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APPLERA CORP
Form 10-Q
May 15, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2002

OR

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

Commission file number: 1-4389

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

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

06-1534213
(I.R.S. Employer
Identification Number)

301 Merritt 7,
Norwalk, Connecticut 06851-0001
(Address of Principal Executive Offices, Including Zip Code)

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

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

Yes No

As of the close of business on May 8, 2002, there were 212,383,294 shares of Applera Corporation - Applied Biosystems Group Common Stock and 69,201,279 shares of Applera Corporation - Celera Genomics Group Common Stock outstanding.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2001	2002	2001	2002
Net Revenues	\$ 447,086	\$ 434,437	\$ 1,227,765	\$ 1,250,000
Cost of sales	210,771	202,951	579,764	590,000
Gross Margin	236,315	231,486	648,001	660,000
Selling, general and administrative	119,288	108,582	331,474	320,000
Research, development and engineering	80,786	103,638	234,387	270,000
Amortization of goodwill and intangible assets	10,916	2,636	32,965	20,000
Other special charges		22,959		20,000

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Acquired research and development				10
Operating Income (Loss)	25,325	(6,329)	49,175	(6)
Gain (loss) on investments, net		(350)	14,985	
Interest expense	(288)	(500)	(1,678)	(
Interest income	19,286	9,797	63,185	3
Other income (expense), net	(1,175)	(3,516)	(4,331)	(
Income (Loss) Before Income Taxes	43,148	(898)	121,336	(3
Provision for income taxes	14,822	1,959	41,080	
Net Income (Loss)	\$ 28,326	\$ (2,857)	\$ 80,256	\$ (4
Applied Biosystems Group (see Note 6)				
Net Income	\$ 57,669	\$ 49,111	\$ 164,767	\$ 13
Basic per share	\$ 0.27	\$ 0.23	\$ 0.78	\$
Diluted per share	\$ 0.26	\$ 0.23	\$ 0.74	\$
Dividends per share	\$ 0.0850	\$ 0.0425	\$ 0.1700	\$ 0
Celera Genomics Group (see Note 6)				
Net Loss	\$ (29,087)	\$ (49,496)	\$ (84,480)	\$ (18
Basic and diluted per share	\$ (0.48)	\$ (0.72)	\$ (1.40)	\$

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

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

	At June 30, 2001	At March 31, 2002
	-----	-----
		(unaudited)
Assets		
Current assets		
Cash and cash equivalents	\$ 608,535	\$ 561,651
Short-term investments	779,482	794,640
Accounts receivable, net	400,803	381,339
Inventories, net	149,658	139,511
Prepaid expenses and other current assets	103,006	116,911
	-----	-----
Total current assets	2,041,484	1,994,052
Property, plant and equipment, net	435,560	471,866
Other long-term assets	410,814	568,537
	-----	-----
Total Assets	\$ 2,887,858	\$ 3,034,455
	=====	=====
Liabilities And Stockholders' Equity		
Current liabilities		
Loans payable	\$ 14,678	\$ 9,062
Current portion of long-term debt	30,480	

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Accounts payable	178,264	150,081
Accrued salaries and wages	64,854	84,362
Accrued taxes on income	83,016	96,154
Other accrued expenses	215,823	229,063
	-----	-----
Total current liabilities	587,115	568,722
Long-term debt		18,204
Other long-term liabilities	152,432	166,735
	-----	-----
Total Liabilities	739,547	753,661
Stockholders' Equity		
Capital stock		
Applera Corporation - Applied Biosystems Group	2,115	2,128
Applera Corporation - Celera Genomics Group	617	690
Capital in excess of par value	1,832,000	2,066,841
Retained earnings	369,444	295,098
Accumulated other comprehensive loss	(55,865)	(83,963)
	-----	-----
Total Stockholders' Equity	2,148,311	2,280,794
	-----	-----
Total Liabilities And Stockholders' Equity	\$ 2,887,858	\$ 3,034,455
	=====	=====

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)

	Nine months ended March 31, 2001	2002
	-----	-----
Operating Activities From Continuing Operations		
Net income (loss)	\$ 80,256	\$ (47,000)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	93,995	84,000
Asset impairments		15,000
Provisions for excess lease space and severance costs		10,000
Long-term compensation programs	5,549	5,000
Gain on sale of assets	(14,985)	
Loss from equity method investees		4,000
Deferred income taxes	(3,221)	(29,000)
Acquired research and development		101,000
Changes in operating assets and liabilities:		
Accounts receivable	(73,434)	16,000
Inventories	(20,692)	6,000
Prepaid expenses and other assets	(33,816)	(49,000)
Accounts payable and other liabilities	(8,708)	4,000
	-----	-----
Net Cash Provided By Operating Activities	24,944	122,000

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Investing Activities From Continuing Operations		
Additions to property, plant and equipment, net	(139,921)	(78,
Purchases of short-term investments, net	(7,249)	(15,
Investments	(8,912)	(41,
Proceeds from the sale of assets, net	15,498	5,
Net Cash Used By Investing Activities	(140,584)	(129,
Net Cash From Continuing Operations		
Before Financing Activities	(115,640)	(6,
Net Cash Used By Operating Activities		
From Discontinued Operations	(2,279)	(2,
Financing Activities		
Net change in loans payable	7,830	(14,
Principal payments on long-term debt	(46,000)	(38,
Dividends	(26,702)	(26,
Purchases of common stock for treasury		(
Proceeds from stock issued for stock plans	50,249	36,
Net Cash Used By Financing Activities	(14,623)	(44,
Effect Of Exchange Rate Changes On Cash	(6,043)	7,
Net Change In Cash And Cash Equivalents	(138,585)	(46,
Cash And Cash Equivalents Beginning Of Period	964,502	608,
Cash And Cash Equivalents End Of Period	\$ 825,917	\$ 561,

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

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APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements should be read in conjunction with the financial statements presented in the Applera Corporation (the "Company") 2001 Annual Report to Stockholders. Significant accounting policies disclosed therein have not changed, except for the accounting for goodwill and other intangible assets discussed in Note 2.

The unaudited condensed consolidated financial statements reflect, in the opinion of the Company's management, all adjustments that are necessary for a fair statement of the results for the interim periods. All such adjustments are of a normal recurring nature. These results are, however, not necessarily indicative of the results to be expected for a full year. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that 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 periods. Actual results could differ from those estimates. Certain

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amounts in the condensed consolidated financial statements have been reclassified for comparative purposes.

