameda, California, though it has maintained a limited but key component of its manufacturing operations at an Applied Biosystems group facility. Celera Diagnostics expects to operate its manufacturing out of these facilities for the foreseeable future, and it does not have alternative production plans in place or alternative facilities available should its existing manufacturing facilities 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 samples and other biological materials. Celera Diagnostics needs access to human tissue 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. In addition, government regulation in the United States and foreign countries could result in restricted access to, or use of, human tissue samples. If Celera Diagnostics loses access to sufficient numbers or sources of tissue samples, or if tighter restrictions are imposed on its use of the information generated from tissue 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 and fluorescent dyes. 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 longer periods 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 fluorescent dyes. 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, 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 United States Food and Drug Administration or foreign regulatory agencies prior to commercialization.

Celera Diagnostics' competitive position depends on maintaining its intellectual property protection and obtaining licenses to intellectual property it may need from others. Celera Diagnostics' ability to compete and to achieve and maintain profitability depends on its ability to protect its proprietary discoveries and technologies, in large part, 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 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 United States 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. Although others have been successful in obtaining patents to biotechnology inventions, since the adoption of these guidelines, these patents have been issued with increasingly less frequency. As a result, patents may not issue from patent applications that Celera Diagnostics may own or license if the applicant is unable to satisfy the new guidelines.

In some instances, patent applications in the United States are maintained in secrecy until a patent issues. In most instances, the content of United States 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 United States Patent and Trademark Office. These proceedings determine the priority of invention and the right to a patent for the claimed invention in the United States.

Furthermore, lawsuits may be necessary to enforce any patents issued to Celera Diagnostics or to determine the scope and validity of the patent rights of third parties. Lawsuits and interference proceedings, even if they are successful, are expensive to pursue, and Celera Diagnostics could use a substantial amount of its financial resources in either case. An adverse outcome could subject Celera Diagnostics to significant liabilities to third parties and require Celera Diagnostics to license disputed rights from third parties or to cease development or sales of a product.

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 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 and may become involved in expensive intellectual property litigation. The intellectual property rights of biotechnology companies, including Celera Diagnostics, are generally uncertain and involve complex legal, scientific and factual 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.

There has been substantial litigation regarding patents and other intellectual property rights in the biotechnology and pharmaceutical industries. Celera Diagnostics may become a party to patent litigation or proceedings at the United States Patent and Trademark Office to determine its patent rights with respect to third parties. Interference proceedings may be necessary to establish which party was the first to make the invention sought to be patented. Celera Diagnostics may become involved in patent litigation against third parties to enforce its patent rights, to invalidate patents held by the third parties, or to defend against these claims. The cost to Celera Diagnostics of any patent litigation or similar proceeding could be substantial, and it may absorb

significant management time. If infringement litigation against Celera Diagnostics is 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. Celera Diagnostics may not be able to obtain a license on commercially acceptable terms, or at all.

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;
- develop diagnostic products which are more effective or more cost-effective than those developed by Celera Diagnostics;
- obtain regulatory clearances or approvals of their diagnostic products more rapidly than Celera Diagnostics; or
- obtain patent protection or other intellectual property rights that would limit Celera Diagnostics' ability to develop and commercialize, or its customers' ability to use, Celera Diagnostics' diagnostic products.

Celera Diagnostics competes with entities in the United States and abroad that are engaged in the development and commercialization of products that provide genetic information. They include:

- purveyors of genetic testing services, which are not subject to the same clinical validation requirements as Celera Diagnostics' products, and which do not require United States Food and Drug Administration or other regulatory clearance or approval, including Laboratory Corporation of America Holdings, Quest Diagnostics Inc., and Specialty Laboratories, Inc.;
- manufacturers of analyte specific reagents and genotyping test

kits;

- purveyors of phenotyping assay services; and
- manufacturers and distributors of DNA probe-based diagnostic systems.

Earthquakes could disrupt operations in California. The headquarters and principal operations of Celera Diagnostics are located in Alameda, California, and Celera Diagnostics has manufacturing facilities in Foster City, California. Alameda and Foster City are 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.

