APPLERA CORP
Form 10-Q
November 07, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2007

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number: **001-04389**

APPLERA CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

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

(203) 840-2000

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

Yes ¨ No x

As of the close of business on November 1, 2007, there were 168,184,055 shares of Applera Corporation-Applied Biosystems Group Common Stock and 79,370,805 shares of Applera Corporation-Celera Group Common Stock outstanding.

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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 September 30,	
	2007	2006
Products	**$ 407,492**	$ 391,082
Services	**64,373**	58,140
Other	**44,808**	36,187
Total Net Revenues	**516,673**	485,409
Products	**192,579**	196,659
Services	**28,747**	24,598
Other	**2,901**	2,827
Total Cost of Sales	**224,227**	224,084
Gross Margin	**292,446**	261,325
Selling, general and administrative	**156,494**	142,385
Research and development	**60,809**	57,902
Amortization of purchased intangible assets	**2,612**	2,737
Employee-related charges, asset impairments and other		3,500
Asset dispositions and legal settlements	**(7,556)**	9,087
Acquired research and development		114,251
Operating Income (Loss)	**80,087**	(68,537)
Gain on investments, net		209
Interest expense	**(1,356)**	(497)
Interest income	**12,169**	9,710
Other income (expense), net	**787**	1,417
Income (Loss) before Income Taxes	**91,687**	(57,698)
Provision for income taxes	**29,997**	8,314
Net Income (Loss)	**$ 61,690**	$ (66,012)
Applied Biosystems Group (see Note 4)		
Net Income (Loss) per Share		
Basic	**$ 0.33**	$ (0.32)
Diluted	**$ 0.32**	$ (0.32)
Dividends Declared per Share	**$ 0.0425**	$ 0.0425

Celera Group (see Note 4)		
Net Income (Loss) per Share		
Basic and diluted	**$ 0.01**	$ (0.09)

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

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APPLERA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited)

(Dollar amounts in thousands)

	At September 30, 2007	At June 30, 2007
Assets		
Current assets		
Cash and cash equivalents	**$ 464,437**	$ 323,203
Short-term investments	**360,874**	732,757
Accounts receivable, net	**430,129**	452,873
Inventories, net	**157,878**	140,349
Prepaid expenses and other current assets	**173,852**	189,405
Total current assets	**1,587,170**	1,838,587
Property, plant and equipment, net	**386,381**	390,810
Goodwill and intangible assets, net	**303,010**	304,812
Other long-term assets	**636,062**	618,331
Total Assets	**$ 2,912,623**	$ 3,152,540
Liabilities and Stockholders Equity		
Current liabilities		
Loans payable	**$ 275,000**	$ -
Accounts payable	**153,792**	162,665
Accrued salaries and wages	**60,151**	108,552
Current deferred tax liability	**16,149**	15,633
Accrued taxes on income	**17,057**	66,701
Other accrued expenses	**281,831**	269,623
Total current liabilities	**803,980**	623,174
Other long-term liabilities	**269,343**	213,312
Total Liabilities	**1,073,323**	836,486
Stockholders Equity		
Capital stock		
Applera Corporation Applied Biosystems Group	**2,133**	2,133
Applera Corporation Celera Group	**793**	790
Capital in excess of par value	**2,253,871**	2,248,372
Retained earnings	**946,133**	854,721
Accumulated other comprehensive income	**15,080**	11,363
Treasury stock, at cost	**(1,378,710)**	(801,325)
Total Stockholders Equity	**1,839,300**	2,316,054
Total Liabilities and Stockholders Equity	**$ 2,912,623**	$ 3,152,540

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

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APPLERA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(Dollar amounts in thousands)

	Three months ended September 30,	
	2007	2006
Operating Activities of Continuing Operations		
Net income (loss)	**$ 61,690**	$ (66,012)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	**20,025**	21,079
Employee-related charges and other		3,500
Share-based compensation and pension	**7,001**	4,503
Deferred income taxes	**20,277**	(3,670)
Sale of assets and legal settlements, net		(209)
Acquired research and development		114,251
Changes in operating assets and liabilities:		
Accounts receivable	**37,502**	41,510
Inventories	**(17,153)**	(5,139)
Prepaid expenses and other assets	**11,043**	(16,281)
Accounts payable and other liabilities	**(57,653)**	(84,867)
Net Cash Provided by Operating Activities of Continuing Operations	**82,732**	8,665
Net Cash Provided by Discontinued Operations	**12,900**	
Investing Activities of Continuing Operations		
Additions to property, plant and equipment, net	**(9,758)**	(14,911)
Proceeds from maturities of available-for-sale investments	**30,409**	40,870
Proceeds from sales of available-for-sale investments	**396,692**	115,800
Purchases of available-for-sale investments	**(55,259)**	(212,585)
Acquisitions and investments	**(179)**	(121,403)
Proceeds from the sale of assets, net		322
Net Cash Provided (Used) by Investing Activities of Continuing Operations	**361,905**	(191,907)
Financing Activities		
Proceeds from loans payable	**275,000**	
Dividends	**(7,745)**	(7,647)
Purchases of common stock for treasury	**(601,505)**	
Proceeds from stock issued for stock plans and other	**20,672**	34,376
Net Cash Provided (Used) by Financing Activities of Continuing Operations	**(313,578)**	26,729
Effect of Exchange Rate Changes on Cash	**(2,725)**	5,334
Net Change in Cash and Cash Equivalents	**141,234**	(151,179)
Cash and Cash Equivalents Beginning of Period	**323,203**	434,191

Cash and Cash Equivalents End of Period	**$ 464,437**	$ 283,012

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

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Interim Condensed Consolidated Financial Statements

Basis of Presentation

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

We consistently applied the accounting policies described in our 2007 Annual Report to Stockholders in preparing these unaudited interim financial statements, except for the adoption of FIN 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 and FIN 48-1, Definition of Settlement in FASB Interpretation No 48 as discussed below. We made all adjustments that are necessary, in our opinion, for a fair statement of the results for the interim periods. These adjustments are of a normal recurring nature. We condensed or omitted from these interim financial statements several notes and other information included in our 2007 Annual Report to Stockholders. You should read these unaudited interim condensed consolidated financial statements in conjunction with our consolidated financial statements presented in our 2007 Annual Report to Stockholders.

Recently Issued Accounting Pronouncements

In June 2007, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards. EITF 06-11 states that an entity should recognize a realized tax benefit associated with dividends or dividend equivalents on nonvested equity shares, nonvested equity share units, and outstanding equity share options charged to retained earnings as an increase in capital in excess of par value. The amount recognized in capital in excess of par value should be included in the pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards. EITF 06-11 should be applied prospectively to income tax benefits of dividends on equity-classified share-based payment awards that are declared in fiscal years beginning after December 15, 2007. The provisions of EITF 06-11 are effective for our 2009 fiscal year beginning July 1, 2008. We are currently evaluating the provisions of EITF 06-11 and the resulting impact of adoption on our financial statements.

Adoption of FIN 48

We adopted the provisions of FIN 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 and FIN 48-1, Definition of Settlement in FASB Interpretation No 48 on July 1, 2007. FIN 48 addresses the recognition and measurement of uncertain income tax positions using a more-likely-than-not threshold and also requires enhanced disclosures in the financial statements. FIN 48-1 amends FIN 48 to provide guidance on how companies should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits.

As a result of our adoption, we recognized a $36.7 million increase in our opening retained earnings relating to our uncertain tax positions. The total amount of unrecognized tax benefits at July 1, 2007 was $67.9 million, of which $33.3 million would affect the effective tax rate if recognized. We recognize interest and penalties related to uncertain tax positions in our provision for income taxes. Although our tax filings are under continual examination by the tax authorities and we regularly assess our tax uncertainties, tax examinations are inherently uncertain. We are unaware of any material tax settlements expected within the next twelve months.

The U.S. statutes of limitation are open for the fiscal tax years 2004 forward. Our major foreign jurisdictions are subject to examination for the tax years 2002 forward. Due to the complex and uncertain examination process, the resolution of such examinations could have a material impact on our results of operations.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Note 2 Events Impacting Comparability

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

Income/(charge)	Three months ended September 30,	
(Dollar amounts in millions)	**2007**	2006
Other charges	**$ -**	$ (3.5)
Total employee-related charges, asset impairments and other	**$ -**	$ (3.5)
Other events impacting comparability:		
Asset dispositions and legal settlements	**$ 7.6**	$ (9.1)
Acquired research and development		(114.3)
Tax items	**(1.8)**	8.8

Employee-Related Charges, Asset Impairments and Other

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

Celera group

Fiscal 2007

During the fourth quarter of fiscal 2007, the Celera group recorded a pre-tax charge of $0.5 million for severance costs for approximately 20 employees. The charge resulted from a reduction in the Celera group s proteomics-based activities. All of the affected employees were notified as of June 30, 2007, and were terminated by October 31, 2007. During the first quarter of fiscal 2008, we made cash payments of $0.4 million related to this charge. Cash expenditures were funded by available cash. The remaining cash expenditures of $0.1 million are expected to be paid in the second quarter of fiscal 2008.

During the first quarter of fiscal 2007, the Celera group recorded a pre-tax charge of $3.5 million for its estimated share of a damage award in continuing litigation between Abbott Laboratories, our alliance partner, and Innogenetics N.V. In September 2006, a jury found that the sale of hepatitis C virus (HCV) genotyping analyte specific reagents (ASRs) products by Abbott willfully infringed a U.S. patent owned by Innogenetics and awarded Innogenetics $7.0 million in damages. In January 2007, the U.S. District Court for the Western District of Wisconsin ruled in favor of Innogenetics request for a permanent injunction, and as such, ordered Abbott to withdraw its products from the market. The

Court also reversed the jury verdict of willful infringement and ruled that Abbott did not willfully infringe Innogenetics patent and denied Innogenetics request for enhanced damages and attorneys fees. Innogenetics did not name the Celera group as a party in this lawsuit, but the Celera group has an interest in these products and in the outcome of the litigation because the enjoined products are manufactured by the Celera group and sold through its alliance with Abbott. Also, as these products are part of its alliance with Abbott, the Celera group has agreed to share the cost of this litigation, including the damage award described above. Abbott is appealing the judgment as both Abbott and the Celera group believe that Innogenetics patent is invalid and that the alliance s HCV genotyping ASRs do not infringe Innogenetics patent. On March 8, 2007, the Court of Appeals for the Federal Circuit issued an order denying Abbott s motion for a stay of the permanent injunction during the appeal process, and the alliance therefore will not receive any revenues from the sale of these HCV genotyping products for the foreseeable future. We believe the appeal process may take six months or more to conclude.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Charges prior to fiscal 2007

During fiscal 2006, the Celera group recorded pre-tax charges of $26.4 million related to its decision to exit its small molecule drug discovery and development programs and the integration of Celera Diagnostics into the Celera group. These charges consisted of $12.8 million of employee-related charges, $9.8 million of asset impairments, $1.2 million of excess lease space, and $2.6 million of other disposal costs. The remaining required cash expenditures of $0.9 million as of September 30, 2007, the majority of which related to the asset impairment of an owned facility, are expected to be disbursed by December 31, 2007.

During the first three months of fiscal 2008, the Celera group made net cash payments of approximately $0.2 million related to an excess facility lease space charge for our discontinued Paracel business that was recorded in fiscal 2005. The remaining net cash expenditures of approximately $2.5 million as of September 30, 2007 related to this charge are expected to be disbursed by fiscal 2011.

Applied Biosystems group

Charges prior to fiscal 2007

During the first three months of fiscal 2008, the Applied Biosystems group made cash payments of approximately $0.4 million related to excess facility lease space charges recorded in fiscal 2005. The remaining cash payments of $0.2 million as of September 30, 2007 are expected to be disbursed by fiscal 2011.

Other Events Impacting Comparability

Asset dispositions and legal settlements

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

Fiscal 2008

In the first quarter of fiscal 2008, the Applied Biosystems group recorded a $7.6 million pre-tax gain primarily related to a settlement and licensing agreement entered into with Stratagene Corporation and Agilent Technologies, Inc. (which acquired Stratagene), which resolved outstanding legal disputes with Stratagene.

Fiscal 2007

In the first quarter of fiscal 2007, the Applied Biosystems group recorded a $9.1 million pre-tax charge related to a settlement agreement entered into with another company which resolved outstanding legal disputes with that company.

Acquired research and development

In the first quarter of fiscal 2007, the Applied Biosystems group recorded a $114.3 million charge to write off the value of acquired in-process research and development (IPR&D) in connection with the acquisition of Agencourt Personal Genomics, Inc. (APG). As of the acquisition date, the technological feasibility of the acquired project had not been established, and it was determined that the acquired project had no future alternative use. The determination of the amount attributed to acquired IPR&D took into consideration an independent appraisal performed by an outside consultant.

Tax items

Fiscal 2008

In the first quarter of fiscal 2008, the Applied Biosystems group recorded tax charges of $1.8 million primarily related to the recalculation of deferred tax assets as a result of a decrease in the statutory tax rate in Germany.

Fiscal 2007

In the first quarter of fiscal 2007, the Applied Biosystems group recorded a tax benefit of $8.8 million related to a reduction in the valuation allowance for German net operating loss carryforwards.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Note 3 Acquisitions subsequent to September 30, 2007

In September 2007, we signed a definitive agreement to acquire Berkeley HeartLab, Inc. (BHL) for approximately $195 million in cash. The acquisition of BHL was completed on October 12, 2007. BHL, with operations in Burlingame and Alameda, California, is a cardiovascular healthcare company with a broad portfolio of Clinical Laboratory Improvement Amendments (CLIA) certified tests and disease management services focused on the secondary prevention market. We believe that the acquisition will provide the Celera group with a commercial infrastructure to bring its new genetic tests to the American cardiovascular market. Additionally, BHL is expected to provide opportunities for the Celera group to commercialize new tests and technologies and to gain economies of scale and improve its margins as a consequence of the vertical integration with BHL s laboratory service business. The net assets and results of operations of BHL will be allocated to the Celera group.

Also in September 2007, we signed a definitive agreement to acquire substantially all of the assets of Atria Genetics, Inc., a privately held company based in South San Francisco, CA, for approximately $33 million in cash. The acquisition of Atria was completed on October 23, 2007. Atria has a line of human leukocyte antigen (HLA) testing products that are used for identifying potential donors in the matching process for bone marrow transplantation. With this acquisition, the Celera group is expected to retain 60 percent of the end-user revenues under its current distribution agreement with Abbott, and also continue to receive a low single digit percentage royalty on the total end-user revenues. The net assets and results of operations of Atria will be allocated to the Celera group.

Note 4 Earnings (Loss) per Share

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

	Applied Biosystems Group		Celera Group	
(Dollar amounts in millions, except per share amounts)	**2007**	2006	**2007**	2006
Net income (loss)	**$ 60.9**	$(58.7)	**$ 0.7**	$ (7.1)
Allocated intercompany sale of assets		(0.1)		
Allocated interperiod taxes	**0.1**	(0.1)		
Total net income (loss) allocated	**61.0**	(58.9)	**0.7**	(7.1)
Less dividends declared on common stock	**7.8**	7.7		
Undistributed earnings (loss)	**$ 53.2**	$(66.6)	**$ 0.7**	$ (7.1)
Allocation of basic earnings (loss) per share				
Basic distributed earnings per share	**$ 0.04**	NA*	**$ -**	$ -
Basic undistributed earnings (loss) per share	**0.29**	NA*	**0.01**	(0.09)
Total basic earnings (loss) per share	**$ 0.33**	$(0.32)	**$0.01**	$ (0.09)
Allocation of diluted earnings (loss) per share				
Diluted distributed earnings per share	**$ 0.04**	NA*	**$ -**	$ -
Diluted undistributed earnings (loss) per share	**0.28**	NA*	**0.01**	(0.09)
Total diluted earnings (loss) per share	**$ 0.32**	$(0.32)	**$0.01**	$ (0.09)
Weighted average number of common shares				

Basic	**183.0**	182.1	**79.1**	77.8
Common stock equivalents	**5.4**		**1.3**	
Diluted	**188.4**	182.1	**80.4**	77.8

* Due to the net loss incurred for the first three months ended September 30, 2006, undistributed earnings per share have not been presented. Dividends for the three months ended September 30, 2006 were distributed from prior periods earnings.

Options to purchase shares at exercise prices greater than the average market prices of our two classes of common stock were excluded from the computation of diluted earnings per share because the effect was antidilutive. Additionally, for

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APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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the three months ended September 30, 2006, options to purchase shares of both Applera Corporation-Applied Biosystems Group Common Stock (Applera-Applied Biosystems Stock) and Applera Corporation-Celera Group Common Stock (Applera-Celera stock) were excluded from the computation of diluted loss per share because the effect was antidilutive. The following table presents the number of shares excluded from the diluted earnings and loss per share computations at September 30:

(Shares in millions)	**2007**	2006
Applera-Applied Biosystems stock	**6.1**	5.1
Applera-Celera stock	**2.6**	7.1

Note 5 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) was as follows:

	Three months ended September 30,	
(Dollar amounts in millions)	**2007**	2006
Net income (loss)	**$61.7**	$(66.0)
Other comprehensive gain (loss):		
Net unrealized gains (losses) on investments	**(0.6)**	2.1
Net unrealized (gains) losses on investments reclassified into earnings	**0.2**	(0.2)
Net unrealized gains (losses) on hedge contracts	**(9.8)**	2.0
Net unrealized gains on hedge contracts reclassified into earnings	**(0.5)**	
Foreign currency translation adjustments	**13.8**	2.5
Pension and postretirement benefits	**0.6**	
Total other comprehensive gain	**3.7**	6.4
Total comprehensive gain (loss)	**$65.4**	$(59.6)

Note 6 Inventories

Inventories included the following components:

(Dollar amounts in millions)	**September 30, 2007**	June 30, 2007
Raw materials and supplies	**$ 52.5**	$ 49.9
Work-in-process	**9.7**	6.3

Finished products	**95.7**	84.1
Total inventories, net	**$157.9**	$140.3

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Note 7 Goodwill and Intangible Assets

The carrying amounts of our intangible assets were as follows:

	September 30, 2007		June 30, 2007	
(Dollar amounts in millions)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Acquired technology	**$ 85.9**	**$60.0**	$ 83.7	$57.4
Patents	**29.9**	**25.5**	29.9	25.1
Customer relationships	**27.1**	**6.1**	27.1	5.2
Other	**1.7**	**0.8**	1.7	0.7
Total amortized intangible assets	**$144.6**	**$92.4**	$142.4	$88.4
Unamortized intangible assets				
Trade name	**4.9**		4.9	
Total	**$149.5**	**$92.4**	$147.3	$88.4

Aggregate amortization expense was as follows:

	Three months ended September 30,	
(Dollar amounts in millions)	**2007**	2006
Applied Biosystems group	**$3.6**	$4.4
Celera group	**0.4**	0.6
Consolidated	**$4.0**	$5.0

We record amortization expense in cost of sales, except for amortization of acquisition-related intangible assets which is recorded in the amortization of purchased intangible assets in the condensed consolidated statements of operations. At September 30, 2007, we estimated annual amortization expense of our intangible assets for each of the next five fiscal years as shown in the following table. Future acquisitions or impairment events could cause these amounts to change.

(Dollar amounts in millions)	Applied Biosystems Group	Celera Group	Consolidated

Remainder of fiscal 2008	**$10.5**	**$0.1**	**$10.6**
2009	**13.3**	**0.2**	**13.5**
2010	**10.8**	**0.2**	**11.0**
2011	**6.9**	**0.1**	**7.0**
2012	**5.7**		**5.7**

The carrying amount of goodwill at September 30, 2007 and June 30, 2007, was $245.9 million, of which $243.2 million was allocated to the Applied Biosystems group and $2.7 million was allocated to the Celera group.

Note 8 Debt and Lines of Credit

We maintain a $250 million unsecured revolving credit agreement with four banks that matures on May 25, 2012. This amount was increased from $200 million effective August 27, 2007, at our request in accordance with the terms of the agreement. Borrowings under this agreement may be made in U.S. dollars and other currencies, and bear interest at a fluctuating rate generally equal to Citibank, N.A. s base rate or at a periodic fixed rate equal to LIBOR plus a margin of between 15 and 32.5 basis points based on our long-term senior unsecured non-credit enhanced debt ratings.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Commitment and facility fees are also based on our long-term senior unsecured non-credit enhanced debt ratings. As of September 30, 2007, there was $175 million outstanding under this agreement, classified as loans payable in the condensed consolidated statement of financial position. There were no borrowings outstanding under this agreement at June 30, 2007.