The Applied Biosystems group's and the Celera Genomics group's condensed combined financial statements should be read in conjunction with the Company's condensed consolidated financial statements and related notes thereto.

NOTE 2 - CHANGE IN ACCOUNTING POLICY

Effective July 1, 2001, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." As a result, the Company has reclassified certain other intangible assets associated with its workforce to goodwill and no longer amortizes goodwill. The following table provides pro forma information for the three and nine months ended March 31, 2001 had the provisions of SFAS No. 142 been applied to the fiscal 2001 financial results:

(Dollar amounts in millions except per share amounts)	Three Months Ended March 31, 2001	Nine Months Ended March 31, 2001
	-----	-----
Applera Net Income	\$ 38.8	\$ 111.8
Applied Biosystems Group		
Net Income	\$ 58.1	\$ 166.1
Basic per share	\$ 0.28	\$ 0.79
Diluted per share	\$ 0.26	\$ 0.75
Celera Genomics Group		
Net Loss	\$ (19.1)	\$ (54.3)
Basic and diluted per share	\$ (0.31)	\$ (0.90)

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APPLERA CORPORATION NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 3 - OTHER SPECIAL CHARGES

During the third quarter of fiscal 2002, the Company recorded a non-recurring charge of \$25.9 million related to the Celera Genomics group's Paracel business. This charge was comprised of \$12.7 million for asset impairments, provisions of \$10.1 million for the estimated cost of excess lease space and \$0.2 million for severance, all included in other special charges. This charge also included \$2.9 million for the impairment of Paracel inventory included in cost of sales. During the fourth quarter of fiscal 2001, the Company had recorded a charge of \$69.1 million for the impairment of goodwill and other intangible assets associated with the Paracel business. The charge during fiscal 2001 resulted from Paracel's substantially lower than originally anticipated performance and management's future outlook of the business. The charges recorded during the third quarter of fiscal 2002 resulted from Paracel's unfavorable performance against the lower profitability outlook for the business established during the fourth quarter of fiscal 2001 at the time of the initial charge.

The asset impairment charges recorded during the third quarter of fiscal 2002 were for the write-off of the remaining goodwill of \$12.1 million, other

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intangible assets of \$0.5 million, and leasehold improvements of \$0.1 million. These charges were determined by management through a revised assessment of future cash flows and, as a result, reduced the carrying value of Paracel's net assets to their estimated fair value. Excess lease costs reflect the estimated loss associated with the remaining contractual obligations under a non-cancelable lease arrangement and certain costs associated with the expected sublease of the portion of the facility not occupied by the Paracel business, net of estimated sublease income, for the remaining lease term. Severance and related benefits were granted to 19 employees terminated in the third quarter of fiscal 2002 and are expected to be paid by the end of the first quarter of fiscal 2003.

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

(Dollar amounts in millions)	Asset Impairment	Lease	Personnel
	-----	-----	-----
Total charges	\$ 12.7	\$ 10.1	\$ 0.2
Non-cash charges	12.7		
	-----	-----	-----
Accrual balance at March 31, 2002	\$ -	\$ 10.1	\$ 0.2
	=====	=====	=====

NOTE 4 - ACQUISITIONS

AXYS PHARMACEUTICALS, INC.

On November 16, 2001, the Company acquired Axys Pharmaceuticals, Inc. ("Axys") in a stock-for-stock transaction. Axys is an integrated small molecule drug discovery and development company that is developing products for chronic therapeutic application through collaborations with pharmaceutical companies and has a proprietary product portfolio in oncology. The Company believes that the acquisition will accelerate the Celera Genomics group's evolution as a drug discovery and development business.

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APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

The Company issued 5.5 million shares of Applera Corporation - Celera Genomics Group Common Stock ("Applera - Celera stock") in exchange for all of the outstanding shares of Axys common stock. The acquisition was accounted for using the purchase method of accounting. The total purchase price for the acquisition was \$188.4 million, which consisted of Applera - Celera stock valued at \$170.3 million, stock options valued at \$8.8 million, warrants valued at \$2.8 million and estimated transaction costs of \$6.5 million. The purchase price was calculated using a \$31.04 price per share of Applera - Celera stock, based upon a measurement date of July 17, 2001. This date, determined in accordance with Emerging Issues Task Force Abstracts Issue 99-12, "Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination," represented the first date on which the exchange ratio was fixed under the merger agreement. The fair value of the options and warrants was calculated using the Black-Scholes pricing model.

The purchase price of \$188.4 million was allocated to tangible net assets and

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intangible assets as follows:

	(millions)
Current assets	\$ 6.8
Long-term assets	118.7
Current liabilities	(34.9)
Long-term liabilities	(20.7)
Tangible net assets acquired, at approximate fair value	69.9
Acquired in-process research and development	99.0
Existing technology	7.9
Favorable operating leases	11.6
Total intangible assets	118.5
Total purchase price	\$ 188.4
	=====

The recorded values of the intangible assets are being amortized over their expected period of benefit, which on a weighted average basis is 2.8 years. Included in the long-term assets is a \$61.3 million deferred tax asset, recorded in purchase accounting, for net operating loss carryforwards and other temporary differences of Axys expected to be utilized by the Company. Current liabilities included \$4.2 million of contractual severance and involuntary termination costs. As of March 31, 2002, the Company had paid \$3.4 million of these severance costs.

In connection with the acquisition, the Company assumed \$26.0 million of 8% senior secured convertible notes. These notes mature on October 1, 2004. Interest is payable quarterly and the principal is payable at maturity as a lump sum. These notes are convertible at any time into 499,009 shares of Applera - Celera stock at a conversion price of \$52.10 per share. Holders of notes having

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APPLERA CORPORATION NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued

an aggregate principal amount of \$10 million exercised their right following the acquisition to require the Company to repurchase such notes, which the Company did in January 2002. These notes are secured by 6.7 million shares, or approximately 90%, of the Company's holding of Discovery Partners International, Inc. ("DPI") common stock. As a result of the acquisition, the Company received an approximate 30% interest in DPI, as of the acquisition date. The investment is accounted for under the equity method of accounting. Additionally, the Company assumed an existing Axys construction loan of \$8.4 million related to its medicinal chemistry building located in South San Francisco, California. The Company repaid this loan during the second quarter of fiscal 2002 following the acquisition.