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 risk section of the Management's Discussion and Analysis included on page 30 of our 2002 Annual Report to Stockholders (which section is incorporated herein 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. We evaluated the effectiveness of the design and operation of these disclosure controls and procedures under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, within 90 days prior to the filing of 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. No significant changes were made to our internal controls or in other factors that could significantly affect these controls subsequent to the date of their most recent evaluation.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved in various legal proceedings from time to time, including actions with respect to commercial, intellectual property, antitrust, environmental, securities, and employment matters. The following is a description of claims currently being defended by us. We believe that we have meritorious defenses against the claims currently asserted against us, including the claims described below, and intend to defend them vigorously. However, the outcome of litigation is inherently uncertain, and we cannot be sure that we will prevail in the cases described below or in our other current litigation. An adverse determination in certain of our current litigation, particularly the cases described below or elsewhere in this quarterly report, could have a material adverse effect on us, the Applied Biosystems group, or the Celera

Genomics group.

Henry Huang (an individual) filed an action against us and the Applied Biosystems group and the other parties described below in the U.S. District Court for the Central District of California on February 19, 2003. Mr. Huang's complaint seeks to change inventorship of the patents described below, and claims breach of contract, fraud, conversion, and unjust enrichment. The complaint relates to 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." U.S. Patent Nos. 5,171,534, 5,821,058, and 6,200,748 are assigned to the California Institute of Technology and licensed by the Applied Biosystems group. U.S. Patent No. 4,811,218 is assigned to the Applied Biosystems group. Also named in the complaint are the California Institute of Technology, Lloyd Smith, Leroy Hood, Michael Hunkapiller, Timothy Hunkapiller, Charles Connell, John Lytle, William Mordan, and John Bridgham. Lloyd Smith, Leroy Hood, Michael Hunkapiller, Timothy Hunkapiller, and Charles Connell are the inventors named on U.S. Patent Nos. 5,171,534, 5,821,058, and 6,200,748. Michael Hunkapiller, Charles Connell, John Lytle, William Mordan, and John Bridgham are the inventors named on U.S. Patent No. 4,811,218. The issues involved in this litigation are related to the issues in the MJ Research, Inc. litigation that was filed September 21, 2000, which is described in Note 12 to our Unaudited Condensed Consolidated Financial Statements contained in Part I of this quarterly report. Mr. Huang is alleging that he is the sole inventor on U.S. Patent Nos. 5,171,534, 5,821,058, 6,200,748, and 4,811,218. He is seeking to substitute himself for the named inventors on the relevant patents, and to have himself named as the sole assignee of the patents, and is also seeking monetary damages, costs, expenses, 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. The 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." The allegedly infringing products are cystic fibrosis reagent kits sold through Celera Diagnostics, and our products that are described in the complaint as "relating to non-coding variation". Genetic Technologies Limited is seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper.

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 dismissed all claims brought by On-Line Technologies, Inc. On-Line Technologies filed a notice of appeal on April 24, 2003.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

10.1 Celera Genomics/Applied Biosystems Marketing and Distribution Agreement dated as of February 27, 2003 and effective as of April 1, 2002, by and among the Company, its Applied Biosystems Group, and its Celera Genomics Group.

13 Annual Report to Stockholders for the fiscal year ended June 30, 2002, 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, 2002 (Commission file number 1-4389)).

99.1* Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2* Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K.

During the quarter ended March 31, 2003, the Company filed the following Current Reports on Form 8-K:

(1) Current Report on Form 8-K dated January 23, 2003, to incorporate under Item 5 thereof the text of the Company's press releases issued January 23, 2003, with respect to financial results for the second quarter of fiscal year 2003, of the Company and the Applied Biosystems group and Celera Genomics group.

(2) Current Report on Form 8-K dated March 18, 2003, to incorporate under Item 5 thereof the text of the Company's press release issued March 18, 2003, in which the Applied Biosystems group addresses current business conditions.

* Pursuant to Commission Release No. 33-8212, this certification will be treated as "accompanying" this quarterly report on Form 10-Q and not "filed" as part of such report for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of Section 18 of the Exchange Act and this certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

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 De Blasi
Vice President and
Controller
(Chief Accounting Officer)

Dated: May 14, 2003

CERTIFICATIONS

Principal Executive Officer Certification

I, Tony L. White, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Applera Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons

performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ Tony L. White

Chief Executive Officer

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Principal Financial Officer Certification

I, Dennis L. Winger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Applera Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ Dennis L. Winger

Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	
10.1	Celera Genomics/Applied Biosystems Marketing and Distribution Agreement dated as of February 27, 2003 and effective as of April 1, 2002, by and among the Company, its Applied Biosystems Group, and its Celera Genomics Group.
99.1*	Certification of Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002
99.2*	Certification of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002

* Pursuant to Commission Release No. 33-8212, this certification will be treated as "accompanying" this quarterly report on Form 10-Q and not "filed" as part of such report for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of Section 18 of the Exchange Act and this certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.