On August 27, 2007, we entered into a $100 million unsecured term loan agreement with Bank of America, N.A. that matures on September 4, 2008. Upon the satisfaction of various conditions, we have the option to extend the maturity date on this agreement to September 4, 2010. If we exercise this option, we would then be required to make partial repayments each quarter, commencing after the original maturity date, equal to 3 percent of the original principal amount of the loan. Borrowings under this agreement bear interest at a fluctuating rate generally equal to Bank of America, N.A. s base rate or at a periodic fixed rate equal to LIBOR plus a margin of between 20 and 40 basis points based on our long-term senior unsecured non-credit enhanced debt ratings. There was $100 million outstanding under this agreement, classified as loans payable in the condensed consolidated statement of financial position, at September 30, 2007.

Both the revolving credit agreement and the term loan agreement require that we maintain a debt to total capital ratio, as defined in each agreement, of not more than 0.50:1:00.

The amounts borrowed under these agreements were used to fund the repurchase of shares of Applera-Applied Biosystems group stock and were allocated entirely to the Applied Biosystems group. In August 2007, we entered into an agreement with Morgan Stanley & Co. Incorporated for the accelerated repurchase of $600 million of the Applied Biosystems group s common stock. During the first quarter of fiscal 2008, we paid Morgan Stanley approximately $602 million for this transaction, of which $275 million was funded by loans payable and the balance with cash.

The weighted average interest rate on all amounts outstanding under these agreements at September 30, 2007 was 5.80%.

Note 9 Supplemental Cash Flow Information

Significant non-cash financing activity for the three months ended September 30 was as follows:

(Dollar amounts in millions)	**2007**	2006
Dividends declared but not paid	**$7.8**	$7.7
Tax benefit related to employee stock options	**3.7**	4.8

Note 10 Guarantees

Leases

We provide lease-financing options to our customers through third party financing companies. For some leases, the financing companies have recourse to us for any unpaid principal balance on default by the customer. The leases typically have terms of two to three years and are secured by the underlying instrument. In the event of default by a customer, we would repossess the underlying instrument. We record revenues from these transactions on the completion of installation and acceptance of products and maintain a reserve for estimated losses on all lease transactions with recourse provisions based on historical default rates and current economic conditions. At September 30, 2007, the financing companies outstanding balance of lease receivables with recourse to us was $5.2 million. We believe that we could recover the entire balance from the resale of the underlying instruments in the event of default by all customers.

Pension Benefits

As part of the divestiture of our Analytical Instruments business in fiscal 1999, the purchaser of the Analytical Instruments business is paying for the pension benefits for employees of a former German subsidiary. However, we guaranteed payment of these pension benefits should the purchaser fail to do so, as these payment obligations were not transferable to the buyer under German law. The guaranteed payment obligation, which approximated $61.3 million at September 30, 2007, is not expected to have a material adverse effect on our condensed consolidated statement of financial position.

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APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

Indemnifications

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

Product Warranties

We accrue warranty costs for product sales at the time of shipment based on historical experience as well as anticipated product performance. Our product warranties extend over a specified period of time ranging up to two years from the date of sale depending on the product subject to warranty. The product warranty accrual covers parts and labor for repairs and replacements covered by our product warranties. We periodically review the adequacy of our warranty reserve, and adjust, if necessary, the warranty percentage and accrual based on actual experience and estimated costs to be incurred.

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

(Dollar amounts in millions)	**2007**	2006
Balance beginning of period	**$12.1**	$10.6
Accruals for warranties	**4.2**	3.4
Usage of reserve	**(5.2)**	(3.8)
Other*	**0.9**	(0.1)
Balance at September 30	**$12.0**	$10.1

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

Note 11 Pension and Other Postretirement Benefits

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

	Three months ended September 30,	
(Dollar amounts in millions)	**2007**	2006
Pension		

Service cost	**$ 0.9**	$ 1.0
Interest cost	**11.3**	10.9
Expected return on plan assets	**(12.3)**	(11.8)
Amortization of prior service cost	**0.3**	0.2
Amortization of losses	**0.7**	1.2
Net periodic expense	**$ 0.9**	$ 1.5
Postretirement Benefit		
Interest cost	**$ 0.7**	$ 0.9
Amortization of gains		(0.1)
Net periodic expense	**$ 0.7**	$ 0.8

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APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

We contributed approximately $0.4 million to our foreign and non-qualified domestic plans during the three months ended September 30, 2007, and expect to contribute an additional $2.0 million during the remainder of fiscal 2008. Based on the level of our contributions to the qualified U.S. pension plan during previous years, combined with the performance of the assets invested in the plan, we do not expect to have to fund our qualified U.S. pension plan in fiscal 2008 in order to meet minimum statutory funding requirements. We made benefit payments of approximately $1.5 million under the postretirement plan during the three months ended September 30, 2007, and we expect to make approximately $4.5 million of additional benefit payments during the remainder of fiscal 2008.

Note 12 Contingencies

Legal Proceedings

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

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

We filed a patent infringement action against Stratagene Corporation in the U.S. District Court for the District of Connecticut on November 9, 2004. The complaint alleged that Stratagene, which was acquired by Agilent Technologies, Inc. since our filing of the action, infringed U.S. Patent No. 6,814,934 because of its activities involving instruments for real-time PCR detection. We were seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court deemed proper. Stratagene answered the complaint and counterclaimed for declaratory relief that the 934 patent was invalid and not infringed. Stratagene was seeking dismissal of our complaint, a judgment that the 934 patent was invalid and not infringed, costs and expenses, and other relief as the court deemed proper. We were involved in similar litigation with Stratagene in Germany, France, and the Netherlands involving European Patent No. 872562, the European counterpart to the 934 patent. On September 18, 2007, we announced that we had entered into a settlement agreement with Stratagene and Agilent that resolved these claims and counterclaims, including the additional litigation in Germany, France, and the Netherlands. Pursuant to the settlement agreement, we have licensed the patents at issue to Stratagene and Agilent. The District Court formally dismissed the case on September 26, 2007, and the legal proceedings in Germany, France, and the Netherlands have also been formally dismissed.

Enzo Biochem, Inc., Enzo Life Sciences, Inc., and Yale University filed a patent infringement action against us in the U.S. District Court for the District of Connecticut on June 8, 2004. The complaint alleges that we are infringing six patents. Four of these patents are assigned to Yale University and licensed exclusively to Enzo Biochem, i.e., U.S. Patent No. 4,476,928, entitled Modified Nucleotides and Polynucleotides and Complexes Formed Therefrom, U.S. Patent No. 5,449,767, entitled Modified Nucleotides and Polynucleotides and Methods of Preparing Same, U.S. Patent No. 5,328,824 entitled Methods of Using Labeled Nucleotides, and U.S. Patent No. 4,711,955, entitled Modified Nucleotides and Polynucleotides and Methods of Preparing and Using Same. These four patents have since expired. The other two patents are assigned to Enzo Life Sciences, i.e., U.S. Patent No. 5,082,830 entitled End Labeled

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APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

Nucleotide Probe and U.S. Patent No. 4,994,373 entitled Methods and Structures Employing Compoundly Labeled Polynucleotide Probes. The allegedly infringing products include the Applied Biosystems group s sequencing reagent kits, its TaqMan® genotyping and gene expression assays, and the gene expression microarrays used with its Expression Array System. Enzo Biochem, Enzo Life Sciences, and Yale University are seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper. In August and September, 2007, the court issued a series of orders favorable to Applera and dismissing all of these claims. Enzo immediately filed a Notice of Appeal with the United States Court of Appeals for the Federal Circuit contesting those orders.

Molecular Diagnostics Laboratories filed a class action complaint against us and Hoffmann-La Roche, Inc. in the U.S. District Court for the District of Columbia on September 23, 2004, and filed an amended complaint on July 5, 2006. The amended complaint alleges anticompetitive conduct in connection with the sale of Taq DNA polymerase. The anticompetitive conduct is alleged to arise from the prosecution and enforcement of U.S. Patent No. 4,889,818. This patent is assigned to Hoffmann-La Roche, with whom we have a commercial relationship covering, among other things, this patent and the sale of Taq DNA polymerase. The complaint seeks monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper. On July 5, 2006, the court certified the case as a class action.

We are involved in several legal actions with Thermo Electron Corporation and its subsidiary Thermo Finnigan LLC. These legal actions commenced when we, together with MDS, Inc. and our Applied Biosystems/MDS SCIEX Instruments joint venture with MDS, filed a patent infringement action against Thermo Electron in the U.S. District Court for the District of Delaware on September 3, 2004. The complaint alleges infringement by Thermo Electron of U.S. Patent No. 4,963,736, and seeks monetary damages, costs, expenses, and other relief as the court deems proper. Thermo Electron has answered the complaint and counterclaimed for declaratory relief that the 736 patent is invalid, not infringed, and unenforceable, and is seeking dismissal of our complaint, a judgment that the 736 patent is invalid, not infringed, and unenforceable, costs and expenses, and other relief as the court deems proper. After the filing of the action against Thermo Electron, on December 8, 2004, Thermo Finnigan filed a patent infringement action against us in the U.S. District Court for the District of Delaware. The complaint alleges that we have infringed U.S. Patent No. 5,385,654 as a result of, for example, our Applied Biosystems group s commercialization of the ABI PRISM® 3700 Genetic Analyzer. Thermo Finnigan is seeking monetary damages, costs, expenses, and other relief as the court deems proper. We have answered the complaint and counterclaimed for declaratory relief that the 654 patent is invalid, not infringed, and unenforceable, and are seeking dismissal of Thermo Finnigan s complaint, a judgment that the 654 patent is invalid, not infringed, and unenforceable, costs and expenses, and other relief as the court deems proper. Thermo Finnigan subsequently filed a second patent infringement action against us, MDS, and the Applied Biosystems/MDS SCIEX Instruments joint venture, in the U.S. District Court for the District of Delaware on February 23, 2005. The complaint alleges that we and the other defendants have infringed U.S. Patent No. 6,528,784 as a result of, for example, our commercialization of the API 5000 LC/MS/MS system. Thermo Finnigan is seeking monetary damages, costs, expenses, and other relief as the court deems proper. We have answered the complaint and counterclaimed for declaratory relief that the 784 patent is invalid and not infringed, and are seeking dismissal of Thermo Finnigan s complaint, a judgment that the 784 patent is invalid and not infringed, costs and expenses, and other relief as the court deems proper.

We are involved in two legal actions with Michigan Diagnostics LLC. These legal actions commenced when we filed a complaint for patent infringement against Michigan Diagnostics on March 26, 2007, in the United States District Court for the District of Massachusetts. We amended the complaint on April 5, 2007. The amended complaint alleges infringement by Michigan Diagnostics of U.S. Patent Nos. 6,514,717, 6,322,727 and 6,107,024, which are related to chemiluminescent products and methods, and seeks monetary damages, costs, expenses, injunctive, and other relief as the court deems proper. Michigan Diagnostics has not yet filed an answer to our complaint. Subsequently, on May 14, 2007, Michigan Diagnostics filed a complaint against Applera in the U.S. District Court for the Eastern District of Michigan. The complaint seeks a declaratory judgment of non-infringement, invalidity, and unenforceability of approximately 60 patents related to chemiluminescent products and methods, and includes antitrust claims based on our alleged misconduct in our alleged enforcement of those patents. The patents asserted by Applera in the Massachusetts case are among those included in the complaint filed by Michigan Diagnostics.

We have not yet filed an answer to this complaint.

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APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

We filed a complaint on May 31, 2007, in the U.S. District Court for the Northern District of California against Illumina, Inc., Solexa Inc., and a former chief patent counsel to our company, seeking an injunction restoring to us patents and patent applications that were filed by the former chief patent counsel but are on their face assigned to Solexa, which was acquired by Illumina in January 2007. The complaint also seeks a declaration of our rights and duties regarding infringement of these patents, in addition to monetary damages, costs, expenses, and other relief as the court deems proper. We previously filed a related complaint, on December 26, 2006, in the Superior Court of the State of California (Santa Clara County), also seeking restoration of these patents and patent applications to us. Pursuant to a joint stipulation of the parties, the California state court action was dismissed on August 7, 2007. On August 13, 2007, Solexa filed its answer to the federal complaint and counterclaimed that we make, use, sell, and offer for sale DNA sequencing products that infringe the patents, U.S. Patent Nos. 5,750,341, 5,969,119, 6,306,597. Solexa is seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper.

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

Note 13 Discontinued Operations

During the first quarter of fiscal 2008, we received $12.9 million in cash related to the settlement of German tax audits related to one of our former German affiliates.

Note 14 Segment and Consolidating Information

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

See Note 16 to our consolidated financial statements included in our 2007 Annual Report to Stockholders for a detailed description of the segments and the management and allocation policies applicable to the attribution of assets, liabilities, revenues and expenses to the segments (which information is incorporated in this quarterly report by reference).

Applied Biosystems group recorded net revenues from leased instruments and sales of consumables and project materials to the Celera group of $0.7 million for the three months ended September 30, 2007 and $1.1 million for the three months ended September 30, 2006.

Additionally, in accordance with our tax allocation policy, the Applied Biosystems group received, without reimbursement to the Celera group, $3.6 million in the first three months of fiscal 2008 and $8.6 million in the first three months of fiscal 2007 some of the tax benefits generated by the Celera group.

In the following consolidating financial information, the Eliminations column represents the elimination of intersegment activity.

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APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

Condensed Consolidating Statement of Operations for the Three Months Ended September 30, 2007

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Group	Eliminations	Consolidated
Products	$405,047	$ 2,445	$ -	$407,492
Services	64,373			64,373
Other	31,112	13,696		44,808
Net revenues from external customers	500,532	16,141	-	516,673
Intersegment revenues	714		(714)	
Total Net Revenues	501,246	16,141	(714)	516,673
Products	189,666	3,091	(178)	192,579
Services	28,801		(54)	28,747
Other	2,839	62		2,901
Cost of Sales	221,306	3,153	(232)	224,227
Gross Margin	279,940	12,988	(482)	292,446
Selling, general and administrative	148,432	8,068	(6)	156,494
Research and development	50,547	10,721	(459)	60,809
Amortization of purchased intangible assets	2,612			2,612
Asset dispositions and legal settlements	(7,556)			(7,556)
Operating Income (Loss)	85,905	(5,801)	(17)	80,087
Interest income, net	3,680	7,133		10,813
Other income (expense), net	1,070	(283)		787
Income before Income Taxes	90,655	1,049	(17)	91,687
Provision for income taxes	29,713	384	(100)	29,997
Net Income	$ 60,942	$ 665	$ 83	$ 61,690

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APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

Condensed Consolidating Statement of Financial Position at September 30, 2007

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Group	Eliminations	Consolidated
Assets				
Current assets				
Cash and cash equivalents	$ 277,176	$187,261	$ -	$ 464,437
Short-term investments		360,874		360,874
Accounts receivable, net	414,089	16,494	(454)	430,129
Inventories, net	148,766	9,708	(596)	157,878
Prepaid expenses and other current assets	144,031	31,786	(1,965)	173,852
Total current assets	984,062	606,123	(3,015)	1,587,170
Property, plant and equipment, net	379,970	6,572	(161)	386,381
Goodwill and intangible assets, net	299,755	3,255		303,010
Other long-term assets	467,457	168,270	335	636,062
Total Assets	$2,131,244	$784,220	$(2,841)	$2,912,623
Liabilities and Stockholders Equity				
Current liabilities				
Loans payable	$ 275,000	$ -	$ -	$ 275,000
Accounts payable	153,217	2,598	(2,023)	153,792
Accrued salaries and wages	56,730	3,421		60,151
Current deferred tax liability	16,149			16,149
Accrued taxes on income	16,992	65		17,057
Other accrued expenses	272,038	10,349	(556)	281,831
Total current liabilities	790,126	16,433	(2,579)	803,980
Other long-term liabilities	264,663	4,849	(169)	269,343
Total Liabilities	1,054,789	21,282	(2,748)	1,073,323
Total Stockholders Equity	1,076,455	762,938	(93)	1,839,300
Total Liabilities and Stockholders Equity	$2,131,244	$784,220	$(2,841)	$2,912,623

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APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

Condensed Consolidating Statement of Cash Flows for the Three Months Ended September 30, 2007

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Group	Eliminations	Consolidated
Operating Activities of Continuing Operations				
Net income	$ 60,942	$ 665	$ 83	$ 61,690
Adjustments to reconcile net income to net cash provided (used) by operating activities:				
Depreciation and amortization	18,604	1,499	(78)	20,025
Share-based compensation and pension	5,900	1,101		7,001
Deferred income taxes	15,099	5,458	(280)	20,277
Nonreimbursable utilization of intergroup tax benefits	3,603	(3,603)		
Changes in operating assets and liabilities:				
Accounts receivable	47,502	(10,236)	236	37,502
Inventories	(16,296)	(882)	25	(17,153)
Prepaid expenses and other assets	12,483	(1,382)	(58)	11,043
Accounts payable and other liabilities	(50,703)	(6,953)	3	(57,653)
Net Cash Provided (Used) by Operating Activities of Continuing Operations	97,134	(14,333)	(69)	82,732
Net Cash Provided by Discontinued Operations	12,900			12,900
Investing Activities of Continuing Operations				
Additions to property, plant and equipment, net	(9,514)	(313)	69	(9,758)
Proceeds from maturities of available-for-sale investments		30,409		30,409
Proceeds from sales of available-for-sale investments	213,850	182,842		396,692
Purchases of available-for-sale investments	(12,553)	(42,706)		(55,259)
Acquisitions and investments	(179)			(179)
Net Cash Provided by Investing Activities of Continuing Operations	191,604	170,232	69	361,905
Financing Activities				
Proceeds from loans payable	275,000			275,000
Dividends	(7,745)			(7,745)
Purchases of common stock for treasury	(601,505)			(601,505)
Proceeds from stock issued for stock plans and other	19,346	1,326		20,672
Net Cash Provided (Used) by Financing Activities of Continuing Operations	(314,904)	1,326		(313,578)
Effect of Exchange Rate Changes on Cash	(2,725)			(2,725)
Net Change in Cash and Cash Equivalents	(15,991)	157,225		141,234
Cash and Cash Equivalents Beginning of Period	293,167	30,036		323,203
Cash and Cash Equivalents End of Period	$ 277,176	$187,261	$ -	$464,437

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APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

Condensed Consolidating Statement of Operations for the Three Months Ended September 30, 2006

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Group	Eliminations	Consolidated
Products	$388,596	$ 2,486	$ -	$391,082
Services	58,140			58,140
Other	28,444	7,743		36,187
Net revenues from external customers	475,180	10,229	-	485,409
Intersegment revenues	1,093		(1,093)	
Total Net Revenues	476,273	10,229	(1,093)	485,409
Products	193,376	3,644	(361)	196,659
Services	24,669		(71)	24,598
Other	2,670	157		2,827
Total Cost of Sales	220,715	3,801	(432)	224,084
Gross Margin	255,558	6,428	(661)	261,325
Selling, general and administrative	123,545	5,647	13,193	142,385
Corporate allocated expenses	11,605	1,594	(13,199)	
Research and development	45,115	13,221	(434)	57,902
Amortization of purchased intangible assets	2,737			2,737
Employee-related charges, asset impairments and other		3,500		3,500
Asset dispositions and legal settlements	9,087			9,087
Acquired research and development	114,251			114,251
Operating Loss	(50,782)	(17,534)	(221)	(68,537)
Gain on investments, net	209			209
Interest income, net	2,630	6,583		9,213
Other income (expense), net	1,314	103		1,417
Loss before Income Taxes	(46,629)	(10,848)	(221)	(57,698)
Provision (benefit) for income taxes	12,093	(3,797)	18	8,314
Net Loss	$ (58,722)	$ (7,051)	$ (239)	$ (66,012)

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APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