In connection with the acquisition of Axys, the Company allocated approximately \$99.0 million of the purchase price to acquired in-process research and

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development ("IPR&D"). As of the acquisition date, the technological feasibility of the related projects had not been established, and it was determined that the acquired projects had no future alternative uses. The amounts attributed to acquired IPR&D were based on an independent appraisal and were developed using an income approach. The in-process technologies were valued using a discounted cash flow model on a project-by-project basis. This valuation incorporated a percentage of completion analysis using revenues allocated to in-process technologies. The risk-adjusted discount rate used to value the projects at acquisition ranged from 38% to 43%. The discount rates applied in the discounted cash flow model were risk adjusted, since the assumed periods of milestone receipts and assumed timing of product launch may vary significantly from the assumptions. The valuation assumptions were made solely for the purpose of calculating projected cash flows and valuing the intangible assets acquired at the date of acquisition.

Below is a brief description of the IPR&D projects.

Project	Development Status at Acquisition Date	Valuation Assumptions at Acquisition Date	
		Project's Stage of Completion at Acquisition Date	Assumed Period of Milestone Receipt
Cathepsin S: Collaboration with Aventis Pharmaceuticals Products, Inc. with the objective of discovery and development of small molecule drugs that inhibit Cathepsin S, a human cysteine protease associated with certain inflammatory and autoimmune diseases, such as asthma and atherosclerosis	Pre-clinical studies	90%	Years 1 - 7 date of acquisition
Cathepsin K: Collaboration with Merck & Co., Inc. to develop small molecule inhibitors of Cathepsin K for the treatment of osteoporosis	Pre-clinical studies	91%	Years 2 - 6 date of acquisition
Tryptase: Collaboration with Bayer A.G. to identify oral tryptase inhibitors for the treatment of asthma	Pre-clinical studies	89%	Years 3 - 8 date of acquisition

Valuation Assumptions at Acquisition Date	
Development	

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Project	Status at Acquisition Date	Project's Stage of Completion at Acquisition Date	Assumed Period of Milestone Receipt
Cathepsin F: Development of compounds for inflammatory diseases such as asthma and rheumatoid arthritis	Pre-clinical studies	28%	Years 2 - 8 date of acquisition
Urokinase: Oncology program focused on development of inhibitors of the protease urokinase to interfere with angiogenesis and metastasis processes	Pre-clinical studies	50%	Years 2 - 8 date of acquisition
Serm-beta: Oncology program utilizing licenses granted by Celgene Corp. for exclusive rights to selective estrogen receptor-beta modulators	Pre-clinical studies	71%	Years 3 - 7 date of acquisition
Factors VIIa & Xa: Development of oral and parenteral therapeutics for blood clotting disorders, such as deep vein thrombosis, stroke, and myocardial infarction or heart attack	Pre-clinical studies	54%	Years 2 - 1 date of acquisition

For valuation purposes, the Company assumed that all projects would be partnered and the initial material net cash inflows would result from milestone payments. The Company also assumed there would be cash inflows resulting from royalties after product launch. Product launches were assumed to occur in five to nine years after the date of acquisition.

The Celera Genomics group has initiated a review of its unpartnered pre-clinical programs that may lead to revised prioritization, resourcing and strategy to move toward clinical trials and commercialization. As a consequence, actual results may vary from the valuation assumptions outlined above.

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APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

The net assets and results of operations of Axys have been included in the Company's consolidated financial statements since the date of the acquisition, and have been allocated to the Celera Genomics group. The following selected unaudited pro forma information for the Company has been prepared assuming the acquisition had occurred at the beginning of fiscal 2001 and gives effect to purchase accounting adjustments:

(Dollar amounts in millions except

Three months ended
March 31,

Nine mon
March

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per share amounts)	2001	2002	2001
	-----	-----	-----
Net revenues	\$ 450.2	\$ 434.4	\$ 1,234.9
Net income (loss)	\$ 14.3	\$ (2.9)	\$ 44.9
Applied Biosystems Group			
Net Income	\$ 57.7	\$ 49.1	\$ 164.8
Basic per share	\$ 0.27	\$ 0.23	\$ 0.78
Diluted per share	\$ 0.26	\$ 0.23	\$ 0.74
Celera Genomics group			
Net Loss	\$ (43.1)	\$ (49.5)	\$ (119.9)
Basic and diluted per share	\$ (0.65)	\$ (0.72)	\$ (1.82)

Upon consummation of the acquisition, the Celera Genomics group recorded a \$99.0 million non-cash charge for the value of acquired IPR&D, which has been excluded from the pro forma results above. Had the acquired IPR&D charge been excluded from the reported amounts for the nine months ended March 31, 2002, the Company would have reported net income of \$51.7 million, the Celera Genomics group would have reported a net loss of \$(84.0) million and a net loss per share of Applera - Celera stock of \$(1.29).

Included in the results for the nine months ended March 31, 2002, is a non-cash pretax charge of \$10.8 million recorded by Axys, prior to the acquisition date, for the impairment of an investment accounted for under the cost method.

BOSTON PROBES, INC.

During the second quarter of fiscal 2002, the Company acquired the remaining shares of Boston Probes, Inc. ("Boston Probes") not previously owned, or approximately 87% of the outstanding shares, and certain intellectual property rights related to peptide nucleic acids, for approximately \$37 million in cash. As a result of owning 100% of Boston Probes, the Company recorded goodwill of \$22.7 million, other intangible assets of \$21.8 million, and a charge to write-off the value of acquired IPR&D of \$2.2 million. Other intangible assets are being amortized over their expected period of benefit, which is 7 years. The acquisition was accounted for using the purchase method of accounting. Boston Probes develops and commercializes products employing peptide nucleic acid

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

("PNA") probe technology and has developed novel chemistry platforms based on its PNA technology. The Company expects that this technology will be a key component of the Applied Biosystems group's Sequence Detection Systems ("SDS"), a proprietary technology platform for real-time analysis of genetic information. The net assets and results of operations of Boston Probes have been allocated to the Applied Biosystems group.

NOTE 5 - COMPREHENSIVE LOSS

Accumulated other comprehensive loss included in stockholders' equity in the Condensed Consolidated Statements of Financial Position consists of foreign currency translation adjustments, unrealized gains and losses on foreign currency and interest rate hedge contracts, unrealized gains and losses on

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available-for-sale investments, and minimum pension liability adjustments. Total comprehensive loss for the three and nine months ended March 31, 2001 and 2002 is presented in the following table:

(Dollar amounts in millions)	Three months ended March 31,		Nine months ended March 31,	
	2001	2002	2001	2002
Net income (loss)	\$ 28.3	\$ (2.9)	\$ 80.3	\$ (47.0)
Other comprehensive loss:				
Foreign currency translation adjustments	(21.5)	(4.6)	(26.3)	1.0
Unrealized net gains on hedge contracts, net of tax	8.2	2.6	17.0	4.0
Reclassification adjustments for net gains on hedge contracts included in net income, net of tax	(3.8)	(4.9)	(7.0)	(10.0)
Unrealized loss on investments, net of tax	(48.3)	(12.0)	(130.9)	(23.0)
Reclassification adjustments for gains on investments included in net income (loss), net of tax			(9.7)	
Other comprehensive loss	(65.4)	(18.9)	(156.9)	(28.0)
Comprehensive loss	\$ (37.1)	\$ (21.8)	\$ (76.6)	\$ (75.0)

NOTE 6 - EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share for each class of common stock is computed by dividing the earnings or losses allocated to each class of common stock by the weighted average number of outstanding shares of that class of common stock. Diluted earnings (loss) per share is computed by dividing the earnings or losses allocated to each class of common stock by the weighted average number of

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APPLERA CORPORATION NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued

outstanding shares of that class of common stock including the dilutive effect of common stock equivalents.

The earnings or losses allocated to each class of common stock are determined by the Company's Board of Directors. This determination is generally based on the net income or loss amounts of the corresponding group determined in accordance with accounting principles generally accepted in the United States of America consistently applied. The Company believes this method of allocation is systematic and reasonable. The Board can, at its discretion, change the method of allocating earnings or losses to each class of common stock at any time.

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

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(Amounts in thousands except per share amounts)	Applied Biosystems Group		
	2001	2002	
Weighted average number of common shares used in the calculation of basic earnings (loss) per share	210,599	212,289	6
Common stock equivalents	10,896	4,915	
Shares used in the calculation of diluted earnings (loss) per share	221,495	217,204	6
Earnings (loss) used in the calculation of basic and diluted earnings (loss) per share	\$ 57,669	\$ 49,111	\$ (2)
Earnings (loss) per share			
Basic	\$ 0.27	\$ 0.23	\$
Diluted	\$ 0.26	\$ 0.23	\$

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APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

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

(Amounts in thousands except per share amounts)	Applied Biosystems Group		
	2001	2002	
Weighted average number of common shares used in the calculation of basic earnings (loss) per share	209,925	211,802	6
Common stock equivalents	11,771	4,395	
Shares used in the calculation of diluted earnings (loss) per share	221,696	216,197	6
Earnings (loss) used in the calculation of basic and diluted earnings (loss) per share	\$ 164,767	\$ 130,341	\$ (8)
Earnings (loss) per share			
Basic	\$ 0.78	\$ 0.62	\$
Diluted	\$ 0.74	\$ 0.60	\$

Options to purchase 6.9 million and 14.0 million shares of Applera Corporation - Applied Biosystems Group Common Stock were outstanding at March 31, 2001 and 2002, respectively, but were not included in the computation of diluted earnings

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per share because the effect was antidilutive. Options and warrants to purchase 14.8 million and 13.4 million shares of Applera - Celera stock were outstanding at March 31, 2001 and 2002, respectively, but were not included in the computation of diluted loss per share because the effect was antidilutive.

NOTE 7 - INVENTORIES

Inventories are stated at the lower of cost (on a first-in, first-out basis) or market. Inventories included the following components:

(Dollar amounts in millions)	June 30, 2001	March 31, 2002
	-----	-----
Raw materials and supplies	\$ 58.8	\$ 63.6
Work-in-process	12.9	13.6
Finished products	78.0	62.3
	-----	-----
Total inventories	\$ 149.7	\$ 139.5
	=====	=====

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APPLERA CORPORATION NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 8 - SUPPLEMENTAL CASH FLOW INFORMATION

Significant non-cash financing activities were as follows:

(Dollar amounts in millions)	Nine months ended March 31,	
	2001	2002
	-----	-----
Tax benefit related to employee stock options	\$ 53.3	\$ 11.6
Dividends declared not paid	\$ 17.9	\$ 9.0
Equity instruments issued in the Axys acquisition		\$ 181.9
Debt and capital lease obligation assumed in the Axys acquisition		\$ 39.1

NOTE 9 - FINANCIAL INSTRUMENTS

CASH FLOW HEDGES

The Company's international sales are typically denominated in the customers' local (non-U.S. dollar) currencies. The Company uses foreign exchange forward, option, and range forward contracts to hedge a portion of forecasted international sales not denominated in U.S. dollars. The Company utilizes hedge accounting on derivative contracts that are considered highly effective in offsetting the changes in fair value of the forecasted sales transactions caused by movements in foreign currency exchange rates. These contracts are designated as cash flow hedges and the effective portion of the change in the fair value of these contracts is recorded in other comprehensive income (loss) in the

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Condensed Consolidated Statements of Financial Position until the underlying external forecasted transaction affects earnings. At that time, the gain or loss on the derivative instrument, which had been deferred in other comprehensive income (loss), is reclassified to net revenues in the Condensed Consolidated Statements of Operations. During the three and nine month periods ended March 31, 2002, the Company recognized net gains of \$7.3 million and \$15.1 million, respectively, in net revenues from derivative instruments designated as cash flow hedges of anticipated sales. At March 31, 2002, \$8.8 million of derivative gains (\$5.6 million net of deferred taxes) recorded in other comprehensive income (loss) are expected to be reclassified to earnings during the next twelve months.

The interest rate swap maintained by the Company in conjunction with a Japanese yen debt obligation expired coincident with the maturity in March 2002 of the yen 3.8 billion, or \$29.0 million, debt obligation.

NOTE 10 - CONTINGENCIES

Amersham

On February 26, 2002, the Company and Amersham plc announced that they reached a court-mediated settlement which ended the previously disclosed patent litigation between the Company and Amersham plc and its affiliates, including Amersham Pharmacia Biotech, Inc. and Molecular Dynamics, Inc. The settlement, reached under the auspices of United States Magistrate Judge Edward A. Infante, Northern District of California, includes a cross-licensing agreement covering all patents involved in the litigation, and a co-development arrangement for the joint development, supply and commercialization of certain new DNA analysis technologies. Both companies' current product offerings will continue to be available.