Condensed Consolidating Statement of Financial Position at June 30, 2007

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Group	Eliminations	Consolidated
Assets				
Current assets				
Cash and cash equivalents	$ 293,167	$ 30,036	$ -	$ 323,203
Short-term investments	201,297	531,460		732,757
Accounts receivable, net	446,833	6,258	(218)	452,873
Inventories, net	132,094	8,826	(571)	140,349
Prepaid expenses and other current assets	161,040	30,360	(1,995)	189,405
Total current assets	1,234,431	606,940	(2,784)	1,838,587
Property, plant and equipment, net	383,594	7,386	(170)	390,810
Goodwill and intangible assets, net	301,138	3,674		304,812
Other long-term assets	467,441	150,683	207	618,331
Total Assets	$2,386,604	$768,683	$(2,747)	$3,152,540
Liabilities and Stockholders Equity				
Current liabilities				
Accounts payable	$ 161,440	$ 3,016	$(1,791)	$ 162,665
Accrued salaries and wages	99,694	8,858		108,552
Current deferred tax liability	15,633			15,633
Accrued taxes on income	51,212	15,489		66,701
Other accrued expenses	259,743	10,463	(583)	269,623
Total current liabilities	587,722	37,826	(2,374)	623,174
Other long-term liabilities	208,550	4,959	(197)	213,312
Total Liabilities	796,272	42,785	(2,571)	836,486
Total Stockholders Equity	1,590,332	725,898	(176)	2,316,054
Total Liabilities and Stockholders Equity	$2,386,604	$768,683	$(2,747)	$3,152,540

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APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

Condensed Consolidating Statement of Cash Flows for the Three Months Ended September 30, 2006

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Group	Eliminations	Consolidated
Operating Activities				
Net loss	$ (58,722)	$ (7,051)	$ (239)	$ (66,012)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:				
Depreciation and amortization	19,376	1,781	(78)	21,079
Employee-related charges and other		3,500		3,500
Share-based compensation programs	3,728	775		4,503
Deferred income taxes	(7,409)	4,631	(892)	(3,670)
Sale of assets and legal settlements, net	(209)			(209)
Acquired research and development	114,251			114,251
Nonreimbursable utilization of intergroup tax benefits	8,563	(8,563)		
Changes in operating assets and liabilities:				
Accounts receivable	38,249	3,167	94	41,510
Inventories	(5,234)	(138)	233	(5,139)
Prepaid expenses and other assets	(11,304)	(1,574)	(3,403)	(16,281)
Accounts payable and other liabilities	(78,319)	(10,793)	4,245	(84,867)
Net Cash Provided (Used) by Operating Activities	22,970	(14,265)	(40)	8,665
Investing Activities				
Additions to property, plant and equipment, net	(14,507)	(444)	40	(14,911)
Proceeds from maturities of available-for-sale investments		40,870		40,870
Proceeds from sales of available-for-sale investments	2,422	113,378		115,800
Purchases of available-for-sale investments	(23,878)	(188,707)		(212,585)
Acquisitions and investments	(121,403)			(121,403)
Proceeds from the sale of assets, net	322			322
Net Cash Used by Investing Activities	(157,044)	(34,903)	40	(191,907)
Financing Activities				
Dividends	(7,647)			(7,647)
Proceeds from stock issued for stock plans and other	25,148	9,228		34,376
Net Cash Provided by Financing Activities	17,501	9,228		26,729
Effect of Exchange Rate Changes on Cash	5,334			5,334
Net Change in Cash and Cash Equivalents	(111,239)	(39,940)		(151,179)
Cash and Cash Equivalents Beginning of Period	373,921	60,270		434,191
Cash and Cash Equivalents End of Period	$ 262,682	$ 20,330	$ -	$ 283,012

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

APPLERA CORPORATION

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

The purpose of the following management s discussion and analysis is to provide an overview of the business of Applera Corporation to help facilitate an understanding of significant factors influencing our historical operating results, financial condition, and cash flows and also to convey our expectations of the potential impact of known trends, events, or uncertainties that may impact our future results. You should read this discussion in conjunction with our consolidated financial statements and related notes included in this report and in our 2007 Annual Report to Stockholders. Historical results and percentage relationships are not necessarily indicative of operating results for future periods. When used in this management discussion, the terms Applera, Company, we, us, or our mean Applera Corporation and its subsidiaries.

We have reclassified some prior year amounts for comparative purposes.

Overview

We conduct business through two business segments: the Applied Biosystems group and the Celera group.

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

The Celera group is a diagnostics business delivering personalized disease management solutions through a combination of tests and services based on proprietary genetics discovery platforms. The business is developing diagnostic products that predict disease risk, and optimize therapy selection and patient outcomes, based on the discovery and validation of novel markers in complex diseases such as cardiovascular disease, breast cancer, and liver and autoimmune diseases. The Celera group also maintains a strategic alliance with Abbott Laboratories for the development and commercialization of some of its molecular diagnostic products.

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

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

Corporation-Celera 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 group. There is no single security that represents the performance of Applera as a whole.

Holders of Applera-Applied Biosystems stock and holders of Applera-Celera stock are stockholders of Applera. The Applied Biosystems group and the Celera 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 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.

On August 8, 2007, we announced that our board of directors has retained Morgan Stanley & Co. Incorporated to explore alternatives to our current tracking stock structure, including the possibility of creating independent publicly-traded companies in place of our two business groups, the Applied Biosystems group and the Celera group. While a final decision has not been made related to this complex analysis, efforts to-date indicate a preference toward dissolving the current structure and creating separate publicly traded companies for the Applied Biosystems group and the Celera group. We intend to update shareholders as the analysis is completed and the decision is finalized.

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APPLERA CORPORATION

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

No assurances can be given that the board will ultimately authorize such a transaction or that, if authorized, such a transaction will be consummated.

More information about the risks relating to our capital structure, particularly our two classes of capital stock, is contained in our Annual Report on Form 10-K for fiscal 2007 filed with the Securities and Exchange Commission.

Our fiscal year ends on June 30. The financial information for both segments 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 two segments.

Business Developments:

Listed below are significant business developments since the filing of our Annual Report on Form 10-K for fiscal 2007.

Applied Biosystems Group

- In October 2007, the Applied Biosystems group announced the formal commercial launch of the SOLiD next-generation DNA sequencing system, following an accelerated development program and positive feedback from early-access customers.

- In August 2007, we announced that the board of directors increased to $1.2 billion the current authorization to repurchase shares of Applera Corporation-Applied Biosystems Group stock. Pursuant to the authorization, we executed a $600 million accelerated share repurchase transaction with Morgan Stanley and 16 million shares, or approximately 8.7% of the outstanding shares, were delivered to us during the second quarter of fiscal 2008.

Celera Group

- In October 2007, the Celera group completed the acquisition of substantially all of the assets of Atria Genetics, Inc., for approximately $33 million in cash. Atria markets human leukocyte antigen (HLA) testing products that are used to match donors and recipients for bone marrow transplantation.

- Also in October, the Celera group completed the acquisition of Berkeley HeartLab, Inc. (BHL) for approximately $195 million in cash. BHL is a cardiovascular healthcare company with a broad portfolio of Clinical Laboratory Improvement Amendments (CLIA) certified tests and disease management services focused on the secondary prevention market.

- In September 2007, the Celera group announced it entered into agreements with Siemens Medical Solutions Diagnostics which include a license conferring rights in the human *in vitro* diagnostics field to the Applera patents for real-time PCR thermal cycling instruments and reagents. Under the agreements, Siemens will make up to a $24 million payment over 10 quarters, and potentially additional future royalties, to the Celera group for these rights.

- Also in September, the Celera group recorded a milestone payment from Merck & Co. Inc. in recognition of Merck s advancement of odanacatib (formerly MK-0822), an orally available highly selective inhibitor of the cathepsin K enzyme, into a Phase III clinical trial as a potential treatment for osteoporosis. If this candidate or others developed under the cathepsin K collaboration are advanced further toward commercialization, the Celera group will potentially receive additional milestone payments and royalties from Merck on net sales of products developed under the collaboration.

- In September, the Celera group and its collaborators published a paper in *Public Library of Science (Medicine)* describing novel variants in the *TRAF1/C5* gene region that predict individual susceptibility to, and severity of, rheumatoid arthritis (RA). Compared with non-carriers, carriers of the risk variants (about 65-70 percent of the general population) had an approximate 37 percent increased risk for developing RA.

- In September, the Celera group entered into a research collaboration with Merck & Co., Inc. to develop biomarker and pharmacogenomic tests for cancer patients. Under the terms of the agreement, the Celera group will evaluate the use of certain gene expression profiles identified by Merck with the goal of developing

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APPLERA CORPORATION

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

diagnostic predictors for use in Merck s clinical trials and to potentially form the basis for commercial companion diagnostic tests for oncology therapies.

- In September, the Celera group received notification from U.S. Food and Drug Administration that its Cystic Fibrosis Genotyping Assay had been cleared for marketing in the U.S.

We also note that in October 2007, the Celera group terminated its three year program for the development of an avian flu virus diagnostic test, which was supported in part by a grant from the National Institutes of Health. The termination was due primarily to a change in research and development focus because of the BHL acquisition. The Celera group has voluntarily relinquished the NIH grant funding for the final two years of the program.

Critical Accounting Estimates

There were no material changes to our critical accounting estimates during the first three months of fiscal 2008. For further information on our critical accounting estimates, refer to the discussion contained in the management s discussion and analysis section of our 2007 Annual Report to Stockholders (which discussion is incorporated in this quarterly report by reference).

Events Impacting Comparability

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

Income/(charge) (Dollar amounts in millions)	Three months ended September 30, **2007**	2006
Other charges	**$ -**	$ (3.5)
Total employee-related charges, asset impairments and other	**$ -**	$ (3.5)
Other events impacting comparability:		
Asset dispositions and legal settlements	**$ 7.6**	$ (9.1)
Acquired research and development		(114.3)
Tax items	**(1.8)**	8.8

Acquired Research and Development

In the first quarter of fiscal 2007, the Applied Biosystems group recorded a $114.3 million charge to write-off the value of acquired in-process research and development (IPR&D) in connection with the acquisition of Agencourt Personal Genomics, Inc. (APG). As of the acquisition date,

in July 2006, the technological feasibility of the acquired IPR&D project had not been established, and it was determined that the project had no future alternative use. The project being developed, which consists of both an instrument and reagents, is intended for very high throughput genetic analysis applications, including DNA sequencing and expression profiling.

At the date of acquisition, the project was in the development stage and approximately 30% complete. The work on the initial phase of this project was completed in September 2007. The following table briefly describes the APG project.

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APPLERA CORPORATION

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

(Dollar amounts in millions)	At Acquisition Date Fair Value	Estimated Costs to Complete	Approximate Percentage Completed
Instruments	**$ 66.6**	**$10.0**	**35%**
Reagents	**47.7**	**6.0**	**25%**
Total	**$ 114.3**	**$16.0**	

In June 2007, we made our first placements of this next generation instrument system to early access customers. The initial instrument and reagents are expected to begin generating revenue in fiscal 2008. As of September 30, 2007, the total project costs were approximately $29 million, an increase of $13 million from the estimate as of the acquisition date. These additional R&D expenditures were for labor and materials required to accelerate the commercial launch of the platform and optimize features to better compete with other already commercialized next generation technologies. This increase in costs was offset by reductions in other planned R&D projects. Based on the performance of the system, the level of interest shown by our potential customers, and the progress in our manufacturing scale up, we accelerated the commercial release of the system to October 2007.

At the time of the acquisition, we believed there was a reasonable chance of realizing the economic return expected from the acquired in-process technology. We remain optimistic about the technology; however, as there is risk associated with the realization of benefits related to commercialization of an in-process project due to, among other things, rapidly changing customer needs, the complexity of the technology, growing competitive pressures, and potentially conflicting intellectual property rights of third parties, there can be no assurance that any project will meet commercial success.

Employee-Related Charges, Asset Impairments and Other

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

Celera group

Fiscal 2007

During the fourth quarter of fiscal 2007, the Celera group recorded a pre-tax charge of $0.5 million for severance costs for approximately 20 employees. The charge resulted from a reduction in the Celera group s proteomics-based activities. All of the affected employees were notified as

of June 30, 2007, and were terminated by October 31, 2007. During the first quarter of fiscal 2008, we made cash payments of $0.4 million related to this charge. Cash expenditures were funded by available cash. The remaining cash expenditures of $0.1 million are expected to be paid in the second quarter of fiscal 2008. We believe this action will accelerate the Celera group s move to profitability, in part due to lower operating expenses.

During the first quarter of fiscal 2007, the Celera group recorded a pre-tax charge of $3.5 million for its estimated share of a damage award in continuing litigation between Abbott Laboratories, our alliance partner, and Innogenetics N.V. In September 2006, a jury found that the sale of hepatitis C virus (HCV) genotyping analyte specific reagents (ASRs) products by Abbott willfully infringed a U.S. patent owned by Innogenetics and awarded Innogenetics $7.0 million in damages. In January 2007, the U.S. District Court for the Western District of Wisconsin ruled in favor of Innogenetics request for a permanent injunction, and as such, ordered Abbott to withdraw its products from the market. The Court also reversed the jury verdict of willful infringement and ruled that Abbott did not willfully infringe Innogenetics patent and denied Innogenetics request for enhanced damages and attorneys fees. Innogenetics did not name the Celera group as a party in this lawsuit, but the Celera group has an interest in these products and in the outcome of the litigation because the enjoined products are manufactured by the Celera group and sold through its alliance with Abbott. Also, as these products are part of its alliance with Abbott, the Celera group has agreed to share the cost of this litigation, including the damage award described above. Abbott is appealing the judgment as both Abbott and the Celera group believe that Innogenetics patent is invalid and that the alliance s HCV genotyping ASRs do not infringe Innogenetics patent. On March 8, 2007, the Court of Appeals for the Federal Circuit issued an order denying Abbott s motion for a stay of the permanent injunction

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APPLERA CORPORATION

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

during the appeal process, and the alliance therefore will not receive any revenues from the sale of these HCV genotyping products for the foreseeable future. We believe the appeal process may take six months or more to conclude.

Charges prior to fiscal 2007

During fiscal 2006, the Celera group recorded pre-tax charges of $26.4 million related to its decision to exit its small molecule drug discovery and development programs and the integration of Celera Diagnostics into the Celera group. These charges consisted of $12.8 million of employee-related charges, $9.8 million of asset impairments, $1.2 million of excess lease space, and $2.6 million of other disposal costs. The remaining required cash expenditures of $0.9 million as of September 30, 2007, the majority of which related to the asset impairment of an owned facility, are expected to be disbursed by December 31, 2007.

During the first three months of fiscal 2008, the Celera group made net cash payments of approximately $0.2 million related to an excess facility lease space charge for our discontinued Paracel business that was recorded in fiscal 2005. The remaining net cash expenditures of approximately $2.5 million as of September 30, 2007 related to this charge are expected to be disbursed by fiscal 2011.

Applied Biosystems group

Charges prior to fiscal 2007

During the first three months of fiscal 2008, the Applied Biosystems group made cash payments of approximately $0.4 million related to excess facility lease space charges recorded in fiscal 2005. The remaining cash payments of $0.2 million as of September 30, 2007 are expected to be disbursed by fiscal 2011.

Other Events Impacting Comparability

Asset dispositions and legal settlements

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

Fiscal 2008

In the first quarter of fiscal 2008, the Applied Biosystems group recorded a $7.6 million pre-tax gain primarily related to a settlement and licensing agreement entered into with Stratagene Corporation and Agilent Technologies, Inc. (which acquired Stratagene), which resolved outstanding legal disputes with Stratagene.

Fiscal 2007

In the first quarter of fiscal 2007, the Applied Biosystems group recorded a $9.1 million pre-tax charge related to a settlement agreement entered into with another company which resolved outstanding legal disputes with that company.

Tax items

Fiscal 2008

In the first quarter of fiscal 2008, the Applied Biosystems group recorded tax charges of $1.8 million primarily related to the recalculation of deferred tax assets as a result of a decrease in the statutory tax rate in Germany.

Fiscal 2007

In the first quarter of fiscal 2007, the Applied Biosystems group recorded a tax benefit of $8.8 million related to a reduction in the valuation allowance for German net operating loss carryforwards.

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APPLERA CORPORATION

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

Discussion of Applera Corporation s Consolidated Operations

(Dollar amounts in millions)	Three Months Ended September 30, 2007	2006	% Increase/ (Decrease)
Net revenues	**$516.7**	$485.4	**6.4%**
Cost of sales	**224.3**	224.1	**0.1%**
Gross margin	**292.4**	261.3	**11.9%**
SG&A expenses	**156.5**	142.3	**10.0%**
R&D	**60.8**	57.9	**5.0%**
Amortization of purchased intangible assets	**2.6**	2.7	**(3.7%)**
Employee-related charges, asset impairments and other		3.5	**(100.0%)**
Asset dispositions and legal settlements	**(7.6)**	9.1	**(183.5%)**
Acquired research and development		114.3	**(100.0%)**
Operating income (loss)	**80.1**	(68.5)	**(216.9%)**
Gain on investments, net		0.2	**(100.0%)**
Interest income, net	**10.8**	9.2	**17.4%**
Other income (expense), net	**0.8**	1.4	**(42.9%)**
Income (loss) before income taxes	**91.7**	(57.7)	**(258.9%)**
Provision for income taxes	**30.0**	8.3	**261.4%**
Net income (loss)	**$ 61.7**	$(66.0)	**(193.5%)**
Percentage of net revenues:			
Gross margin	**56.6%**	53.8%	
SG&A expenses	**30.3%**	29.3%	
R&D	**11.8%**	11.9%	
Operating income (loss)	**15.5%**	(14.1%)	
Effective income tax rate	**32.7%**	14.4%	

The following table summarizes the impact of the previously described events impacting comparability included in the financial results for fiscal 2008 and 2007:

(Dollar amounts in millions)	Three Months Ended September 30, 2007	2006
Income (charge) included in income (loss) before income taxes	**$7.6**	$(126.9)
Charge (benefit) for income taxes	**4.0**	(12.7)

We reported net income in the first quarter of fiscal 2008 compared to a net loss in the first quarter of fiscal 2007. This change primarily resulted from the previously described events impacting comparability, in particular the acquired research and development charge recorded in fiscal 2007, and higher net revenues, partially offset by higher operating expenses. The net effect of foreign currency on our net income was a benefit of approximately $6 million during the first quarter of fiscal 2008 as compared to the prior year quarter. Read our discussion of segments for information on their financial results.

Net revenues, which include the favorable effects of foreign currency, increased in the first quarter of fiscal 2008 compared with the prior year quarter. The effect of foreign currency increased net revenues by approximately 2% for the first quarter of fiscal 2008 as compared to the prior year quarter.

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APPLERA CORPORATION

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

- Net revenues increased for the quarter at the Applied Biosystems group, driven by strength in the Real-Time PCR/Applied Genomics product category, primarily due to higher sales of consumables products, and in the Mass Spectrometry category, primarily due to higher instrument service contract revenues. Lower instrument sales in the DNA Sequencing product category were partially offset by higher consumables sales in that category.
- Net revenues increased at the Celera group, primarily due to $5.0 million of net revenues related to the achievement of a drug development license milestone by a third party and the resale of a small molecule drug development program and $2.4 million from the licensing of real-time PCR thermal cycling instruments and reagents. Also contributing to the increase in reported revenues were higher royalties from other diagnostic licensees. The increase in reported revenues was partially offset by a lower equalization payment from Abbott compared to the prior year quarter.