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APPLERA CORPORATION NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued

Other

The Company has been named as a defendant in several other legal actions, including patent, commercial, and environmental, arising from the conduct of normal business activities. Although the amount of any liability that might arise with respect to any of these matters cannot be accurately predicted, the resulting liability, if any, will not in the opinion of management have a material adverse effect on the consolidated financial statements of the Company.

NOTE 11 - SEGMENT AND CONSOLIDATING INFORMATION

Presented below is the segment and consolidating financial information reflecting the businesses of the individual groups and Celera Diagnostics, a joint venture between the Applied Biosystems group and the Celera Genomics group, including the allocation of expenses between groups in accordance with the Company's management and allocation policies, as well as other related party transactions, such as sales of products between groups and interest income and expense on intercompany borrowings. Earnings attributable to each group have been determined in accordance with accounting principles generally accepted in the United States of America.

See Note 1 to both the Applied Biosystems group's and the Celera Genomics group's combined financial statements in the Company's 2001 Annual Report to Stockholders for a detailed description of management and allocation policies.

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For the three and nine-month periods ended March 31, 2002, the Celera Genomics group recorded 100% of the losses of Celera Diagnostics in its net loss. Additionally, the Celera Genomics group recorded the tax benefit associated with the loss generated by Celera Diagnostics. There is no financial information presented for Celera Diagnostics for the three and nine-month periods ended March 31, 2001, since the joint venture was established effective April 1, 2001.

In the following tables, the "Eliminations" column represents the elimination of intergroup activity and the loss on Celera Diagnostics, which is included twice, in the "Celera Diagnostics" column and as "Loss from joint venture" within the "Celera Genomics group" column. See Note 6 to the consolidated financial statements included in the Company's 2001 Annual Report to Stockholders for a discussion of the Company's segments.

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APPLERA CORPORATION NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued

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

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminati
	-----	-----	-----	-----
Net revenues from external customers	\$ 403,831	\$ 30,487	\$ 119	\$ -
Intergroup revenues	5,185		2,528	(7,71)
	-----	-----	-----	-----
Net Revenues	409,016	30,487	2,647	(7,71)
Cost of sales	192,564	15,402	1,887	(6,90)
	-----	-----	-----	-----
Gross Margin	216,452	15,085	760	(81)
Selling, general and administrative	83,589	11,693	1,499	11,80
Corporate allocated expenses	9,382	1,943	476	(11,80)
Research, development and engineering	56,666	37,629	11,138	(1,79)
Amortization of intangible assets		2,636		
Other special charges		22,959		
	-----	-----	-----	-----
Operating Income (Loss)	66,815	(61,775)	(12,353)	98
Loss on investments, net	(350)			
Interest expense	(291)	(209)		
Interest income	2,992	6,805		
Other income (expense), net	5	(3,521)		
Loss from joint venture		12,353)		12,35
	-----	-----	-----	-----
Income (Loss) Before Income Taxes	69,171	(71,053)	(12,353)	13,33
Provision (benefit) for income taxes	20,060	(21,557)		3,45
	-----	-----	-----	-----
Net Income (Loss)	\$ 49,111	\$ (49,496)	\$ (12,353)	\$ 9,88
	=====	=====	=====	=====

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APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

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

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

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APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Consolidating Statement of Financial Position At March 31, 2002

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminati
	-----	-----	-----	-----
Assets				
Current assets				
Cash and cash equivalents	\$ 447,689	\$ 113,962	\$ -	\$
Short-term investments		794,640		

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Accounts receivable, net	359,987	23,545	100	(2,
Inventories, net	135,784	2,503	1,383	(
Prepaid expenses and other current assets	108,501	7,592	898	
	-----	-----	-----	-----
Total current assets	1,051,961	942,242	2,381	(2,
Property, plant and equipment, net	336,356	131,097	7,199	(2,
Other long-term assets	382,522	184,285	10,250	(8,
	-----	-----	-----	-----
Total Assets	\$ 1,770,839	\$ 1,257,624	\$ 19,830	\$ (13,
	=====	=====	=====	=====
Liabilities And Stockholders' Equity				
Current liabilities				
Loans payable	\$ 9,062	\$ -	\$ -	\$
Accounts payable	131,701	17,753	2,920	(2,
Accrued salaries and wages	64,583	16,485	3,294	
Accrued taxes on income	91,613			4,
Other accrued expenses	170,298	62,971	415	(4,
	-----	-----	-----	-----
Total current liabilities	467,257	97,209	6,629	(2,
Long-term debt		18,204		
Other long-term liabilities	136,557	30,178		
	-----	-----	-----	-----
Total Liabilities	603,814	145,591	6,629	(2,
	-----	-----	-----	-----
Total Stockholders' Equity	1,167,025	1,112,033	13,201	(11,
	-----	-----	-----	-----
Total Liabilities And Stockholders' Equity	\$ 1,770,839	\$ 1,257,624	\$ 19,830	\$ (13,
	=====	=====	=====	=====

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APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

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

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminati
	-----	-----	-----	-----
Operating Activities From Continuing Operations				
Net income (loss)	\$ 130,341	\$ (182,998)	\$ (30,217)	\$ 35,5
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	58,357	26,791	2,198	(2,9
Asset impairments		15,563		
Provisions for excess lease space and severance costs		10,311		
Long-term compensation programs	4,210	1,312		
(Gain) loss on sale of assets	350	(401)		
Loss from joint venture and equity				

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method investees		34,244		(30,2
Deferred income taxes	(11,249)	(15,381)		(2,4
Nonreimbursable utilization of intergroup tax benefits	15,663	(15,663)		
Acquired research and development	2,200	98,981		
Changes in operating assets and liabilities:				
Accounts receivable	19,500	666	(100)	(3,4
Inventories	4,037	821	1,391	
Prepaid expenses and other assets	(46,017)	(223)	3,263)	
Accounts payable and other liabilities	7,564	(11,733)	5,140	3,4
Net Cash Provided (Used) By Operating Activities	184,956	(37,710)	(24,851)	
Investing Activities From Continuing Operations				
Additions to property, plant and equipment, net	(57,169)	(14,944)	(5,892)	
Purchases of short-term investments, net		(15,215)		
Acquisitions and investments, net	(37,993)	(34,064)		30,7
Proceeds from the sale of assets, net	5,228			
Net Cash Used By Investing Activities	(89,934)	(64,223)	(5,892)	30,7
Net Cash Provided (Used) By Continuing Operations Before Financing Activities	95,022	(101,933)	(30,743)	30,7
Net Cash Used By Operating Activities From Discontinued Operations	(2,230)			
Financing Activities				
Net change in loans payable	(6,077)	(8,443)		
Principal payments on long-term debt	(28,973)	(10,000)		
Dividends	(26,984)			
Net cash funding from groups			30,743	(30,7
Purchases of common stock for treasury		(941)		
Proceeds from stock issued for stock plans	17,394	19,203		
Net Cash Provided (Used) By Financing Activities	(44,640)	(181)	30,743	(30,7
Effect Of Exchange Rate Changes On Cash	7,078			
Net Change In Cash And Cash Equivalents	55,230	(102,114)		
Cash And Cash Equivalents Beginning Of Period	392,459	216,076		
Cash And Cash Equivalents End Of Period	\$ 447,689	\$ 113,962	\$ -	\$ -

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(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Eliminations	Consolidated
Net revenues from external customers	\$ 423,711	\$ 23,375	\$ -	\$ 447,086
Intergroup revenues	16,070		(16,070)	
Net Revenues	439,781	23,375	(16,070)	447,086
Cost of sales	208,595	11,969	(9,793)	210,771
Gross Margin	231,186	11,406	(6,277)	236,315
Selling, general and administrative	91,909	12,477	14,902	119,288
Corporate allocated expenses	12,233	2,669	(14,902)	
Research, development and engineering	47,467	40,205	(6,886)	80,786
Amortization of goodwill and intangible assets		10,916		10,916
Operating Income (Loss)	79,577	(54,861)	609	25,325
Interest expense	(288)			(288)
Interest income	4,028	15,258		19,286
Other income (expense), net	(933)	(242)		(1,175)
Income (Loss) Before Income Taxes	82,384	(39,845)	609	43,148
Provision (benefit) for income taxes	24,715	(10,758)	865	14,822
Net Income (Loss)	\$ 57,669	\$ (29,087)	\$ (256)	\$ 28,326

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APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Consolidating Statement of Operations For the Nine Months Ended March 31, 2001

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Eliminations	Consolidated
Net revenues from external customers	\$1,166,517	\$ 61,248	\$ -	\$ 1,227,765
Intergroup revenues	47,857	699	(48,556)	
Net Revenues	1,214,374	61,947	(48,556)	1,227,765
Cost of sales	576,063	28,155	(24,454)	580,764
Gross Margin	638,311	33,792	(24,102)	647,901
Selling, general and administrative	257,736	35,705	38,033	331,474
Corporate allocated expenses	31,200	6,833	(38,033)	
Research, development and engineering	135,592	123,508	(24,713)	234,387
Amortization of goodwill and intangible assets		32,965		32,965

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Operating Income (Loss)	213,783	(165,219)	611	
Gain on investments, net	14,985			
Interest expense	(849)	(829)		
Interest income	12,617	50,568		
Other income (expense), net	(4,085)	(246)		
	-----	-----	-----	-----
Income (Loss) Before Income Taxes	236,451	(115,726)	611	
Provision (benefit) for income taxes	71,684	(31,246)	642	
	-----	-----	-----	-----
Net Income (Loss)	\$ 164,767	\$ (84,480)	\$ (31)	\$
	=====	=====	=====	=====

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APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Consolidating Statement of Financial Position At June 30, 2001

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	
	-----	-----	-----	-----
Assets				
Current assets				
Cash and cash equivalents	\$ 392,459	\$ 216,076	\$ -	\$
Short-term investments		779,482		
Accounts receivable, net	382,560	24,019		
Inventories, net	140,813	6,239	2,774	
Prepaid expenses and other current assets	98,124	4,838	44	
	-----	-----	-----	-----
Total current assets	1,013,956	1,030,654	2,818	
Property, plant and equipment, net	315,356	123,497	2,417	
Other long-term assets	348,575	65,985	8,929	
	-----	-----	-----	-----
Total Assets	\$ 1,677,887	\$ 1,220,136	\$ 14,164	\$
	=====	=====	=====	=====
Liabilities and Stockholders' Equity				
Current liabilities				
Loans payable	\$ 14,678	\$ -	\$ -	\$
Current portion of long-term debt	30,480			
Accounts payable	162,104	21,024	912	
Accrued salaries and wages	49,553	15,088	213	
Accrued taxes on income	82,717			
Other accrued expenses	168,552	49,468	364	
	-----	-----	-----	-----
Total current liabilities	508,084	85,580	1,489	
Other long-term liabilities	128,592	23,840		
	-----	-----	-----	-----
Total Liabilities	636,676	109,420	1,489	
	-----	-----	-----	-----
Total Stockholders' Equity	1,041,211	1,110,716	12,675	
	-----	-----	-----	-----

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Total Liabilities and Stockholders' Equity	\$ 1,677,887	\$ 1,220,136	\$ 14,164	\$
	=====	=====	=====	=====

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APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Consolidating Statement of Cash Flows For the Nine Months Ended March 31, 2001

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	EL
	-----	-----	-----
Operating Activities From Continuing Operations			
Net income (loss)	\$ 164,767	\$ (84,480)	\$
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	48,337	48,387	
Long-term compensation programs	4,598	951	
Gain from sales of assets	(14,985)		
Deferred income taxes	(1,308)	(1,913)	
Nonreimbursable utilization of intergroup tax benefits	23,270	(23,270)	
Changes in operating assets and liabilities:			
Tax benefit receivable from the Applied Biosystem Group		16,702	
Accounts receivable	(73,160)	(7,339)	
Inventories	(19,900)	(1,363)	
Prepaid expenses and other assets	(30,274)	(3,542)	
Accounts payable and other liabilities	(51,604)	32,617	
Net Cash Provided (Used) By Operating Activities	49,741	(23,250)	
Investing Activities From Continuing Operations			
Additions to property, plant and equipment, net	(120,062)	(21,406)	
Purchases of short-term investments, net		(7,249)	
Acquisitions and investments, net	(4,831)	(4,081)	
Proceeds from the sale of assets, net	15,498		
Net Cash Used By Investing Activities	(109,395)	(32,736)	
Net Cash Used By Continuing Operations Before Financing Activities	(59,654)	(55,986)	
Net Cash Used By Operating Activities From Discontinued Operations	(2,279)		
Financing Activities			
Net change in loans payable	7,830		
Principal payments on long-term debt		(46,000)	
Dividends	(26,702)		
Proceeds from stock issued for stock plans	32,035	18,214	
Net Cash Provided (Used) By Financing Activities	13,163	(27,786)	
Effect Of Exchange Rate Changes On Cash	(6,043)		