In Europe, revenues increased approximately 11% during the first quarter of fiscal 2008 as compared to the prior year quarter, which included the favorable effect of foreign currency of approximately 6%. Excluding the effects of foreign currency, revenues increased by approximately 5% in Europe, primarily as a result of sales of DNA sequencing consumables, TaqMan® Gene Expression Assay products, Q TRAP® systems, and API triple quadrupole, or quad, systems. This growth was partially offset by lower sales of low to medium throughput genetic analyzers and MALDI TOF/TOF systems. Sales in the U.S. increased primarily due to sales of API triple quad systems, TaqMan Gene Expression Assay products, Real-Time PCR consumables, and human identification consumables. This increase was partially offset by lower sales of genetic analyzers and low throughput Real-Time PCR instruments in fiscal 2008 and the inclusion of a U.S. Department of Defense contract for an instrument system recorded in the first quarter of fiscal 2007. Revenues in Asia Pacific, other than Japan, increased by approximately 8% as compared to the prior year quarter, including a favorable impact from foreign currency of approximately 2%. This growth was led by Australia and China. From a product perspective in Asia Pacific, other than Japan, revenue increased due to higher sales of high throughput genetic analyzers, human identification consumables, and Q TRAP systems, partially offset by lower sales of API triple quad systems. Revenues in Japan during the first quarter of fiscal 2008 increased by approximately 2% relative to the prior year quarter. This increase was primarily driven by a favorable impact from foreign currency of approximately 3%, which was partially offset by lower sales of API triple quad systems in the region. The Asia Pacific category includes revenues from India and other countries in West Asia, which had previously been managed by our Europe region. Revenues by geographic area for the first quarter of fiscal 2007 have been reclassified to reflect this change.

The higher gross margin percentage for the first quarter of fiscal 2008 as compared to the prior year quarter was primarily due to: lower costs for enzymes due to a combination of improved vendor pricing and lower manufacturing costs, the favorable effects of foreign currency, and higher royalty and license revenue, all at the Applied Biosystems group, and higher licensing and collaboration revenues at the Celera group, partially offset by inventory-related costs for the 1700 reader for our Gene Expression Arrays, a discontinued product line at the Applied Biosystems group, and the inclusion in the first quarter of fiscal 2007 of a U.S. Department of Defense contract awarded to the Applied Biosystems group in August 2006.

SG&A expenses for the first quarter of fiscal 2008 increased compared to the prior year quarter primarily due to: the reversal in the first quarter of fiscal 2007 of a $5 million accrual related to settled litigation; regional investments, including additional headcount, of approximately $5 million in fiscal 2008 to support growth primarily in Europe and China; higher employee-related costs, net of sales commissions, of approximately $3 million; and the unfavorable impact of foreign currency of approximately $3 million, all at the Applied Biosystems group. The first quarter of fiscal 2008 for both the Applied Biosystems group and the Celera group included expenses related to the review of our corporate structure.

R&D expenses increased for the first quarter of fiscal 2008 compared to the prior year quarter primarily as a result of investments in the SOLiD program, the next-generation DNA sequencing system, and higher employee-related costs at the Applied Biosystems group, partially offset by reduced proteomics discovery spending at the Celera group.

Interest income, net increased during the first quarter of fiscal 2008 compared to the same quarter last year primarily due to higher average cash and cash equivalents and short-term investments and higher average interest rates, partially offset by interest expense incurred on our loans payable.

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APPLERA CORPORATION

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

The year over year change in the effective tax rate was primarily due to the previously described events impacting comparability; in particular, the tax item recorded in the first quarter of fiscal 2007 and the charge recorded for acquired IPR&D in the first quarter of fiscal 2007 which did not generate a tax benefit.

Applera Corporation

Discussion of Condensed Consolidated Financial Resources and Liquidity

We had cash and cash equivalents and short-term investments of $825.3 million at September 30, 2007, and $1,056.0 million at June 30, 2007. We maintain a $250 million unsecured revolving credit agreement with four banks that matures on May 25, 2012. This amount was increased from $200 million effective August 27, 2007, at our request in accordance with the terms of the agreement. There was $175 million outstanding under this agreement at September 30, 2007. On August 27, 2007, we entered into a $100 million unsecured term loan agreement with Bank of America, N.A. that matures on September 4, 2008. Upon the satisfaction of various conditions, we have the option to extend the maturity date on this agreement to September 4, 2010. There was $100 million outstanding under this agreement at September 30, 2007. Both the revolving credit agreement and the term loan agreement require that we maintain a debt to total capital ratio, as defined in each agreement, of not more than 0.50:1:00. See Note 8 to our condensed consolidated financial statements for more information on our loans payable. The amounts borrowed under these agreements were used to fund the repurchase of shares of Applera-Applied Biosystems group stock and were allocated entirely to the Applied Biosystems group. Cash provided by operating activities and our debt borrowings have been our primary source of funds over the last fiscal year.

In April 2007, we announced that our board of directors authorized the repurchase of up to 10% of the outstanding shares of Applera-Applied Biosystems stock. This authorization has no time restrictions and delegates to management discretion to purchase shares at times and prices it deems appropriate through open market purchases, privately negotiated transactions, tender offers, exchange offers, or otherwise. We repurchased 3.4 million shares of Applera-Applied Biosystems stock for approximately $100 million during the fourth quarter of fiscal 2007 under this authorization. Subsequently, on August 8, 2007, we announced that our board of directors increased this authorization to $1.2 billion, which at market prices on that date represented approximately 20% of the outstanding shares of Applera-Applied Biosystems stock. Pursuant to this authorization, we entered into an agreement with Morgan Stanley in August 2007 for the accelerated repurchase of $600 million of Applera-Applied Biosystems stock. During the first quarter of fiscal 2008, we paid Morgan Stanley approximately $602 million for this transaction, of which $327 million was funded by cash and $275 million was funded by bank loans. These authorizations supplement the board s standing authorization to replenish shares of Applera-Applied Biosystems stock issued under our employee stock benefit plans.

We believe that existing funds, cash generated from operations, and existing sources of debt financing are more than adequate to satisfy our normal operating cash flow needs, planned capital expenditures, acquisitions, authorized share repurchases, and dividends for the next twelve months and for the foreseeable future.

(Dollar amounts in millions)	**September 30, 2007**	June 30, 2007
Cash and cash equivalents	**$464.4**	$ 323.2
Short-term investments	**360.9**	732.8
Total cash and cash equivalents and short-term investments	**$825.3**	$1,056.0
Total debt	**275.0**	
Working capital	**783.2**	1,215.4
Debt to total capitalization	**13.0%**	

Cash and cash equivalents increased for the first three months of fiscal 2008 from June 30, 2007, as cash generated from operating activities, proceeds from bank loans, sales of investments, net of purchases, and stock issuances exceeded the payment to Morgan Stanley for the accelerated share repurchase transaction, cash expenditures for the purchase of capital and other assets, net of sales, and the payment of dividends.

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APPLERA CORPORATION

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

Net cash flows of continuing operations for the first quarter ended September 30 were as follows:

(Dollar amounts in millions)	**2007**	2006
Net cash from operating activities	**$ 82.7**	$ 8.7
Net cash from investing activities	**361.9**	(191.9)
Net cash from financing activities	**(313.6)**	26.7
Effect of exchange rate changes on cash	**(2.7)**	5.3

Operating activities:

The increase in net cash provided from operating activities for the first three months of fiscal 2008 compared to the first three months of fiscal 2007 resulted primarily from higher income-related cash flows, a lower use of cash in accounts payable and other liabilities, and a higher source of cash in prepaid expenses and other assets, partially offset by a higher use of cash in accounts receivable. The lower use of cash in accounts payable and other liabilities resulted primarily from the timing of vendor and royalty payments and tax refunds received in the first quarter of fiscal 2008 primarily due to the completion of foreign tax audits. The higher source of cash in prepaid expenses and other assets resulted primarily from the timing of receipts of dividends and distributions related to the Applied Biosystems group s joint venture activities. The higher use of cash in accounts receivable was due in part to the timing of the collection of licensing and milestone payments recorded in the first quarter of fiscal 2008 at the Celera group, as well as the equalization payment from Abbott received at the beginning of the second quarter of fiscal 2008. The Applied Biosystems group s days sales outstanding was 64 days at September 30, 2007, compared to 58 days at June 30, 2007 and 55 days at September 30, 2006. The increase resulted primarily from lower collections, primarily outside of North America, and increased royalty receivables. Inventory on hand was 3.6 months at September 30, 2007, compared to 2.7 months at June 30, 2007. The increase was primarily related to the SOLiD program and the timing of manufacturing work in progress and inventory receipts.

Investing activities:

Capital expenditures, net of disposals, for the first quarter of fiscal 2008 were $5.2 million lower than in the prior year quarter primarily due to expenditures for the Applied Biosystems Portal in the first quarter of fiscal 2007. The first three months of fiscal 2008 included higher proceeds, net of purchases, from sales and maturities of available for sale investments. In July 2006, we acquired APG for approximately $121 million, including transaction costs.

Financing activities:

During the first three months of fiscal 2008, we paid Morgan Stanley approximately $602 million for the accelerated share repurchase transaction, of which $275 million was funded by bank loans and the balance with cash. During the first quarter of fiscal 2008, we borrowed $175 million under our $250 million unsecured revolving credit agreement and $100 million under our unsecured term loan agreement. See Note 8 to our condensed consolidated financial statements for more information on our loans payable.

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APPLERA CORPORATION

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

Contractual Obligations

Our significant contractual obligations at September 30, 2007, and the anticipated payments under these obligations were as follows:

		Payments by Period			
(Dollar amounts in millions)	Total	2008 [a]	2009 - 2010	2011 - 2012	Thereafter
Minimum operating lease payments [b]	**$135.0**	**$ 30.3**	**$56.9**	**$23.2**	**$24.6**
Purchase obligations [c]	**164.6**	**120.4**	**31.7**	**9.4**	**3.1**
Other long-term liabilities [d]	**40.9**	**2.8**	**2.2**	**1.6**	**34.3**
Total	**$340.5**	**$153.5**	**$90.8**	**$34.2**	**$62.0**

We adopted Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 on July 1, 2007. The amount of unrecognized tax benefits at July 1, 2007 was $67.9 million. This amount has been excluded from the contractual obligations table because we are unable to reasonably predict the ultimate amount or timing of future tax settlements.

[a] Represents cash obligations for the remainder of fiscal 2008.

[b] Refer to Note 10 to our consolidated financial statements in our 2007 Annual Report to Stockholders for further information.

[c] Purchase obligations are entered into with various vendors in the normal course of business, and include commitments related to inventory, capital expenditures, R&D arrangements and collaborations, license agreements, and other services.

[d] We have excluded deferred revenues as they have no impact on our future liquidity. We have also excluded deferred tax liabilities and obligations connected with our pension and postretirement plans and other foreign employee-related plans as they are not contractually fixed as to timing and amount. See Note 11 to our condensed consolidated financial statements contained in this report and Note 5 to our consolidated financial statements in our 2007 Annual Report to Stockholders for more information on these plans.

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APPLERA CORPORATION

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

Discussion of Segments Operations, Financial Resources and Liquidity

Applied Biosystems Group

	Three Months Ended September 30,		% Increase/
(Dollar amounts in millions)	**2007**	2006	**(Decrease)**
Net revenues	**$501.2**	$476.3	**5.2%**
Cost of sales	**221.3**	220.7	**0.3%**
Gross margin	**279.9**	255.6	**9.5%**
SG&A expenses	**148.4**	135.1	**9.8%**
R&D	**50.6**	45.1	**12.2%**
Amortization of purchased intangible assets	**2.6**	2.7	**(3.7%)**
Asset dispositions and legal settlements	**(7.6)**	9.1	**(183.5%)**
Acquired research and development		114.3	**(100.0%)**
Operating income (loss)	**85.9**	(50.7)	**(269.4%)**
Gain on investments, net		0.2	**(100.0%)**
Interest income, net	**3.6**	2.6	**38.5%**
Other income (expense), net	**1.1**	1.3	**(15.4%)**
Income (loss) before income taxes	**90.6**	(46.6)	**(294.4%)**
Provision for income taxes	**29.7**	12.1	**145.5%**
Net income (loss)	**$ 60.9**	$ (58.7)	**(203.7%)**
Percentage of net revenues:			
Gross margin	**55.8%**	53.7%	
SG&A expenses	**29.6%**	28.4%	
R&D	**10.1%**	9.5%	
Operating income (loss)	**17.1%**	(10.6%)	
Effective income tax rate	**32.8%**	26.0%	

The following table summarizes the impact of the previously described events impacting comparability included in the financial results for fiscal 2008 and 2007:

	Three Months Ended September 30,	
(Dollar amounts in millions)	**2007**	2006
Income (charge) included in income (loss) before income taxes	**$7.6**	$(123.4)
Charge (benefit) for income taxes	**4.2**	(11.7)

The Applied Biosystems group reported net income in the first quarter of fiscal 2008 compared to a net loss in the first quarter of fiscal 2007. This change primarily resulted from the previously described events impacting comparability, in particular the acquired research and development charge recorded in fiscal 2007, and higher net revenues, partially offset by higher operating expenses. The net effect of foreign currency on our net income was a benefit of approximately $6 million during the first quarter of fiscal 2008 as compared to the prior year quarter.

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Revenues overall summary

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

	Three Months Ended September 30,		% Increase/
(Dollar amounts in millions)	**2007**	2006	**(Decrease)**
DNA Sequencing	**$ 129.0**	$ 131.5	**(2%)**
% of total revenues	***26%***	*28%*	
Real-Time PCR/Applied Genomics	**180.1**	156.1	**15%**
% of total revenues	***36%***	*33%*	
Mass Spectrometry	**121.1**	116.0	**4%**
% of total revenues	***24%***	*24%*	
Core PCR & DNA Synthesis	**46.6**	46.2	**1%**
% of total revenues	***9%***	*10%*	
Other Product Lines	**24.4**	26.5	**(8%)**
% of total revenues	***5%***	*5%*	
Total	**$ 501.2**	$ 476.3	**5%**

The effect of foreign currency increased net revenues in the first quarter of fiscal 2008 by approximately 2% as compared to the prior year quarter.

Real-Time PCR/Applied Genomics:

- Revenues in the Real-Time PCR/Applied Genomics product category increased primarily due to higher sales of consumable products, including human identification kits used in forensics, TaqMan Gene Expression Assay products, sequence detection consumables, and consumables related to our Ambion business that we acquired in fiscal 2006. This category is increasingly driven by application-specific reagent products.
- Revenue from other sources increased for the first quarter of fiscal 2008 compared to the same quarter last year due to higher royalty and license revenues, in part due to a real-time PCR instrument license granted as part of a patent infringement settlement.

Mass Spectrometry:

- Instrument revenues in the Mass Spectrometry product category modestly increased in the first quarter of fiscal 2008 compared to unusually strong sales in the first quarter of fiscal 2007 as higher sales of the Q TRAP were substantially offset by lower sales of the MALDI TOF/TOF and API triple quad systems. The Q TRAP product line continues to have strong acceptance across our core

pharmaceutical, biotechnology and contract research organizations (CRO) customers for small molecule application, protein biomarker applications, and in the applied markets. However, funding delays in Europe and business challenges in Japan negatively affected sales in the first quarter of fiscal 2008.

- Revenue from other sources increased due to higher instrument service contract revenues.

DNA Sequencing:

- Revenues in the DNA Sequencing product category decreased due to lower instruments sales, primarily of low to medium throughput genetic analyzers sold to forensic and research laboratories, partially offset by higher consumables sales, including CE, or capillary electrophoresis, consumables. We attribute much of the weakness in instruments sales to constraints on academic grant funding, increased interest in next-generation sequencing technology, and large shipments to forensic laboratories during the first quarter of fiscal 2007.

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Revenue by sources

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

	Three Months Ended September 30,		% Increase/
(Dollar amounts in millions)	**2007**	2006	**(Decrease)**
Instruments	**$ 189.4**	$ 196.8	**(3.8%)**
Consumables	**216.2**	192.7	**12.2%**
Other sources	**95.6**	86.8	**10.1%**
Total	**$ 501.2**	$ 476.3	**5.2%**

Instruments

For the first quarter of fiscal 2008, instrument revenues decreased from the prior year quarter primarily due to lower sales of low to medium throughput genetic analyzers sold to forensics and research laboratories in the DNA Sequencing product category.

Consumables

The increase in consumables sales in the first quarter of fiscal 2008 primarily reflected the strength of Real-Time PCR/Applied Genomics consumable sales. These sales increased primarily as a result of higher sales of human identification kits used in forensics, TaqMan Gene Expression Assay products, sequence detection consumables, and consumables related to our Ambion business. Also favorably impacting consumables revenues were higher sales of consumables in the DNA Sequencing product category.

Other sources

Revenues from other sources, which included service and support, royalties, licenses, and contract research, increased in the first quarter of fiscal 2008 primarily due to higher service contract revenues, particularly in the Mass Spectrometry product category, and higher royalty and license revenues, in part due to a patent infringement settlement related to a real-time instrument patent.

Revenues by geographic area

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

(Dollar amounts in millions)	Three Months Ended September 30, 2007	2006	% Increase/ (Decrease)
United States	**$ 223.9**	$ 218.7	**2.4%**
Europe	**156.8**	141.9	**10.5%**
Asia Pacific	**99.0**	94.0	**5.3%**
Other markets	**21.5**	21.7	**(0.9%)**
Total	**$ 501.2**	$ 476.3	**5.2%**

In Europe, the effect of foreign currency increased revenues by approximately 6% during the first quarter of fiscal 2008 as compared to the prior year quarter. Excluding the effects of foreign currency, revenues increased by approximately 5% in Europe, primarily as a result of sales of DNA sequencing consumables, TaqMan Gene Expression Assay products, Q TRAP systems, and API triple quad systems. This growth was partially offset by lower sales of low to medium throughput genetic analyzers and MALDI TOF/TOF systems. Sales in the U.S. increased primarily due to sales of API triple quad systems, TaqMan Gene Expression Assay products, Real-Time PCR consumables, and human identification consumables. This increase was partially offset by lower sales of genetic analyzers and low throughput Real-Time PCR instruments in the first quarter of fiscal 2008, and the inclusion of a U.S. Department of Defense contract for an instrument system recorded in the first quarter of fiscal 2007. Revenues in Asia Pacific, other than Japan, increased by approximately 8% as compared to the prior year quarter, including a favorable impact from foreign currency of approximately 2%. This growth was led by Australia and China. From a product perspective in Asia Pacific, other than Japan, revenue increased due to higher sales of

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high throughput genetic analyzers, human identification consumables, and Q TRAP systems, partially offset by lower sales of API triple quad systems. Revenues in Japan during the first quarter of fiscal 2008 increased by approximately 2% relative to the prior year quarter. This increase was primarily driven by a favorable impact from foreign currency of approximately 3%, which was partially offset by lower sales of API triple quad systems in the region. The Asia Pacific category includes revenues from India and other countries in West Asia, which had previously been managed by our Europe region. Revenues by geographic area for the first quarter of fiscal 2007 have been reclassified to reflect this change.

Gross margin, as a percentage of net revenues, increased for the first quarter of fiscal 2008 compared to the prior year quarter primarily due to: lower costs for enzymes due to a combination of improved vendor pricing and lower manufacturing costs, the favorable impact of foreign currency, and higher royalty and license revenue. Partially offsetting these benefits were inventory-related costs for the 1700 reader for our Gene Expression Arrays, a discontinued product line, and the inclusion in the first quarter of fiscal 2007 of a U.S. Department of Defense contract awarded to the Applied Biosystems group in August 2006.

SG&A expenses for the first quarter of fiscal 2008 increased compared to the prior year quarter primarily due to: the reversal in the first quarter of fiscal 2007 of a $5 million accrual related to settled litigation; regional investments, including additional headcount, of approximately $5 million in fiscal 2008 to support growth primarily in Europe and China; higher employee-related costs, net of sales commissions, of approximately $3 million, particularly in sales and marketing; and the unfavorable impact of foreign currency of approximately $3 million. The first quarter of fiscal 2008 also included expenses related to the review of our corporate structure.

R&D expenses increased in the first quarter of fiscal 2008 from the prior year quarter primarily as a result of investments in the SOLiD program, the next-generation DNA sequencing system, and higher employee-related costs.

Interest income, net increased during the first quarter of fiscal 2008 compared to the same quarter in the prior year primarily due to higher average cash and cash equivalents and short-term investments and higher average interest rates, partially offset by interest expense incurred on our loans payable.

The year over year change in the effective tax rate was primarily due to the previously described events impacting comparability; in particular, the tax item recorded in the first quarter of fiscal 2007 and the charge for acquired IPR&D in the first quarter of fiscal 2007 which did not generate a tax benefit.