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Net Change In Cash And Cash Equivalents	(54,813)	(83,772)	
Cash And Cash Equivalents Beginning Of Period	394,608	569,894	
Cash And Cash Equivalents End Of Period	\$ 339,795	\$ 486,122	\$

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APPLIED BIOSYSTEMS GROUP
CONDENSED COMBINED STATEMENTS OF OPERATIONS
(unaudited)
(Dollar amounts in thousands)

	Three Months Ended March 31,		Nine Months End March 31,	
	2001	2002	2001	
Net Revenues	\$ 439,781	\$ 409,016	\$ 1,214,374	\$
Cost of sales	208,595	192,564	576,063	
Gross Margin	231,186	216,452	638,311	
Selling, general and administrative	104,142	92,971	288,936	
Research, development and engineering	47,467	56,666	135,592	
Acquired research and development				
Operating Income	79,577	66,815	213,783	
Gain (loss) on investments, net		(350)	14,985	
Interest expense	(288)	(291)	(849)	
Interest income	4,028	2,992	12,617	
Other income (expense), net	(933)	5	(4,085)	
Income Before Income Taxes	82,384	69,171	236,451	
Provision for income taxes	24,715	20,060	71,684	
Net Income	\$ 57,669	\$ 49,111	\$ 164,767	\$

See accompanying notes to the Applied Biosystems group unaudited condensed combined financial statements.

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APPLIED BIOSYSTEMS GROUP
CONDENSED COMBINED STATEMENTS OF FINANCIAL POSITION
(Dollar amounts in thousands)

At June 30, 2001	At March 31, 2002
-----	-----
	(unaudited)

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Assets		
Current assets		
Cash and cash equivalents	\$ 392,459	\$ 447,689
Accounts receivable, net	382,560	359,987
Inventories, net	140,813	135,784
Prepaid expenses and other current assets	98,124	108,501
	-----	-----
Total current assets	1,013,956	1,051,961
Property, plant and equipment, net	315,356	336,356
Other long-term assets	348,575	382,522
	-----	-----
Total Assets	\$ 1,677,887	\$ 1,770,839
	=====	=====
Liabilities And Allocated Net Worth		
Current liabilities		
Loans payable	\$ 14,678	\$ 9,062
Current portion of long-term debt	30,480	
Accounts payable	162,104	131,701
Accrued salaries and wages	49,553	64,583
Accrued taxes on income	82,717	91,613
Other accrued expenses	168,552	170,298
	-----	-----
Total current liabilities	508,084	467,257
Other long-term liabilities	128,592	136,557
	-----	-----
Total Liabilities	636,676	603,814
Allocated Net Worth	1,041,211	1,167,025
	-----	-----
Total Liabilities And Allocated Net Worth	\$ 1,677,887	\$ 1,770,839
	=====	=====

See accompanying notes to the Applied Biosystems group unaudited condensed combined financial statements.

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APPLIED BIOSYSTEMS GROUP
CONDENSED COMBINED STATEMENTS OF CASH FLOWS
(unaudited)
(Dollar amounts in thousands)

	Nine months end March 31, 2001	20
	-----	-----
Operating Activities From Continuing Operations		
Net income	\$ 164,767	\$ 1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	48,337	
Long-term compensation programs	4,598	
(Gain) loss on assets	(14,985)	
Acquired research and development		

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Nonreimbursable utilization of tax benefits generated by the Celera Genomics group	23,270	
Deferred income taxes	(1,308)	
Changes in operating assets and liabilities:		
Accounts receivable	(73,160)	
Inventories	(19,900)	
Prepaid expenses and other assets	(30,274)	
Accounts payable and other liabilities	(51,604)	
Net Cash Provided By Operating Activities	49,741	1
Investing Activities From Continuing Operations		
Additions to property, plant and equipment, net	(120,062)	
Investments	(4,831)	
Proceeds from the sale of assets, net	15,498	
Net Cash Used By Investing Activities	(109,395)	
Net Cash From Continuing Operations Before Financing Activities	(59,654)	
Net Cash Used By Operating Activities From Discontinued Operations	(2,279)	
Financing Activities		
Net change in loans payable	7,830	
Principal payments on long-term debt		
Dividends	(26,702)	
Proceeds from stock issued for stock plans	32,035	
Net Cash Provided (Used) By Financing Activities	13,163	
Effect Of Exchange Rate Changes On Cash	(6,043)	
Net Change In Cash And Cash Equivalents	(54,813)	
Cash And Cash Equivalents Beginning Of Period	394,608	3
Cash And Cash Equivalents End Of Period	\$ 339,795	\$ 4

See accompanying notes to the Applied Biosystems group unaudited condensed combined financial statements.

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APPLIED BIOSYSTEMS GROUP
NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS

NOTE 1 - INTERIM CONDENSED COMBINED FINANCIAL STATEMENTS

The interim condensed combined financial statements should be read in conjunction with the financial statements presented in the Applera Corporation (the "Company") 2001 Annual Report to Stockholders. Significant accounting policies disclosed therein have not changed, except for the accounting for goodwill and other intangible assets. Effective July 1, 2001, the Applied Biosystems group adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," and as a result, the Applied Biosystems group no longer amortizes goodwill. Amortization of goodwill in prior year periods was immaterial.

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The unaudited condensed combined financial statements reflect, in the opinion of the Company's management, all adjustments that are necessary for a fair statement of the results for the interim periods. All such adjustments are of a normal recurring nature. These results are, however, not necessarily indicative of the results to be expected for a full year. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that 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 periods. Actual results could differ from those estimates. Certain amounts in the condensed combined financial statements have been reclassified for comparative purposes.

The Applied Biosystems group's condensed combined financial statements should be read in conjunction with the Company's condensed consolidated financial statements and related notes thereto.

NOTE 2 - ACQUISITIONS AND OTHER

Boston Probes, Inc.