Applied Biosystems Group

Discussion of Financial Resources and Liquidity

The Applied Biosystems group had cash and cash equivalents and short-term investments of $277.2 million at September 30, 2007, and $494.5 million at June 30, 2007. We maintain a $250 million unsecured revolving credit agreement with four banks that matures on May 25, 2012. This amount was increased from $200 million effective August 27, 2007, at our request in accordance with the terms of the agreement. There was $175 million outstanding under this agreement at September 30, 2007. On August 27, 2007, we entered into a $100 million unsecured term loan agreement with Bank of America, N.A. that matures on September 4, 2008. Upon the satisfaction of various conditions, we have the option to extend the maturity date on this agreement to September 4, 2010. There was $100 million outstanding under this agreement at September 30, 2007. Both the revolving credit agreement and the term loan agreement require that we maintain a debt to total capital ratio, as defined in each agreement, of not more than 0.50:1:00. See Note 8 to our condensed consolidated financial statements for more information on our loans payable. The amounts borrowed under these agreements were used to fund the repurchase of shares of Applera-Applied Biosystems group stock and were allocated entirely to the Applied Biosystems group. Cash provided by operating activities and our debt borrowings have been the Applied Biosystems group s primary source of funds over the last fiscal year.

In April 2007, we announced that our board of directors authorized the repurchase of up to 10% of the outstanding shares of Applera-Applied Biosystems stock. This authorization has no time restrictions and delegates to management discretion to purchase shares at times and prices it deems appropriate through open market purchases, privately negotiated transactions, tender offers, exchange offers, or otherwise. We repurchased 3.4 million shares of Applera-Applied Biosystems stock for approximately $100 million during the fourth quarter of fiscal 2007 under this authorization. Subsequently, on August 8, 2007, we announced that our board of directors increased this

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authorization to $1.2 billion, which at market prices on that date represented approximately 20% of the outstanding shares of Applera-Applied Biosystems stock. Pursuant to this authorization, we entered into an agreement with Morgan Stanley in August 2007 for the accelerated repurchase of $600 million of Applera-Applied Biosystems stock. During the first quarter of fiscal 2008, we paid Morgan Stanley approximately $602 million for this transaction, of which $327 million was funded by cash and $275 million was funded by bank loans. These authorizations supplement the board s standing authorization to replenish shares of Applera-Applied Biosystems stock issued under our employee stock benefit plans.

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

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

	September 30,	June 30,
(Dollar amounts in millions)	**2007**	2007
Cash and cash equivalents	**$277.2**	$293.2
Short-term investments		201.3
Total cash and cash equivalents and short-term investments	**$277.2**	$494.5
Total debt	**275.0**	
Working capital	**193.9**	646.7
Debt to total capitalization	**20.3%**	

Cash and cash equivalents decreased from June 30, 2007, as the payment to Morgan Stanley for the accelerated share repurchase transaction, cash expenditures for the purchase of capital and other assets, net of sales, and the payment of dividends, exceeded cash generated from operating activities, proceeds from bank loans, sales of investments, net of purchases, and stock issuances.

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

(Dollar amounts in millions)	**2007**	2006
Net cash from operating activities	**$ 97.1**	$ 23.0
Net cash from investing activities	**191.6**	(157.0)
Net cash from financing activities	**(314.9)**	17.5
Effect of exchange rate changes on cash	**(2.7)**	5.3

Operating activities:

Net cash from operating activities of continuing operations for the first quarter of fiscal 2008 was $74.1 million higher than in the first quarter of fiscal 2007. This increase resulted primarily from higher income-related cash flows, a lower use of cash in accounts payable and other liabilities, and a higher source of cash in prepaid expenses and other assets. The lower use of cash in accounts payable and other liabilities resulted primarily from the timing of vendor and royalty payments and tax refunds received in the first quarter of fiscal 2008 primarily due to the completion of foreign tax audits. The higher source of cash in prepaid expenses and other assets resulted primarily from the timing of receipts of dividends and distributions related to joint venture activities. The Applied Biosystems group s days sales outstanding was 64 days at September 30, 2007, compared to 58 days at June 30, 2007 and 55 days at September 30, 2006. The increase resulted primarily from lower collections, primarily outside of North America, and increased royalty receivables. Inventory on hand was 3.6 months at September 30, 2007, compared to 2.7 months at June 30, 2007. The increase was primarily related to the SOLiD program and the timing of manufacturing work in progress and inventory receipts.

Investing activities:

Capital expenditures, net of disposals, for the first quarter of fiscal 2008 were $5.0 million lower than in the prior year quarter primarily due to expenditures for the Applied Biosystems Portal in the first quarter of fiscal 2007. The

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first three months of fiscal 2008 included higher proceeds, net of purchases, from sales of available for sale investments. In July 2006, we acquired APG for approximately $121 million, including transaction costs.

Financing activities:

During the first three months of fiscal 2008, we paid Morgan Stanley approximately $602 million for the accelerated share repurchase transaction, of which $275 million was funded by bank loans and the balance with cash. During the first quarter of fiscal 2008, we borrowed $175 million under our $250 million unsecured revolving credit agreement and $100 million under our unsecured term loan agreement. See Note 8 to our condensed consolidated financial statements for more information on our loans payable.

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Celera Group

	Three Months Ended September 30,		% Increase/
(Dollar amounts in millions)	**2007**	2006	**(Decrease)**
Net revenues	**$16.1**	$ 10.2	**57.8%**
Cost of sales	**3.1**	3.8	**(18.4%)**
Gross margin	**13.0**	6.4	**103.1%**
R&D	**10.7**	13.2	**(18.9%)**
SG&A expenses	**8.1**	7.2	**12.5%**
Employee-related charges, asset impairments and other		3.5	**(100.0%)**
Operating loss	**(5.8)**	(17.5)	**(66.9%)**
Interest income, net	**7.2**	6.5	**10.8%**
Other income (expense), net	**(0.3)**	0.1	**(400.0%)**
Income (loss) before income taxes	**1.1**	(10.9)	**(110.1%)**
Provision (benefit) for income taxes	**0.4**	(3.8)	**(110.5%)**
Net income (loss)	**$ 0.7**	$ (7.1)	**(109.9%)**
Effective income tax (benefit) rate	**36.4%**	(34.9%)	

The following table summarizes the impact of the previously described events impacting comparability included in the financial results for fiscal 2008 and 2007:

	Three Months Ended September 30,	
(Dollar amounts in millions)	**2007**	2006
Charge included in income (loss) before income taxes	**$ -**	$(3.5)
Charge (benefit) for income taxes		(1.2)

The Celera group reported net income in the first quarter of fiscal 2008 compared to a net loss in the first quarter of fiscal 2007. This change resulted primarily from higher net revenues, the previously described events impacting comparability in fiscal 2007, and lower R&D expenses.

Reported revenues for the Celera group are comprised of product sales, equalization payments, and license and collaboration revenues. Product sales consist primarily of shipments to our partner, Abbott Laboratories, at cost. Revenue from items that are outside of the alliance with Abbott

is also reported in this category. Equalization payments result from an equal sharing of alliance profits and losses between the alliance partners and vary each period depending on the relative income and expense contribution of each partner.

The first quarter fiscal 2008 reported revenues included: $3.0 million from the resale of the Celera group s cathepsin S inhibitor program to a privately-held drug development company; $2.4 million from agreements with Siemens Medical Solutions Diagnostics, which included the licensing of real-time PCR thermal cycling instruments and reagents in the human *in vitro* diagnostics field; and $2.0 million from Merck & Co., Inc. as a result of the cathepsin K inhibitor program entering a Phase III clinical trial. Also contributing to the increase in reported revenues in the first quarter of fiscal 2008 compared to prior year quarter were higher royalties from other diagnostic licensees, partially offset by a lower equalization payment from Abbott compared to the prior year quarter.

The increase in gross margin in the first quarter of fiscal 2008 was primarily attributable to higher licensing and collaborative revenues due to the transactions described above.

R&D expenses decreased in the first quarter of fiscal 2008 compared to the prior year quarter primarily due to reduced proteomics discovery spending. SG&A expenses increased in the first quarter of fiscal 2008 compared to the prior year quarter primarily due to expenses related to the review of our corporate structure.

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Interest income, net increased during the first quarter of fiscal 2008 as compared to the prior year quarter primarily due to higher average interest rates, partially offset by lower average cash and cash equivalents and short-term investments.

Supplemental Information

	Three Months Ended September 30,	
(Dollar amounts in millions)	**2007**	2006
Equalization revenue, net	**$ 2.2**	$ 4.6
End-user sales	**24.9**	25.3

End-user sales consisted of products sold through the alliance with Abbott. Lower sales of cystic fibrosis analyte specific reagents (ASRs), coupled with the removal of the HCV genotyping ASRs due to an injunction against sales of these products by Abbott issued in the Innogenetics litigation, were the primary reasons for the decline in end-user revenues this quarter. This decline was partially offset by increased sales of HIV, hepatitis C, hepatitis B, chlamydia, and gonorrhea Real-Ti*m*e assays used on the *m*2000 system, as well as increased sales of fragile X and thrombosis related ASRs.

Celera Group

Discussion of Financial Resources and Liquidity

The Celera group had cash and cash equivalents and short-term investments of $548.1 million at September 30, 2007, and $561.5 million at June 30, 2007. We maintain a $250 million unsecured revolving credit agreement with four banks that matures on May 25, 2012. This amount was increased from $200 million effective August 27, 2007, at our request in accordance with the terms of the agreement. There was $175 million outstanding under this agreement at September 30, 2007. On August 27, 2007, we entered into a $100 million unsecured term loan agreement with Bank of America, N.A. that matures on September 4, 2008. Upon the satisfaction of various conditions, we have the option to extend the maturity date on this agreement to September 4, 2010. There was $100 million outstanding under this agreement at September 30, 2007. Both the revolving credit agreement and the term loan agreement require that we maintain a debt to total capital ratio, as defined in each agreement, of not more than 0.50:1:00. See Note 8 to our condensed consolidated financial statements for more information on our loans payable. None of the above borrowings or related interest expense was allocated to the Celera group.

We believe that existing funds and existing sources of debt financing are more than adequate to satisfy the Celera group s normal operating cash flow needs, planned capital expenditures, and recently completed acquisitions for the next twelve months and for the foreseeable future.

Our board of directors has authorized the repurchase of shares of Applera-Celera stock from time to time to replenish shares issued under our employee stock benefit plans. This authorization has no set dollar or time limits and delegates to management discretion to purchase shares at times and prices it deems appropriate through open market purchases, privately negotiated transactions, tender offers, exchange offers, or otherwise.

We manage the investment of surplus cash and the issuance and repayment of short and long-term debt for the Celera 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.

	September 30,	
(Dollar amounts in millions)	**2007**	June 30, 2007
Cash and cash equivalents	**$187.2**	$ 30.0
Short-term investments	**360.9**	531.5
Total cash and cash equivalents and short-term investments	**$548.1**	$561.5
Working capital	**589.7**	569.1

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Cash and cash equivalents increased from June 30, 2007, as proceeds from the sales and maturities of available for sale investments, net of purchases, and stock issuances exceeded the amount expended on operations and the purchase of capital assets.

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

(Dollar amounts in millions)	**2007**	2006
Net cash from operating activities	**$ (14.3)**	$ (14.3)
Net cash from investing activities	**170.2**	(34.9)
Net cash from financing activities	**1.3**	9.2

Operating activities:

Net cash used by operating activities for the first three months of fiscal 2008 was the same as in the first three months of fiscal 2007. Higher income-related cash flows and a lower decrease in accounts payable and other liabilities in the first quarter of fiscal 2008 were offset by a higher increase in accounts receivable. The lower decrease in accounts payable and other liabilities primarily resulted from higher severance and other restructuring-related payments in the first quarter of fiscal 2007 and the timing of payments by third parties under licensing agreements. The higher accounts receivable was due in part to the timing of the collection of licensing and milestone payments recorded in the first quarter of fiscal 2008, as well as the equalization payment from Abbott received at the beginning of the second quarter of fiscal 2008.

Investing activities:

Net cash from investing activities for the first three months of fiscal 2008 increased compared to the first three months of fiscal 2007 primarily due to lower purchases, net of sales and maturities, of available for sale investments in the first three months of fiscal 2008.

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Market Risks

Our foreign currency risk management strategy uses derivative instruments to hedge exposures related to various foreign currency forecasted revenues and intercompany transactions and to offset the impact of changes in currency rates on various foreign currency-denominated assets and liabilities. The principal objective of this strategy is to minimize the risks and/or costs associated with our global financing and operating activities. We use forward, option, and range forward contracts to manage our foreign currency exposures. At September 30, 2007, we recorded in our condensed consolidated financial statements a net liability of $19.3 million related to these forward and option contracts, compared with a net asset of $2.6 million at June 30, 2007. This change was primarily attributable to the fluctuations in currency rates. We do not use derivative financial instruments for trading or speculative purposes, nor are we a party to leveraged derivatives.

We performed a sensitivity analysis as of September 30, 2007 based on a hypothetical 10% adverse change in foreign currency rates relative to the U.S. dollar. This analysis included the change in fair value of all derivative financial instruments used to hedge our forecasted third party and intercompany sales. In addition, this analysis excluded both the impact of translation on foreign currency-denominated assets and liabilities as well as the change in fair value of all derivative financial instruments used to hedge these balance sheet items as the resulting amounts would largely offset each other. As of September 30, 2007, we calculated a hypothetical after-tax loss of $23.5 million, compared to a hypothetical after-tax loss of $21.8 million at June 30, 2007. If currency rates actually change in a manner similar to the assumed change in the foregoing calculation, the hypothetical calculated loss would be more than offset by the recognition of higher U.S. dollar equivalent foreign revenues. Actual gains and losses in the future could, however, differ materially from this analysis, based on changes in the timing and amount of currency rate movements and actual exposures and hedges.

For further information on our market risks, refer to the discussion contained in the management s discussion and analysis section of our 2007 Annual Report to Stockholders (which discussion is incorporated in this quarterly report by reference).

Recently Issued Accounting Pronouncements

See Note 1 to our condensed consolidated financial statements for a description of the effect of recently issued accounting pronouncements.

Outlook

The outlook below for both the Applied Biosystems group and the Celera group contains non-GAAP financial measures, including earnings per share and operating margin adjusted to exclude some costs, expenses, gains and losses and other specified items. These measures are not in accordance with, or an alternative for, generally accepted accounting principles, or GAAP, and may be different from non-GAAP financial measures used by other companies. Among the items included in GAAP earnings but excluded for purposes of determining adjusted earnings or

other non-GAAP financial measures that we present are: gains or losses from sales of operating assets and investments; restructuring charges, including severance charges; charges and recoveries relating to significant legal proceedings; asset impairment charges; write-offs of acquired in-process research and development; amortization of acquired intangibles; and tax adjustments, including settlements and the impact of new tax legislation. In addition, for non-GAAP financial measures, we have also excluded the allocation of interperiod taxes and intercompany sales. We believe the presentation of non-GAAP financial measures provides useful information to management and investors regarding various financial and business trends relating to our financial condition and results of operations, and that when GAAP financial measures are viewed in conjunction with non-GAAP financial measures, investors are provided with a more meaningful understanding of our ongoing operating performance. In addition, these non-GAAP financial measures are among the primary indicators we use as a basis for evaluating performance, allocating resources, setting incentive compensation targets, and planning and forecasting future periods. Non-GAAP financial measures are not intended to be considered in isolation or as a substitute for GAAP financial measures. To the extent this report contains historical non-GAAP financial measures, we have also provided corresponding GAAP financial measures for comparative purposes. However, in the case of forward-looking non-GAAP financial measures, we have not provided corresponding forward-looking GAAP financial measures because these measures are not accessible to us. We cannot predict the occurrence, timing, or amount of all non-GAAP items that we exclude from our non-GAAP financial measures but which could potentially be significant to the calculation of our GAAP financial measures for future fiscal periods.

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Applied Biosystems Group

The Applied Biosystems group believes that its fiscal year 2008 outlook and financial performance could be affected by, among other things: the introduction and adoption of new products, including the SOLiD system; the level of commercial investments in life science R&D; the level of government funding for life science research; legislation and funding for applications in the applied markets; the outcome of pending litigation matters; and competitive product introductions and pricing. Subject to the inherent uncertainty associated with these factors, the Applied Biosystems group has the following expectations for fiscal 2008.

- The Applied Biosystems group expects mid to high single digit growth assuming current exchange rates. Revenues are expected to increase for both instruments and consumables. The Applied Biosystems group anticipates revenue growth in the DNA Sequencing, Real-Time PCR/Applied Genomics, and Mass Spectrometry categories and revenue declines in the Core PCR & DNA Synthesis and Other Product Lines categories. Quarterly year-over-year revenue changes may be different from our annual expectations due to a variety of factors, including the timing of customer orders and disbursements of government funding.

- The Applied Biosystems group expects continued gross margin expansion in fiscal 2008 compared to the fiscal 2007 gross margin of 55.3%. SG&A as a percent of total revenues is expected to be slightly higher than the prior year level of 28.3%. R&D as a percentage of total revenues is expected to be approximately equal to or slightly below the prior year level of 9.7%. The Applied Biosystems group expects an increase in operating margin in fiscal 2008 compared to the operating margin of 17.2% in the prior year, excluding non-GAAP items in both fiscal years as described above.

- The Applied Biosystems group expects the effective annual tax rate used to calculate non-GAAP financial measures to be approximately 31%, compared to approximately 30% in fiscal 2007.

- The Applied Biosystems group expects non-GAAP EPS to increase faster than the annual revenue growth rate. This includes the incremental impact of share-based compensation and the effective tax rate. The total impact of these items on fiscal 2008 non-GAAP EPS is expected to be approximately $0.05.

- The total pre-tax impact of SFAS 123R (accounting for share-based compensation) in fiscal 2008 is expected to be approximately $22.0 million, with an EPS impact of approximately $0.08.

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

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

Celera Group

The Celera group anticipates that its fiscal 2008 financial performance could be affected by, among other things: the ability of the Celera group to successfully integrate the operations of BHL and Atria; demand for current and new diagnostic products, including demand for the products of BHL and Atria; adoption of the *m*2000 system in the U.S. and other markets; potential revenue from technology licenses and collaborations; and potential changes to the U.S. Food and Drug Administration regulations governing the sale of products and services. Subject to the inherent uncertainty associated with these factors, the Celera group has the following expectations for fiscal 2008:

- Total reported revenues are anticipated to be $135 to $145 million.

- R&D expenses are anticipated to be $45 to $50 million, and SG&A expenses are anticipated to be $70 to $75 million.

- The Celera group anticipates that it will be profitable on a non-GAAP basis for the second half of fiscal 2008. Amortization of intangibles relating to the BHL and Atria acquisitions and restructuring charges, which are excluded in the determination of non-GAAP earnings per share, are expected to be between $0.07 to $0.09 per share for the remainder of fiscal 2008.

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- The total pre-tax impact of SFAS 123R (accounting for share-based compensation) in fiscal 2008 is expected to be approximately $7 million, with an EPS impact of approximately $0.06.

- For fiscal 2008, the Celera group expects to spend approximately $220 to $230 million on the acquisitions of BHL and Atria, including all transaction costs. The Celera group currently anticipates it will end fiscal 2008 with $320 to $330 million in cash and short-term investments. This does not include any proceeds that might be received from the sale of the Celera group s small molecule facility in South San Francisco, California.

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

Forward-Looking Statements and Risk Factors

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

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. To comply with the terms of the safe harbor, we note that a variety of factors could cause actual results and experience to differ materially from anticipated results or other expectations expressed in forward-looking statements. We also note that achievement of anticipated results or expectations in forward-looking statements is subject to the possibility that assumptions underlying forward-looking statements will prove to be inaccurate. Investors should bear this in mind as they consider forward-looking statements. The risks and uncertainties that may affect the operations, performance, development, and results of our Applied Biosystems group and Celera group businesses include, but are not limited to, those described below under the headings Risks Relating to the Applied Biosystems Group and Risks Relating to the Celera Group. We note that our businesses could be affected by other factors that we have not disclosed because we think they are immaterial. Also, there may be additional risks and uncertainties that could affect our businesses but which are not currently known to us.

Owners of Applera-Applied Biosystems stock and Applera-Celera stock are also subject to risks arising from their ownership of common stock of a corporation with two separate classes of common stock. The risks and uncertainties that arise from our capital structure, particularly our two separate classes of common stock, include, but are not limited to, those described in Item 1A of Part I of our 2007 Annual Report on Form 10-K under the heading Risk Factors Risks Relating to a Capital Structure with Two Separate Classes of Common Stock.

Risks Relating to the Applied Biosystems Group

Rapidly changing technology in life sciences could make the Applied Biosystems group s product line obsolete unless it continues to develop and manufacture new and improved products and services, and pursue new market opportunities.

A significant portion of the net revenues for the Applied Biosystems group each year is derived from products and services that did not exist in the prior year. We sell our products in several industries that are characterized by rapid and significant technological changes, frequent new product and service introductions and enhancements, and evolving industry standards. The Applied Biosystems group s future success depends on its ability to continually improve its current products and services, develop and introduce, on a timely and cost-effective basis, new products and services that address the evolving needs of its customers, and pursue new market opportunities that develop as a result of technological and scientific advances in life sciences. These new market opportunities may be outside the scope of the Applied Biosystems group s proven expertise or in areas which have unproven market demand, and the utility and value of new products and services developed by the Applied Biosystems group may not be accepted in the markets served by the new products. This includes, for example, new products under development for the clinical diagnostics market, which are described in the immediately following paragraph. The inability to gain market acceptance of new products and services could harm the Applied Biosystems group s future operating

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results. The Applied Biosystems group s future success also depends on its ability to manufacture these improved and new products to meet customer demand in a timely and cost-effective manner, including its ability to resolve in a timely manner manufacturing issues that may arise from time to time as the Applied Biosystems group commences production of these complex products. Unanticipated difficulties or delays in replacing existing products and services with new products and services or in manufacturing improved or new products in sufficient quantities to meet customer demand could diminish future demand for the Applied Biosystems group s products and services and its future operating results.

The Applied Biosystems group may not successfully develop instruments for use in the clinical diagnostics market, and even if it does develop these products they may not receive needed regulatory clearances or approvals and the Applied Biosystems group may not be able to manufacture these products in accordance with regulatory requirements.

The Applied Biosystems group intends to commit significant resources to the development of instruments for use in the clinical diagnostics market. Although the Applied Biosystems group has experience in developing and commercializing instrumentation for the life science research market, the Applied Biosystems group has only limited prior experience with products of any type for use in the regulated clinical diagnostics market. This is an emerging business area for the Applied Biosystems group, and the Applied Biosystems group may not have or be able to obtain the necessary expertise to successfully develop instruments for use in this market. In addition, in the U.S. and other countries, instruments cannot be marketed for clinical diagnostics use until they first receive regulatory clearance or approval. The regulatory review and clearance or approval process can be time consuming and require substantial expense and may not be successful. Even if the Applied Biosystems group obtains regulatory clearance or approval for an instrument for use in the clinical diagnostics market, the manufacture, sale, and distribution of that product may be subject to ongoing regulatory requirements. The inability to comply with these requirements could cause the Applied Biosystems group to suspend the manufacture or sale of these products and delay or prevent the Applied Biosystems group from generating revenues from the sale of these products.

The Applied Biosystems group relies on other companies 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, their operations could be disrupted. These disruptions could be caused by conditions unrelated to the Applied Biosystems group s business or operations, including the bankruptcy of the manufacturer or supplier. Although the Applied Biosystems group has its own manufacturing facilities, and generally believes it might be able to manufacture some of the products and components currently sourced from other companies, it also believes that it could take considerable time and resources to establish the capability to do so. Accordingly, if these other 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 harmed.

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. Research funding for life science research has increased more slowly during the past several years compared to previous years and has declined in some countries, and some grants have been frozen for extended periods or otherwise become unavailable to various institutions, sometimes without advance notice.

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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 Applied Biosystems group s business could be harmed.

The Applied Biosystems group is currently, and could in the future be, subject to lawsuits, arbitrations, investigations, and other legal actions with private parties and governmental entities, particularly involving claims for infringement of patents and other intellectual property rights, and it may need to obtain licenses to intellectual property from others.

The Applied Biosystems group believes that it has meritorious defenses against the claims currently asserted against it and intends to defend them vigorously. However, the outcome of legal actions is inherently uncertain, and the Applied Biosystems group cannot be sure that it will prevail in any of these actions. An adverse determination in some of the Applied Biosystems group s current legal actions, particularly the cases described below, could harm our business and financial condition.

The Applied Biosystems group s products are based on complex, rapidly developing technologies. These products could be developed without knowledge of previously filed patent applications that mature into patents that cover some aspect of these technologies. In addition, because patent litigation is complex and the outcome inherently uncertain, the Applied Biosystems group s belief that its products do not infringe valid and enforceable patents owned by others could be successfully challenged. The Applied Biosystems group has from time to time been notified that it may be infringing patents and other intellectual property rights of others. Also, in the course of its business, the Applied Biosystems group may from time to time have access to confidential or proprietary information of others, and they could bring a claim against the Applied Biosystems group asserting that the Applied Biosystems group had misappropriated their technologies, which though not patented are protected as trade secrets, and had improperly incorporated those technologies into the Applied Biosystems group s products.

Due to these factors, there remains a constant risk of intellectual property litigation and other legal actions, which could include antitrust claims, affecting the Applied Biosystems group. The Applied Biosystems group has been made a party to litigation and has been subject to other legal actions regarding intellectual property matters, which have included claims of violations of antitrust laws. These actions currently include the legal proceedings described in the following paragraph, some of which, if determined adversely, could harm our business and financial condition. To avoid or settle legal claims, it may be necessary or desirable in the future to obtain licenses relating to one or more products or relating to current or future technologies, and the Applied Biosystems group may not be able to obtain these licenses or other rights on commercially reasonable terms, or at all. In some situations settlement of claims may require an agreement to cease allegedly infringing activities.

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

- Enzo Biochem, Inc., Enzo Life Sciences, Inc., and Yale University have filed a lawsuit against us alleging that we are infringing six patents due to the sale of sequencing reagent kits, TaqMan® genotyping and gene expression assays, and the gene expression microarrays

used with the Applied Biosystems group s Expression Array System.

- Michigan Diagnostics LLC has filed a complaint against us seeking a declaratory judgment of non-infringement, invalidity, and unenforceability of approximately 60 patents related to chemiluminescent products and methods, and asserting antitrust claims based on our alleged misconduct in our alleged enforcement of those patents.

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

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- In response to claims made by us against Solexa, Inc., Illumina, Inc., and a former chief patent counsel to our company, Solexa has filed counterclaims against us alleging that we infringe U.S. Patent Nos. 5,750,341, 5,969,119, 6,306,597 based on our making, using, selling, and offering for sale DNA sequencing products.

- In response to a claim that we, MDS, Inc., and our Applied Biosystems/MDS SCIEX Instruments joint venture with MDS filed against Thermo Electron Corporation, Thermo Electron has filed a counterclaim seeking a declaratory judgment that our U.S. Patent No. 4,963,736 is invalid. After the filing of this action against Thermo Electron, its subsidiary Thermo Finnigan LLC filed a lawsuit against us alleging that we are infringing one of its patents as a result of, for example, the Applied Biosystems group s commercialization of the ABI PRISM® 3700 Genetic Analyzer. Thermo Finnigan subsequently filed a second lawsuit against us, MDS, and the Applied Biosystems/MDS SCIEX Instruments joint venture alleging that we and the other defendants have infringed one of Thermo Finnigan s patents as a result of, for example, our commercialization of the API 5000 LC/MS/MS system.

These cases are described in further detail in Part I, Item 3, of our 2007 Annual Report on Form 10-K under the heading Legal Proceedings Commercial Litigation, as updated by the information in Part II, Item 1 of this report. The cost of litigation and the amount of management time associated with these cases is expected to be significant. These matters might not be resolved favorably. If they are not resolved favorably, we could be enjoined from selling the products or services in question or other products or services as a result, and monetary or other damages could be assessed against us. These outcomes could harm the business or financial condition of our company, the Applied Biosystems group, or the Celera group.

Some of the intellectual property that is important to our business is owned by other companies or institutions and licensed to us, and legal actions against them could harm the Applied Biosystems group s business.

Even if the Applied Biosystems group is not a party to these legal actions, an adverse outcome could harm our business because it might prevent these other companies or institutions from continuing to license intellectual property that we may need for our business. Furthermore, an adverse outcome could result in infringement or other legal actions being brought directly against us. For example, on November 8, 2006, a patent interference proceeding was declared by the United States Patent and Trademark Office between Enzo Diagnostics, Inc. and the California Institute of Technology, or Caltech, concerning a patent application owned by Enzo and U.S. Patent No. 5,821,058, owned by Caltech. The 058 patent is exclusively licensed to us and claims methods for DNA sequencing. The Patent Office has declared the interference in order to resolve competing claims to inventorship of the subject matter of the interference. Although we are not a party to this proceeding, as exclusive licensee we are involved in the prosecution of the interference, in cooperation with Caltech, and we are funding a substantial portion of the cost of the prosecution. If Enzo prevails in the interference, the Patent Office could revoke the claims of the 058 patent from Caltech and award substantially similar claims to Enzo, which Enzo might then assert against our DNA sequencing products and possibly other products.

The Applied Biosystems group may become involved in legal proceedings to enforce its intellectual property rights.

The intellectual property rights of biotechnology companies, including the Applied Biosystems group, involve complex factual, scientific, and legal questions. Even though the Applied Biosystems group may believe that it has a valid patent on a particular technology, other companies

have from time to time taken, and may in the future take, actions that the Applied Biosystems group believes violate its patent rights. Although the Applied Biosystems group has licensing programs to provide industry access to some of its patent rights, other companies have in the past refused to participate in these licensing programs and companies may refuse to participate in them in the future, resulting in a loss of potential licensing revenue. Legal actions to enforce these patent rights can be expensive and may involve the diversion of significant management time. In addition, these legal actions could be unsuccessful and could also result in the invalidation of some of the Applied Biosystems group s intellectual property rights.

Since the Applied Biosystems group s business is dependent on foreign sales, fluctuating currencies will make revenues and operating results more volatile.

Approximately 57% of the Applied Biosystems group s net revenues for our 2007 fiscal year were derived from sales to customers outside of the U.S. The majority of these sales were based on the relevant customer s local currency. A significant portion of the related costs for the Applied Biosystems group are based on the U.S. dollar. As a result, the Applied Biosystems group s reported and anticipated operating results and cash flows are subject to

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fluctuations due to material changes in foreign currency exchange rates that are beyond the Applied Biosystems group s control.

The future growth of the Applied Biosystems group depends in part on its ability to acquire complementary technologies through acquisitions, investments, or other strategic relationships or alliances, which may absorb significant resources, may be unsuccessful, and could dilute holders of Applera-Applied Biosystems stock.

Acquisitions, investments and other strategic relationships and alliances, if pursued, may involve significant cash expenditures, debt incurrence, and expenses that could have a material effect on the Applied Biosystems group s financial condition and operating results. If these types of transactions are pursued, it may be difficult for the Applied Biosystems group to complete these transactions quickly and to integrate these acquired operations efficiently into its current business operations. Potential technological advances resulting from the integration of technologies may not be achieved as successfully or rapidly as anticipated, if at all. Any acquisitions, investments or other strategic relationships and alliances by the Applied Biosystems group may ultimately harm its business and financial condition. In addition, future acquisitions may not be as successful as originally anticipated and may result in impairment charges. We have incurred these charges in recent years in relation to acquisitions. For example, since fiscal 2002 we have incurred charges for impairment of goodwill, intangibles and other assets and other charges of $30.4 million related to the Celera group s acquisition of Paracel, Inc. and $14.9 million related to the Applied Biosystems group s acquisition of Boston Probes, Inc. Additionally, during our 2007 and 2006 fiscal years, we incurred charges totaling $28.8 million for severance and benefit costs and asset impairments relating to the Celera group s acquisition of Axys Pharmaceuticals, Inc., and its subsequent decision to partner or sell its small molecule drug discovery and development programs, and the integration of Celera Diagnostics into the Celera group. In addition, acquisitions and other transactions may involve the issuance of a substantial amount of Applera-Applied Biosystems stock without the approval of the holders of Applera-Applied Biosystems stock. Any issuances of this nature could be dilutive to holders of Applera-Applied Biosystems stock.

The Applied Biosystems group s businesses, particularly those focused on developing and marketing information-based products and services, depend on the continuous, effective, reliable, and secure operation of its computer hardware, software, and Internet applications and related tools and functions.

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

The Applied Biosystems group s computer and communications hardware is protected through physical and software safeguards. However, it is still vulnerable to fire, storm, flood, power loss, earthquakes, telecommunications failures, physical or software break-ins, software viruses, and similar events. In addition, the Applied Biosystems group s online products and services are complex and sophisticated, and as such, could contain data, design, or software errors that could be difficult to detect and correct. Software defects could be found in current or future products. If the Applied Biosystems group fails to maintain and further develop the necessary computer capacity and data to support its computational

needs and its customers access to information-based product and service offerings, it could experience a loss of or delay in revenues or market acceptance. In addition, any sustained disruption in Internet access provided by other companies could harm the Applied Biosystems group.

The Applied Biosystems group s operations involve the use, manufacture, sale, and distribution of hazardous materials, and the mishandling of these hazardous materials could result in substantial liabilities and harm to the Applied Biosystems group.

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

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

Earthquakes could disrupt operations in California.

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

Applera-Applied Biosystems stock price may be volatile.

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

- conditions and publicity regarding the genomics, biotechnology, pharmaceutical, or life sciences industries generally;
- price and volume fluctuations in the stock market at large which do not relate to 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.

Risks Relating to the Celera Group

The Celera group s diagnostics business is substantially dependent on a strategic alliance agreement with Abbott Laboratories.

The Celera group entered into this agreement with Abbott for the joint discovery, development, manufacturing, and commercialization of nucleic acid-based, or molecular, diagnostic products. Although this is a long-term alliance, the alliance agreement contains provisions that could result in early termination for reasons that include the following: breach by either company; a change in control of either company; or either company s dissatisfaction with the financial performance of the alliance according to specifically-agreed parameters and a measurement period set forth in the alliance agreement. In addition, the amount and timing of resources to be devoted to research, development, eventual clinical trials and commercialization activities by Abbott are generally not within the Celera group s control. Future strategic alliances, if any, with other companies are likely to be subject to similar terms and conditions.

The Celera group s diagnostic product business is dependent on entering into other collaborations, alliances, and similar arrangements with other companies.

The Celera group s strategy for the discovery, development, clinical testing, manufacturing and/or commercialization of most of its diagnostic product candidates includes entering into these types of arrangements with other companies, in addition to its strategic alliance with Abbott Laboratories. Although the Celera group has

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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 and alliances and, if applicable, receive milestone and/or royalty payments from collaborators. Other companies may not be interested in entering into these relationships with the Celera group, or may not be interested in doing so on terms that we consider acceptable.

The Celera group lacks the capability to develop or commercialize therapeutic products.

Although the Celera group continues to conduct therapeutic target discovery research, it lacks the personnel or other resources necessary to develop any potential therapeutic products for those targets, to conduct clinical trials, or to manufacture, market or sell therapeutic products. As a result, for the foreseeable future the Celera group expects that it will be able to develop, or participate in the development of, therapeutic products for targets that it discovers and validates only by collaborating with other companies or by licensing validated targets to other companies. The Celera group may be unsuccessful in discovering and validating therapeutic targets to enable it to form these collaborations or enter into these licenses and, if applicable, receive license, milestone and/or royalty payments from collaborators or licensees. Other companies may not be interested in entering into these relationships with the Celera group, or may not be interested in doing so on terms that we consider acceptable.

The Celera group s diagnostics business, and its commercialization of discovered therapeutic targets, could be harmed if collaborators or licensees fail to perform under their agreements with the Celera group or if they terminate those agreements.

Each of the Celera group s existing collaboration, license, and similar agreements with other companies for the development and commercialization of products may be canceled under some circumstances. In addition, the amount and timing of resources to be devoted to research, development, clinical trials, and commercialization activities by the Celera group s collaborators and licensees are generally not within the Celera group s control. The Celera group expects that collaboration, license, and similar agreements entered into in the future, if any, will have similar terms and limitations. Furthermore, even if these agreements contain commitments regarding these activities, the Celera group s collaborators or licensees may not perform their obligations as expected. If collaborators or licensees terminate their agreements or otherwise fail to conduct their collaborative or licensed activities in a timely manner or at all, the development or commercialization of diagnostic or therapeutic products may be delayed or prevented. If the Celera group assumes responsibilities for continuing diagnostic programs on its own after termination of a collaboration, license, or similar agreement, the Celera group may be required to devote additional resources to product development and commercialization or the Celera group may need to cancel some development programs. If a collaboration, license, or other agreement for a therapeutic program is terminated, the Celera group would not be able to assume responsibility for the continued development of that program because it lacks the resources for therapeutic product development, and the only way it could continue that program would be to find another collaborator or licensee.

The Celera group s efforts to discover diagnostic markers and therapeutic targets depend, in part, on the use of novel and unproven discovery methods.

It is therefore possible that the Celera group s discovery efforts will not result in any new diagnostic markers or therapeutic targets that could be developed into commercial diagnostic or therapeutic products. The Celera group and its collaborators are seeking to identify diagnostic markers that can be used 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. Also, the Celera group is seeking to identify novel targets for the development of new treatments for disease through the use of technology in the field of proteomics, the study of proteins, and using disease association findings arising from its genomics research. To our knowledge, neither of these approaches to target discovery has to date been effectively used to develop a therapeutic product that has been commercialized, and therefore the potential benefit to the Celera group of its use of proteomics technology and disease association study information to support therapeutic target discovery is unknown.

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For some of the Celera group s diagnostic research and product development programs and therapeutic target discovery research programs, the Celera group needs access to human tissue and/or blood samples from diseased and healthy individuals, other biological materials, and related clinical and other information, which may be in limited supply.

The Celera group may not be able to obtain or maintain access to these materials and information on acceptable terms, or may not be able to obtain needed consents from individuals providing tissue, blood, or other samples. In addition, government regulation in the U.S. and foreign countries could result in restricted access to, or use of, human tissue or blood samples or other biological materials. If the Celera group loses access to sufficient numbers or sources of tissue or blood 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 or blood samples or other biological materials, these research and development programs and the Celera group s business could be harmed.

Our diagnostic product candidates may never result in a commercialized product.

Most of the Celera group s diagnostic product candidates are in various stages of research and development and the ability to commercialize those product candidates, including through collaborators or licensees, is highly uncertain. Development of existing product candidates will require significant additional research and development efforts by the Celera group or its collaborators or licensees before they can be marketed. For potential diagnostic products, these efforts include extensive clinical testing to confirm the products are safe and effective and may require lengthy regulatory review and clearance or approval by the U.S. Food and Drug Administration and comparable agencies in other countries. Furthermore, even if these products are found to be safe and effective and receive necessary regulatory clearances or approvals, they may never be developed into commercial products due to considerations such as: inability to obtain needed licenses to intellectual property owned by others; market and competitive conditions; and manufacturing difficulties or cost considerations.

If the Celera group or its collaborators or licensees fail to satisfy regulatory requirements for any diagnostic product candidate, the Celera group or its collaborators or licensees may be unable to complete the development and commercialization of that product.

The Celera group is currently developing its internal capability to move potential diagnostic products through clinical testing, manufacturing, and the approval processes of the U.S. Food and Drug Administration, and comparable agencies in other countries. In the U.S., either the Celera group or its collaborators or licensees must show through pre-clinical studies and clinical trials that each of the Celera group s or its collaborators or licensees diagnostic product candidates is safe and effective for each indication before obtaining regulatory clearance or approval from the FDA for the commercial sale of that product as an *in vitro* diagnostic product with clinical claims. Outside of the U.S., the regulatory requirements for commercialization vary from country to country. If the Celera group or its collaborators or licensees fail to adequately show the safety and effectiveness of a diagnostic product candidate, regulatory clearance or approval could be delayed or denied. The results from pre-clinical studies may be different from the results that are obtained in clinical trials, and the Celera group s collaborators or licensees may not be able to show sufficient safety and effectiveness in their clinical trials to allow them to obtain the needed regulatory clearance or approval. The regulatory review and approval process can take many years and require substantial expense and may not be successful.

The U.S. Food and Drug Administration has issued an interpretation of the regulations governing the sale of Analyte Specific Reagent products which could prevent or delay our or our collaborators or licensees sales of these products and harm our business.

In September 2006, the U.S. Food and Drug Administration, or FDA, published Draft Guidance for Industry and FDA Staff: Commercially Distributed Analyte Specific Reagents (ASRs): Frequently Asked Questions clarifying the FDA s interpretation of the regulations governing the sale of Analyte Specific Reagent, or ASR, products. In September 2007, the FDA published a final version of this guidance document. ASRs are a class of products that do not require regulatory clearance or approval. The guidance document contains an interpretation of the ASR regulations that is a departure from what we believed to be the FDA practice and policy, prior to the release of the September 2006 draft, regarding products that can be characterized as ASRs. We believe that some of the Celera group s current ASR products will not meet the regulatory definition of an ASR as set forth in the guidance document. We similarly believe that some of the ASR products that Abbott Laboratories currently contributes to the Celera group s strategic alliance with Abbott may not meet the regulatory definition of an ASR as set forth in the

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guidance document. The FDA has granted a twelve-month transition period from the date of issuance of the final guidance document and during that time we intend to review and interpret the guidance document to determine which products are affected and establish an appropriate action plan for any affected product, such as reconfiguring the product or seeking an FDA pre-market approval or 510(k) clearance. The process for obtaining an FDA pre-market approval or 510(k) clearance can be time consuming and expensive, and even if we seek clearances or approvals there is no assurance that they will be obtained. Accordingly, under the new interpretation of the ASR regulations in the guidance document, the FDA could require the Celera group or Abbott to discontinue marketing current products, this discontinuation could be indefinite or permanent, and the Celera group s business could be harmed. Also, the interpretation of the ASR regulations in the guidance document might make development of new ASR products more difficult, and this could similarly harm the Celera group s business because it might delay the development of, or prevent altogether, some new products.

Even if the Celera group or its collaborators or licensees obtain regulatory clearance or approval for a particular diagnostic product, that product will remain subject to ongoing regulatory requirements, and our inability to meet these requirements could prevent or require us to suspend commercialization of a product.

The manufacture of our and our collaborators and licensees diagnostic products is subject to the U.S. Food and Drug Administration s Quality System Regulation. The occurrence of manufacturing problems for any product, including the inability to comply with this regulation, could result in withdrawal of regulatory clearance or approval for that product, and could also force us or our collaborators or licensees to suspend manufacturing of, reformulate, conduct additional testing for, and/or change the labeling for, that product. This could delay or prevent the Celera group from generating revenues from the sale of any affected diagnostic product.

Clinical trials of diagnostic product candidates may not be successful.

Potential clinical trials may not begin on time, may not be completed on schedule, or at all, or may not be sufficient for registration of the products or result in products that can receive necessary clearances or approvals. Numerous unforeseen events during, or as a result of, clinical testing could delay or prevent commercialization of the Celera group s or its collaborators or licensees diagnostic product candidates. Diagnostic product candidates that appear to be promising at early stages of development or early clinical trials may later be found to be unsafe, ineffective, or to have limited medical value.

Collaborators or licensees may never successfully develop and commercialize therapeutic product candidates.

The development and commercialization of therapeutic products by collaborators or licensees is highly uncertain and subject to a number of significant risks. Therapeutic product candidates that appear to be promising at early stages of development may later be found to be unsafe, ineffective, or to have limited medical value. These product candidates must undergo expensive and time consuming clinical trials to determine whether they are safe and effective, and then they are subject to a lengthy regulatory review for approval by the U.S. Food and Drug Administration and comparable agencies in other countries. Furthermore, even if these products are found to be safe and effective and receive regulatory approvals, they may never be developed into commercial products due to considerations such as: inability to obtain needed licenses to

intellectual property owned by others; market and competitive conditions; and manufacturing difficulties or cost considerations. Accordingly, the Celera group may not receive any license, milestone, royalty, or other payments or any other benefit from collaboration, license, or similar agreements for the development of therapeutic products based on targets identified and validated by the Celera group.

The Celera group lacks sales capability in the clinical diagnostics market.

The Celera group currently lacks a sales organization for its diagnostic products. Accordingly, its ability to successfully sell these products depends on its ability to develop a sales organization, work with Abbott Laboratories under the existing strategic alliance agreement that is described above, work with another distributor, or pursue a combination of these alternatives. In jurisdictions where the Celera group uses others as distributors for its diagnostic products, its success in marketing these products depends to a great extent on the efforts of the distributors.

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The Celera group has limited manufacturing experience and capability for its diagnostic products and may encounter difficulties expanding the operations of its diagnostic products business.

If diagnostic product sales or clinical trial usage needs increase, the Celera group may have to increase the capacity of its diagnostic product manufacturing processes and facilities or rely on its collaborators, if any, in this field of business. The Celera group may encounter difficulties in scaling-up diagnostic product manufacturing processes and may be unsuccessful in overcoming these difficulties. In these circumstances, the Celera group s ability to meet diagnostic product demand or clinical trial usage needs may be impaired or delayed.

The Celera group s diagnostic product manufacturing facilities are subject, on an ongoing basis, to the U.S. Food and Drug Administration s Quality System Regulation, 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. The Celera group may encounter difficulties expanding its diagnostic product 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 or clinical trial usage needs.

The Celera group s diagnostic product manufacturing operations are located in a facility in Alameda, California. The Celera group expects to operate its diagnostic product manufacturing out of this facility for the foreseeable future, and it lacks alternative production plans in place or alternative facilities available should its existing manufacturing facility cease to function. Accordingly, the Celera group s diagnostic product business could be harmed 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 or clinical trial usage needs on a timely basis.

Single suppliers or a limited number of suppliers provide key components of the Celera group s diagnostic products. If these suppliers fail to supply these components, the Celera group may be unable to satisfy product demand or clinical trial usage needs.

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

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

The Celera group s collaborations with outside experts may be subject to restriction and change.

The Celera group collaborates with scientific and clinical experts at academic and other institutions that provide assistance and guidance to the Celera group s research and development efforts. These advisors and collaborators are not employees of the Celera group and may have other commitments that limit their availability to the Celera group. Although they generally agree not to do competing work, if a conflict of interest arises between their work for the Celera group and their work for another company or institution, the Celera group may lose the services of these experts. In addition, although the Celera group s advisors and collaborators sign agreements not to disclose

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the Celera group s confidential information, it is possible that valuable proprietary knowledge may become publicly known or otherwise available to other parties, including the Celera group s competitors, through them.

The diagnostics industry is intensely competitive and evolving.

There is intense competition among healthcare, diagnostic, and biotechnology companies attempting to discover candidates for potential new diagnostic products. The Celera group is aware of competitors who are engaged in research and development projects that address the diseases that the Celera group is targeting. These companies may:

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

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

Also, a substantial portion of all sales of diagnostic products are made to a small number of clinical reference laboratories, including those identified above, and therefore the Celera group expects to rely on these laboratories for a substantial portion of its diagnostics business sales.

The Celera group s inability to establish or maintain one or more of these laboratories as a customer could harm its business, financial condition, and operating results.

The Celera group s diagnostic products may not be fully accepted by physicians and laboratories.

The growth and success of the Celera group s diagnostics business depends on market acceptance by physicians and laboratories of its products as clinically useful and cost-effective. The Celera group expects that most of its diagnostic products will use genotyping and gene expression information to predict predisposition to diseases, disease progression or severity, or responsiveness to treatment. Market acceptance depends 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. Doctors and clinicians may not want to use the Celera group s products designed for these purposes.

Even if genetic testing is accepted as a method to manage healthcare, the Celera group s diagnostic products may not be accepted in the clinical diagnostics market. If genetic testing becomes widely accepted in the clinical diagnostics market, the Celera group cannot predict the extent to which doctors and clinicians may be willing to use

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the Celera group s diagnostic products in providing patient care. Doctors and clinicians may prefer competing technologies and products that can be used for the same purposes as the Celera group s products.

If insurance companies and other third-party payors do not reimburse doctors and patients for the Celera group s diagnostic tests, its ability to sell its products to the clinical diagnostics market will be impaired.

Sales of the Celera group s diagnostic products will depend, in large part, on the availability of adequate reimbursement to users of those products from government insurance plans, including Medicare and Medicaid in the U.S., managed care organizations, and private insurance plans. Physicians recommendations to use diagnostic tests, as well as decisions by patients to pursue those tests, are likely to be influenced by the availability of reimbursement by insurance companies and other third-party payors. Third-party payors are increasingly attempting to contain healthcare 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 the Celera group s diagnostic products. This could limit the ability of the Celera group to sell its diagnostic products, cause the Celera group to reduce the prices of its products, or otherwise harm the Celera group s operating results.

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

Introduction of new diagnostic and therapeutic products may expose the Celera group to product liability claims.

New products developed by the Celera group or its collaborators or licensees could expose the Celera group to potential product liability risks that are inherent in the testing, manufacturing, marketing, and sale of human diagnostic and therapeutic products. In addition, clinicians, patients, third-party payors, and others may at times seek damages based on testing or analysis errors caused by 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 the Celera group to spend significant time and money in litigation and to pay significant damages. Although the Celera group expects to seek and maintain product liability insurance to cover claims relating to the testing and use of diagnostic and therapeutic products, it may not be able to obtain the insurance on commercially reasonable terms, if at all, or it may not be able to obtain coverage in an amount that will be adequate to cover losses from any particular claim. Also, although the Celera group expects that it will be involved in the commercialization of therapeutic products only through other companies who develop and market those products under collaboration, license, or similar agreements, the Celera group could be indirectly exposed to product liability claims under applicable laws or regulations or due to the terms and conditions of those agreements.

The Celera group s operations involve the use, manufacture, sale, and distribution of hazardous materials, and the mishandling of these hazardous materials could result in substantial liabilities and harm to the Celera group.

The Celera group s diagnostic and therapeutic research and development activities, and diagnostic manufacturing activities, involve the controlled use of potentially hazardous materials, including biological materials, chemicals, and various radioactive compounds. Also, some of the Celera group s diagnostic products, including products sold through its strategic alliance with Abbott Laboratories, are hazardous materials or include hazardous materials. The Celera group cannot completely eliminate the risk of accidental or other contamination or injury from these materials, and the Celera group could be held liable for resulting damages, which could be substantial. Under some laws and regulations, a party can be subject to strict liability for damages caused by some hazardous materials, which means that a party can be liable without regard to fault or negligence. Furthermore, the Celera group could be held indirectly responsible for contamination or injury arising from the conduct of Abbott Laboratories in manufacturing, selling, or distributing alliance diagnostic products. The Celera group could be held similarly responsible for the actions of its other collaborators or licensees. In addition, the Celera group is subject to federal, state, local, and foreign laws, regulations, and permits governing the use, storage, handling, and disposal of hazardous materials and specified waste products, as well as the shipment and labeling of materials and products

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containing hazardous materials. If the Celera group fails to comply with any of these laws, regulations, or permits, or if the Celera group is held indirectly responsible for conduct of Abbott Laboratories or other collaborators or licensees found to be non-compliant, we could be subject to substantial fine or penalty, payment of remediation costs, loss of permits, and/or other adverse governmental action. Any of these events could harm the Celera group s business and financial condition.

The Celera group s business depends on the continuous, effective, reliable, and secure operation of its computer hardware, software, and Internet applications and related tools and functions.

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

The Celera group s computer and communications hardware is protected through physical and software safeguards. However, it is still vulnerable to fire, storm, flood, power loss, earthquakes, telecommunications failures, physical or software break-ins, software viruses, and similar events. If the Celera group fails to maintain and further develop the necessary computer capacity and data to support its and its collaborators and licensees discovery, research, and development activities, including its associated computational needs, it could experience a loss of or delay in revenues. In addition, any sustained disruption in Internet access provided by other companies could harm the Celera group s business.

The Celera group s competitive position depends on maintaining its intellectual property protection.

The Celera group s ability to compete and to achieve and maintain profitability depends, in part, on its ability to protect its proprietary discoveries and technologies through obtaining and enforcing patent rights, obtaining copyright protection, maintaining its trade secrets, and operating without infringing the intellectual property rights of others. The Celera group s ability to obtain patent protection for the inventions it makes, including those relating to novel methods of diagnosing and/or treating diseases, is uncertain. The patentability of these and other types of biotechnology inventions involves complex factual, scientific, and legal questions. As a result, it is difficult to predict whether patents will issue or the breadth of claims that will be allowed in biotechnology patents. This may be particularly true with regard to the patenting of gene sequences, gene functions, and genetic variations. In this regard, the U.S. Patent and Trademark Office has adopted guidelines for use in the review of the utility of inventions, particularly biotechnology inventions. These guidelines increased the amount of evidence required to demonstrate utility to obtain a patent in the biotechnology field, making patent protection more difficult to obtain. Also, future changes in policies or laws, or interpretations of these policies or laws, relevant to the patenting of biotechnology inventions could harm our patent position in the U.S. or other countries. Opposition to the protection of these inventions in the U.S. or other countries could result in stricter standards for obtaining or enforcing biotechnology patent rights.

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

The Celera 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 group protects its trade secrets through recognized practices, including access control, confidentiality and non-use agreements with employees, consultants, collaborators and customers, and other security measures. These confidentiality and non-use agreements may be breached, however, and the Celera group may not have adequate remedies for a breach. In addition, the Celera group s trade secrets may otherwise become

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known or be independently developed by competitors. Accordingly, it is uncertain whether the Celera 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 group s or its collaborators diagnostic 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 group wins, the cost of these proceedings could harm its business, financial condition, and operating results.

The Celera group may infringe the intellectual property rights of others, may become involved in expensive intellectual property legal proceedings, and may need to obtain licenses to intellectual property from others.

There has been substantial litigation and other legal proceedings regarding patents and other intellectual property rights in the biotechnology, pharmaceutical, and diagnostics industries. The intellectual property rights of biotechnology companies, including the Celera group, are generally uncertain and involve complex factual, scientific, and legal questions. The Celera group s success in diagnostic product development and therapeutic target discovery 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. Also, contractual disputes related to existing license rights to patents owned by others may affect the Celera group s ability to develop, manufacture, and sell its products.

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

If infringement claims against the Celera group are resolved unfavorably to the Celera group, the Celera group may be enjoined from manufacturing or selling its products or services without a license from a third party, and the Celera group may not be able to obtain a license on commercially acceptable terms, or at all. Also, the Celera group could become subject to significant liabilities to others if these claims are resolved unfavorably to the Celera group. Similarly, our business could be harmed and we could be subject to liabilities because of lawsuits brought by others against Abbott Laboratories, with whom we have a strategic alliance. For example, Abbott has been sued by Innogenetics N.V. for patent infringement due to Abbott s sale of hepatitis C virus, or HCV, genotyping analyte specific reagents, or ASRs, manufactured by the Celera group for Abbott. In September 2006, a jury rendered a verdict against Abbott and awarded $7 million in monetary damages to Innogenetics. We have agreed to share the cost of this litigation, including these damages, and we are also subject to a permanent injunction that was issued by the court after the jury verdict, in January 2007, that prohibits us or Abbott from manufacturing or selling HCV genotyping products, including the ASRs. Abbott is appealing the verdict but it may not be successful, and the appeal process may take six months or more to conclude. The alliance therefore will not receive any revenues from the sale of the HCV genotyping ASRs or other HCV genotyping products for the foreseeable future because of the permanent injunction. Furthermore, even if Abbott succeeds in its appeal and the injunction is lifted in the future, we cannot predict whether and to what extent there may continue to be a market for these products at a time in the future.

Ethical, legal, and social issues related to the use of genetic information and genetic testing may cause less demand for the Celera group s diagnostic products.

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

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The Celera group may pursue acquisitions, investments, or other strategic relationships or alliances, which may consume significant resources, may be unsuccessful, and could dilute the holders of Applera-Celera stock.

Acquisitions, investments and other strategic relationships and alliances, if pursued, may involve significant cash expenditures, debt incurrence, additional operating losses, and expenses that could have a material effect on the Celera group s financial condition and operating results. Acquisitions involve numerous other risks, including:

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

If these types of transactions are pursued, it may be difficult for the Celera group to complete these transactions quickly and to integrate these acquired operations efficiently into its current business operations. Any acquisitions, investments or other strategic relationships and alliances by the Celera group may ultimately harm its business and financial condition. In addition, future acquisitions may not be as successful as originally anticipated and may result in impairment charges. We have incurred these charges in recent years in relation to acquisitions. For example, since fiscal 2002 we have incurred charges for impairment of goodwill, intangibles and other assets and other charges of $30.4 million related to the Celera group s acquisition of Paracel, Inc. and $14.9 million related to the Applied Biosystems group s acquisition of Boston Probes, Inc. Additionally, during our 2007 and 2006 fiscal years, we incurred charges totaling $28.8 million for severance and benefit costs and asset impairments relating to the Celera group s acquisition of Axys Pharmaceuticals, Inc., and its subsequent decision to partner or sell its small molecule drug discovery and development programs, and the integration of Celera Diagnostics into the Celera group.

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 could be dilutive to holders of Applera-Celera stock**.**

Our recent acquisition of Berkeley HeartLab, Inc. may not be successful.

Berkeley HeartLab is a laboratory testing services company that operates in the regulated clinical diagnostics testing market. We are in the process of integrating the Berkeley HeartLab business and workforce into the Celera group. This integration process is subject to numerous risks that are common with acquisitions and which could be disruptive to both the Celera group s existing business as well as the acquired Berkeley HeartLab business. For example, key employees could leave, the quality of services may not be maintained, and key customers could be lost, and management time and resources could be diverted from core operations to address these issues. This is particularly true in the case of the Berkeley HeartLab acquisition, because Berkeley HeartLab operates in a business area, regulated diagnostic services, that is new for the Celera group and because the acquisition has approximately doubled the Celera group s workforce. Furthermore, even if the Celera group is successful in integrating Berkeley HeartLab, the Celera group s plans to operate and expand that business may not be successful at all, or may not proceed as quickly as intended, because of risks and uncertainties that affect the Berkeley HeartLab business. These risks and uncertainties include, for example, the following:

- Berkeley HeartLab must maintain federal and state licenses to continue operating its testing laboratories;

- Berkeley HeartLab must comply with federal and state laws and regulations applicable to the provision of its laboratory testing services;

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- The laboratory testing services offered by Berkeley HeartLab must satisfy stringent standards before they are eligible for reimbursement from government and private payors, such as Medicare and health insurance companies;

- The reimbursement that is available from government and private payors for the laboratory testing services offered by Berkeley HeartLab may be subject to variation, particularly reduction, from time to time due to changes in policies and practices followed by these payors unrelated to the particular services offered by Berkeley HeartLab; and

- Berkeley HeartLab faces competition from established laboratory testing services providers that may be preferred by physicians and others in the healthcare industry.

Earthquakes could disrupt operations in California.

The Celera group has headquarters, research and development, manufacturing, and administrative facilities in Alameda, California. Alameda is located near major California earthquake faults. The ultimate impact of earthquakes on the Celera group, its significant suppliers, and the general infrastructure is unknown, but operating results could be harmed if a major earthquake occurs.

Applera-Celera stock price may be volatile.

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

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

- price and volume fluctuations in the stock market at large which do not relate to the Celera 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 group s ability to meet market expectations.

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

Our company is subject to a class action lawsuit relating to its 2000 offering of shares of Applera-Celera stock that may be expensive and time consuming.

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

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to potential loss from exposure to market risks represented principally by changes in foreign exchange rates, interest rates, and equity prices. Please refer to the market risks section of the management s discussion and analysis included on page 40 of this report. Additional information can also be found in the market risk section of the management s discussion and analysis included on pages 38-39 of our 2007 Annual Report to Stockholders (which section is incorporated in this report by reference).

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

We are responsible for maintaining disclosure controls and procedures, as defined by the Securities and Exchange Commission in its Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Disclosure controls and procedures are controls and other procedures designed to ensure that the information required to be disclosed by us 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. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our management evaluated the effectiveness of our disclosure controls and procedures as of the end of the first quarter of our 2008 fiscal year, the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to achieve their stated purpose. However, there is no assurance that our disclosure controls and procedures will operate effectively under all circumstances.

Internal Control Over Financial Reporting

We are responsible for maintaining internal control over financial reporting, as defined by the Securities and Exchange Commission in its Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our Board of Directors, management, and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Based on an evaluation of internal control over financial reporting by our management, we have not identified any changes made to our internal control over financial reporting during the first quarter of our 2008 fiscal year, which is our last fiscal quarter and the period covered by this report, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved in various lawsuits, arbitrations, investigations, and other legal actions from time to time with both private parties and governmental entities. These legal actions currently involve, for example, commercial, intellectual property, antitrust, environmental, securities, and employment matters. We disclosed information about some of our legal actions in Part I, Item 3, of our 2007 Annual Report on Form 10-K. Set forth below is an update to those disclosures. For additional information about our legal proceedings, refer to Note 12 to our Unaudited Condensed Consolidated Financial Statements in Part I of this report.

We believe that we have meritorious defenses against the claims currently asserted against us, including the ongoing claims described in our 2007 10-K as updated by the disclosures in this report, and we intend to defend them vigorously. However, the outcome of legal actions is inherently uncertain, and we cannot be sure that we will prevail in our defense of claims currently asserted against us. An adverse determination in the cases we are currently defending, particularly the claims against us described in Item 3 of our 2007 10-K under the heading Commercial Litigation, as updated by the disclosures in this report, could have a material adverse effect on us, the Applied Biosystems group, or the Celera group.

We filed a patent infringement action against Stratagene Corporation in the U.S. District Court for the District of Connecticut on November 9, 2004. The complaint alleged that Stratagene, which was acquired by Agilent Technologies, Inc. since our filing of the action, infringed U.S. Patent No. 6,814,934 because of its activities involving instruments for real-time PCR detection. We were seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court deemed proper. Stratagene answered the complaint and counterclaimed for declaratory relief that the 934 patent was invalid and not infringed. Stratagene was seeking dismissal of our complaint, a judgment that the 934 patent was invalid and not infringed, costs and expenses, and other relief as the court deemed proper. We were involved in similar litigation with Stratagene in Germany, France, and the Netherlands involving European Patent No. 872562, the European counterpart to the 934 patent. On September 18, 2007, we announced that we had entered into a settlement agreement with Stratagene and Agilent that resolved these claims and counterclaims, including the additional litigation in Germany, France, and the Netherlands. Pursuant to the settlement agreement, we have licensed the patents at issue to Stratagene and Agilent. The District Court formally dismissed the case on September 26, 2007, and the legal proceedings in Germany, France, and the Netherlands have also been formally dismissed.

Enzo Biochem, Inc., Enzo Life Sciences, Inc., and Yale University filed a patent infringement action against us in the U.S. District Court for the District of Connecticut on June 8, 2004. The complaint alleges that we are infringing six patents. Four of these patents are assigned to Yale University and licensed exclusively to Enzo Biochem, i.e., U.S. Patent No. 4,476,928, entitled Modified Nucleotides and Polynucleotides and Complexes Formed Therefrom, U.S. Patent No. 5,449,767, entitled Modified Nucleotides and Polynucleotides and Methods of Preparing Same, U.S. Patent No. 5,328,824 entitled Methods of Using Labeled Nucleotides, and U.S. Patent No. 4,711,955, entitled Modified Nucleotides and Polynucleotides and Methods of Preparing and Using Same. These four patents have since expired. The other two patents are assigned to Enzo Life Sciences, i.e., U.S. Patent No. 5,082,830 entitled End Labeled Nucleotide Probe and U.S. Patent No. 4,994,373 entitled Methods and Structures Employing Compoundly Labeled Polynucleotide Probes. The allegedly infringing products include the Applied Biosystems group s sequencing reagent kits, its TaqMan® genotyping and gene expression assays, and the gene expression microarrays used with its Expression Array System. Enzo Biochem, Enzo Life Sciences, and Yale University are seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper. In August and September, 2007, the court issued a series of orders favorable to Applera and dismissing all of these claims. Enzo immediately filed a Notice of Appeal with the United States Court of Appeals for the Federal Circuit contesting those orders.

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We filed a complaint on May 31, 2007, in the U.S. District Court for the Northern District of California against Illumina, Inc., Solexa Inc., and a former chief patent counsel to our company, seeking an injunction restoring to us patents and patent applications that were filed by the former chief patent counsel but are on their face assigned to Solexa, which was acquired by Illumina in January 2007. The complaint also seeks a declaration of our rights and duties regarding infringement of these patents, in addition to monetary damages, costs, expenses, and other relief as the court deems proper. We previously filed a related complaint, on December 26, 2006, in the Superior Court of the State of California (Santa Clara County), also seeking restoration of these patents and patent applications to us. Pursuant to a joint stipulation of the parties, the California state court action was dismissed on August 7, 2007. On August 13, 2007, Solexa filed its answer to the federal complaint and counterclaimed that we make, use, sell, and offer for sale DNA sequencing products that infringe the patents, U.S. Patent Nos. 5,750,341, 5,969,119, 6,306,597. Solexa is seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper.

Item 1A. Risk Factors.

Overview

Some statements contained in, or incorporated by reference in, this report, including the Outlook section of Management s Discussion and Analysis of Financial Condition and Results of Operation contained in Item 2 of Part I of this report, are forward-looking and are subject to a variety of risks and uncertainties. Similarly, the press releases we issue and other public statements we make from time to time may contain language that is forward-looking. These forward-looking statements may be identified by the use of forward-looking words or phrases such as forecast, believe, expect, intend, anticipate, should, plan, estimate, and potential, among others. The forward-looking statements report are based on our current expectations, and those made at other times will be based on our expectations when the statements are made. We cannot guarantee that any forward-looking statements will be realized.

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. To comply with the terms of the safe harbor, we note that a variety of factors could cause actual results and experience to differ materially from anticipated results or other expectations expressed in forward-looking statements. We also note that achievement of anticipated results or expectations in forward-looking statements is subject to the possibility that assumptions underlying forward-looking statements will prove to be inaccurate. Investors should bear this in mind as they consider forward-looking statements.

The risks and uncertainties that may affect the operations, performance, development, and results of our Applied Biosystems group and Celera group businesses include, but are not limited to, those described in Management s Discussion and Analysis of Financial Condition and Results of Operation under the heading Forward-Looking Statements and Risk Factors in Item 2 of Part I of this report. That description amends and restates the risk factors associated with our Applied Biosystems group and Celera group businesses that were previously disclosed in Item 1A of Part I of our 2007 Annual Report on Form 10-K. Set forth below is a description of changes we have made to those risk factors since they were disclosed in our 2007 10-K that may be material. Owners of our common stock are also subject to risks arising from their ownership of common stock of a corporation with two separate classes of common stock. The risks and uncertainties that arise from our capital structure, particularly our two separate classes of common stock, include, but are not limited to, those described in Item 1A of Part I of our 2007 Annual Report on Form 10-K under the heading Risk Factors-Risks Relating to a Capital Structure with Two Separate Classes of Common Stock. There have not been any material changes to these risk factors since they were disclosed in our 2007 10-K. We note that there may be additional risks and uncertainties that could affect us or our businesses that are not currently known to us or that we currently think are immaterial.

Changes to Applied Biosystems group risk factors

Following is the restated text of an individual Applied Biosystems group risk factor that may have changed materially from its previous disclosure in our 2007 10-K.

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The Applied Biosystems group is currently, and could in the future be, subject to lawsuits, arbitrations, investigations, and other legal actions with private parties and governmental entities, particularly involving claims for infringement of patents and other intellectual property rights, and it may need to obtain licenses to intellectual property from others.

The Applied Biosystems group believes that it has meritorious defenses against the claims currently asserted against it and intends to defend them vigorously. However, the outcome of legal actions is inherently uncertain, and the Applied Biosystems group cannot be sure that it will prevail in any of these actions. An adverse determination in some of the Applied Biosystems group s current legal actions, particularly the cases described below, could harm our business and financial condition.

The Applied Biosystems group s products are based on complex, rapidly developing technologies. These products could be developed without knowledge of previously filed patent applications that mature into patents that cover some aspect of these technologies. In addition, because patent litigation is complex and the outcome inherently uncertain, the Applied Biosystems group s belief that its products do not infringe valid and enforceable patents owned by others could be successfully challenged. The Applied Biosystems group has from time to time been notified that it may be infringing patents and other intellectual property rights of others. Also, in the course of its business, the Applied Biosystems group may from time to time have access to confidential or proprietary information of others, and they could bring a claim against the Applied Biosystems group asserting that the Applied Biosystems group had misappropriated their technologies, which though not patented are protected as trade secrets, and had improperly incorporated those technologies into the Applied Biosystems group s products.

Due to these factors, there remains a constant risk of intellectual property litigation and other legal actions, which could include antitrust claims, affecting the Applied Biosystems group. The Applied Biosystems group has been made a party to litigation and has been subject to other legal actions regarding intellectual property matters, which have included claims of violations of antitrust laws. These actions currently include the legal proceedings described in the following paragraph, some of which, if determined adversely, could harm our business and financial condition. To avoid or settle legal claims, it may be necessary or desirable in the future to obtain licenses relating to one or more products or relating to current or future technologies, and the Applied Biosystems group may not be able to obtain these licenses or other rights on commercially reasonable terms, or at all. In some situations settlement of claims may require an agreement to cease allegedly infringing activities.

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

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

- Michigan Diagnostics LLC has filed a complaint against us seeking a declaratory judgment of non-infringement, invalidity, and unenforceability of approximately 60 patents related to chemiluminescent products and methods, and asserting antitrust claims based on our alleged misconduct in our alleged enforcement of those patents.

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

- In response to claims made by us against Solexa, Inc., Illumina, Inc., and a former chief patent counsel to our company, Solexa has filed counterclaims against us alleging that we infringe U.S. Patent Nos. 5,750,341, 5,969,119, 6,306,597 based on our making, using, selling, and offering for sale DNA sequencing products.

- In response to a claim that we, MDS, Inc., and our Applied Biosystems/MDS SCIEX Instruments joint venture with MDS filed against Thermo Electron Corporation, Thermo Electron has filed a counterclaim seeking a declaratory judgment that our U.S. Patent No. 4,963,736 is invalid. After the filing of this action against Thermo Electron, its subsidiary Thermo Finnigan LLC filed a lawsuit against us alleging that we are infringing one of its patents as a result of, for example, the Applied Biosystems group s commercialization of the ABI

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PRISM® 3700 Genetic Analyzer. Thermo Finnigan subsequently filed a second lawsuit against us, MDS, and the Applied Biosystems/MDS SCIEX Instruments joint venture alleging that we and the other defendants have infringed one of Thermo Finnigan s patents as a result of, for example, our commercialization of the API 5000 LC/MS/MS system.

These cases are described in further detail in Part I, Item 3, of our 2007 Annual Report on Form 10-K under the heading Legal Proceedings Commercial Litigation, as updated by the information in Part II, Item 1 of this report. The cost of litigation and the amount of management time associated with these cases is expected to be significant. These matters might not be resolved favorably. If they are not resolved favorably, we could be enjoined from selling the products or services in question or other products or services as a result, and monetary or other damages could be assessed against us. These outcomes could harm the business or financial condition of our company, the Applied Biosystems group, or the Celera group.

Changes to Celera group risk factors

Following is the restated text of an individual Celera group risk factor that may have changed materially from its previous disclosure in our 2007 10-K.

The U.S. Food and Drug Administration has issued an interpretation of the regulations governing the sale of Analyte Specific Reagent products which could prevent or delay our or our collaborators or licensees sales of these products and harm our business.

In September 2006, the U.S. Food and Drug Administration, or FDA, published Draft Guidance for Industry and FDA Staff: Commercially Distributed Analyte Specific Reagents (ASRs): Frequently Asked Questions clarifying the FDA s interpretation of the regulations governing the sale of Analyte Specific Reagent, or ASR, products. In September 2007, the FDA published a final version of this guidance document. ASRs are a class of products that do not require regulatory clearance or approval. The guidance document contains an interpretation of the ASR regulations that is a departure from what we believed to be the FDA practice and policy, prior to the release of the September 2006 draft, regarding products that can be characterized as ASRs. We believe that some of the Celera group s current ASR products will not meet the regulatory definition of an ASR as set forth in the guidance document. We similarly believe that some of the ASR products that Abbott Laboratories currently contributes to the Celera group s strategic alliance with Abbott may not meet the regulatory definition of an ASR as set forth in the guidance document. The FDA has granted a twelve-month transition period from the date of issuance of the final guidance document and during that time we intend to review and interpret the guidance document to determine which products are affected and establish an appropriate action plan for any affected product, such as reconfiguring the product or seeking an FDA pre-market approval or 510(k) clearance. The process for obtaining an FDA pre-market approval or 510(k) clearance can be time consuming and expensive, and even if we seek clearances or approvals there is no assurance that they will be obtained. Accordingly, under the new interpretation of the ASR regulations in the guidance document, the FDA could require the Celera group or Abbott to discontinue marketing current products, this discontinuation could be indefinite or permanent, and the Celera group s business could be harmed. Also, the interpretation of the ASR regulations in the guidance document might make development of new ASR products more difficult, and this could similarly harm the Celera group s business because it might delay the development of, or prevent altogether, some new products.

Following is the text of a risk factor, which we have added since the filing of our 2007 10-K, relating to the Celera group business.

Our recent acquisition of Berkeley HeartLab, Inc. may not be successful.

Berkeley HeartLab is a laboratory testing services company that operates in the regulated clinical diagnostics testing market. We are in the process of integrating the Berkeley HeartLab business and workforce into the Celera group. This integration process is subject to numerous risks that are common with acquisitions and which could be disruptive to both the Celera group s existing business as well as the acquired Berkeley HeartLab business. For example, key employees could leave, the quality of services may not be maintained, and key customers could be lost, and management time and resources could be diverted from core operations to address these issues. This is particularly true in the case of the Berkeley HeartLab acquisition, because Berkeley HeartLab operates in a business area, regulated diagnostic services, that is new for the Celera group and because the acquisition has approximately doubled the Celera group s workforce. Furthermore, even if the Celera group is successful in integrating Berkeley HeartLab, the Celera group s plans to operate and expand that business may not be successful at all, or may not

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proceed as quickly as intended, because of risks and uncertainties that affect the Berkeley HeartLab business. These risks and uncertainties include, for example, the following:

- Berkeley HeartLab must maintain federal and state licenses to continue operating its testing laboratories;
- Berkeley HeartLab must comply with federal and state laws and regulations applicable to the provision of its laboratory testing services;
- The laboratory testing services offered by Berkeley HeartLab must satisfy stringent standards before they are eligible for reimbursement from government and private payors, such as Medicare and health insurance companies;
- The reimbursement that is available from government and private payors for the laboratory testing services offered by Berkeley HeartLab may be subject to variation, particularly reduction, from time to time due to changes in policies and practices followed by these payors unrelated to the particular services offered by Berkeley HeartLab; and
- Berkeley HeartLab faces competition from established laboratory testing services providers that may be preferred by physicians and others in the healthcare industry.

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

This table provides information regarding our purchases of shares of Applera-Applied Biosystems stock during the first quarter of fiscal 2008.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (2) (3)
July 1-July 31, 2007	-	-	-	15,080,836 shares
August 1-August 31, 2007	73,451	$31.4578	-	$1.1 billion
September 1- September 30, 2007	-	-	-	$1.1 billion
Total	73,451	$31.4578	-	$1.1 billion

(1) Share repurchases reported in this column consist of (a) 23,926 shares tendered by employees in August 2007 to pay taxes relating to the vesting of restricted stock awards, (b) 46,399 shares tendered by employees in August 2007 to pay taxes relating to the vesting of restricted stock units, and (c) 3,126 shares tendered by a director in August 2007 to pay the exercise price for stock options.

(2) We previously announced that our Board of Directors has authorized the repurchase of shares of Applera-Applied Biosystems stock from time to time to replenish shares issued under our various employee stock benefit plans. This authorization has no set dollar or time limits and delegates to Company management discretion to purchase shares at times and prices it deems appropriate through open market or negotiated purchases. Accordingly, the amounts in this column do not reflect this authorization. No shares were purchased under this authorization during the first quarter of our 2008 fiscal year.

(3) On April 26, 2007, we announced that our Board of Directors authorized the repurchase of up to 18,400,000 shares of Applera-Applied Biosystems stock, in addition to the authorization described in footnote (2) above. On August 8, 2007, we announced that our Board of Directors increased this authorization to $1.2 billion (in the aggregate, including shares previously repurchased under the authorization), which at market prices on that date represented approximately 20% of the outstanding shares of Applera-Applied Biosystems stock, or double the authorization prior to the increase. The authorization has no time restrictions and delegates to Company management discretion to purchase shares at times and prices it deems appropriate through open market purchases, privately negotiated transactions, tender offers, exchange offers, or otherwise. The share number reported in this column for the July 1 through July 31 period represents the maximum number of shares that could have been repurchased under this authorization at the end of July 2007, prior to the increased authorization and taking into account prior repurchases under the authorization. The dollar value reported for the remaining periods in this column represent the maximum dollar value of shares that could have been repurchased under the increased authorization through the remainder of the fiscal quarter. No shares were purchased under this authorization (either before or after the increase) during the first quarter of our 2008 fiscal year.

Subsequent to the increase in the share repurchase authorization, on August 30, 2007, we entered into an Accelerated Share Repurchase Transaction agreement with Morgan Stanley & Co. Incorporated. Pursuant to this agreement, in September 2007 we paid Morgan Stanley $600 million, plus transaction costs, in exchange for the right to receive a variable number of shares, subject to a minimum and a maximum. The minimum number of shares, approximately 16 million, was delivered in October 2007, and any additional shares will be delivered in one or more tranches at a later time or times, determined by Morgan Stanley, prior to the end of our 2008 fiscal year. The final per share price and the total number of shares to be repurchased will be based on a discount to the volume-weighted average daily price of Applera-Applied Biosystems stock during one or more periods of time determined under the agreement based on the timing of additional share deliveries. We funded the accelerated share repurchase using U.S. cash reserves, funds from domestic operations, and borrowings under an existing corporate credit facility and a new $100,000,000 unsecured term loan agreement executed on August 27, 2007.

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This table provides information regarding our purchases of shares of Applera-Celera stock during the first quarter of fiscal 2008.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Program (2)
July 1-July 31, 2007	-	-	-	-
August 1-August 31, 2007	29,893	$13.1819	-	-
September 1-September 30, 2007	-	-	-	-
Total	29,893	$13.1819	-	-

(1) Share repurchases reported in this column consist of (a) 10,254 shares tendered by employees in August 2007 to pay taxes relating to the vesting of restricted stock awards, (b) 18,810 shares tendered by employees in August 2007 to pay taxes relating to the vesting of restricted stock units, and (c) 829 shares tendered by a director in August 2007 to pay the exercise price for stock options.

(2) We previously announced that our Board of Directors has authorized the repurchase of shares of Applera-Celera stock from time to time to replenish shares issued under our various employee stock benefit plans. This authorization has no set dollar or time limits and delegates to Company management discretion to purchase shares at times and prices it deems appropriate through open market or negotiated purchases. Accordingly, the amounts in this column do not reflect this authorization. No shares were purchased under this authorization during the first quarter of our 2008 fiscal year.

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Item 6. Exhibits.

2.1	Agreement and Plan of Merger dated as of August 31, 2007, by and among Applera Corporation, Barolo Acquisition, Inc., Berkeley HeartLab, Inc., and James Caccavo as the Shareholder Representative.
4.1	Term Loan Agreement dated as of August 27, 2007, among Applera Corporation, Bank of America, N.A., as administrative agent, and the initial lenders named therein (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated August 27, 2007, and filed August 28, 2007 (Commission file number 001-04389)).
10.1	Letter agreement regarding Fixed Dollar Collar Accelerated Share Repurchase Transaction dated August 30, 2007, between Applera Corporation and Morgan Stanley & Co. Incorporated.
10.2	Employment Agreement dated as of September 1, 2007, between Applera Corporation and Mark P. Stevenson.
13	Annual Report to Stockholders for the fiscal year ended June 30, 2007, 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, 2007 (Commission file number 001-04389)).
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

APPLERA CORPORATION

By: /s/ Dennis L. Winger
Dennis L. Winger
Senior Vice President and
Chief Financial Officer

By: /s/ Ugo D. DeBlasi
Ugo D. DeBlasi
Vice President and
Controller
(Chief Accounting Officer)

Dated: November 7, 2007

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EXHIBIT INDEX

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31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.