During the second quarter of fiscal 2002, the Company acquired the remaining shares of Boston Probes, Inc. ("Boston Probes") not previously owned, or approximately 87% of the outstanding shares, and certain intellectual property rights related to peptide nucleic acids, for approximately \$37 million in cash. As a result of owning 100% of Boston Probes, the Applied Biosystems group recorded goodwill of \$22.7 million, other intangible assets of \$21.8 million, and a charge to write-off the value of acquired in-process research and development ("IPR&D") of \$2.2 million. Other intangible assets are being amortized over their expected period of benefit, which is 7 years. The acquisition was accounted for using the purchase method of accounting. Boston Probes develops and commercializes products employing peptide nucleic acid ("PNA") probe technology and has developed novel chemistry platforms based on its PNA technology. The Applied Biosystems group expects that this technology will be a key component of its Sequence Detection Systems ("SDS"), a proprietary technology platform for real-time analysis of genetic information.

Transfer of Business Unit from the Celera Genomics Group

Effective July 1, 2001, the Company transferred the assets, liabilities and personnel of a business unit from the Celera Genomics group to the Applied Biosystems group. The Company's Board of Directors determined that the assets of the business to be transferred and the liabilities of the business

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APPLIED BIOSYSTEMS GROUP NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS continued

to be assumed by the Applied Biosystems group constituted fair value for the transfer. The net assets were transferred at recorded book value as an increase to the Applied Biosystems group's allocated net worth. The Applied Biosystems group plans to utilize the resources of this business unit for initiatives that will include validation of single nucleotide polymorphisms.

NOTE 3 - COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive loss included in allocated net worth in the Condensed Combined Statements of Financial Position consists of foreign currency

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translation adjustments, unrealized gains and losses on foreign currency and interest rate hedge contracts, unrealized gains and losses on available-for-sale investments, and minimum pension liability adjustments. Total comprehensive income (loss) for the three and nine months ended March 31, 2001 and 2002 is presented in the following table:

(Dollar amounts in millions)	Three months ended March 31,		2002
	2001	2002	
Net income	\$ 57.7	\$ 49.1	\$
Other comprehensive loss:			
Foreign currency translation adjustments	(21.3)	(4.7)	
Unrealized net gains on hedge contract, net of tax	8.2	2.6	
Reclassification adjustments for net gains on hedge contracts included in net income, net of tax	(3.8)	(4.9)	
Unrealized loss on investments, net of tax	(48.2)	(9.3)	
Reclassification adjustments for gains on investments included in net income, net of tax			
Other comprehensive loss	(65.1)	(16.3)	
Comprehensive income (loss)	\$ (7.4)	\$ 32.8	\$

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APPLIED BIOSYSTEMS GROUP
NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS
continued

NOTE 4 - INVENTORIES

Inventories are stated at the lower of cost (on a first-in, first-out basis) or market. Inventories included the following components:

(Dollar amounts in millions)	June 30, 2001	March 31, 2002
Raw materials and supplies	\$ 51.8	\$ 61.6
Work-in-process	12.2	12.6
Finished products	76.8	61.6
Total inventories	\$ 140.8	\$ 135.8

NOTE 5 - SUPPLEMENTAL CASH FLOW INFORMATION

Significant non-cash financing activities were as follows:

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(Dollar amounts in millions)	Nine months ended March 31,	
	2001	2002
Nonreimbursable utilization of tax benefits generated by the Celera Genomics group	\$ 23.3	\$ 15.7
Tax benefit related to employee stock options	\$ 40.9	\$ 4.1
Dividends declared not paid	\$ 17.9	\$ 9.0
Transfer of business unit from the Celera Genomics group (Note 2)		\$ 8.1

NOTE 6 - FINANCIAL INSTRUMENTS

Cash Flow Hedges

The Applied Biosystems group's international sales are typically denominated in the customers' local (non-U.S. dollar) currencies. The Applied Biosystems group uses foreign exchange forward, option, and range forward contracts to hedge a portion of forecasted international sales not denominated in U.S. dollars. The Applied Biosystems group utilizes hedge accounting on derivative contracts that are considered highly effective in offsetting the changes in fair value of the forecasted sales transactions caused by movements in foreign currency exchange rates. These contracts are designated as cash flow hedges and the effective portion of the change in the fair value of these contracts is recorded in other comprehensive income in the Condensed Combined Statements of Financial Position until the underlying external forecasted transaction affects earnings. At that time, the gain or loss on the derivative instrument, which had been deferred in other comprehensive income (loss), is reclassified

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APPLIED BIOSYSTEMS GROUP
NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS
continued

to net revenues in the Condensed Combined Statements of Operations. During the three and nine month periods ended March 31, 2002, the Applied Biosystems group recognized net gains of \$7.3 million and \$15.1 million, respectively, in net revenues from derivative instruments designated as cash flow hedges of anticipated sales. At March 31, 2002, \$8.8 million of derivative gains (\$5.6 million net of deferred taxes) recorded in other comprehensive income (loss) are expected to be reclassified to earnings during the next twelve months.

The interest rate swap maintained by the Company in conjunction with a Japanese yen debt obligation expired coincident with the maturity in March 2002 of the yen 3.8 billion, or \$29.0 million, debt obligation.

NOTE 7 - RELATED PARTY TRANSACTIONS

Sales of Products and Services Between Groups and Celera Diagnostics. For the three and nine month periods ended March 31, 2001, net revenues from leased instruments, shipments of consumables and project materials, and contracted R&D services to the Celera Genomics group totaled \$16.1 million and \$47.9 million, respectively. For the three and nine month periods ended March 31, 2002, net revenues from leased instruments, shipments of consumables and project materials, and contracted R&D services to the Celera Genomics group totaled \$4.6 million and \$19.5 million, respectively.

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For the three and nine month periods ended March 31, 2002, the Applied Biosystems group purchased \$2.5 million and \$6.0 million, respectively, of diagnostics products from Celera Diagnostics under a distribution arrangement. For the three and nine month periods ended March 31, 2002, the Applied Biosystems group recorded revenues from leased instruments and shipments of consumables to Celera Diagnostics of \$0.6 million and \$1.0 million, respectively.

Online/Information Business Marketing and Distribution Agreement. Effective April 1, 2002, the Applied Biosystems group became the exclusive distributor of the Celera Discovery System ("CDS") operated by the Celera Genomics group. As a result of this arrangement, the Applied Biosystems group will integrate CDS and other genomic and biological information into a new Knowledge Business. In exchange for marketing and distribution rights to CDS and other genomic and biological information and access to CDS and related content, the Applied Biosystems group will provide the Celera Genomics group with royalty payments on revenues generated by sales of certain products of the Knowledge Business from July 1, 2002 through the end of fiscal 2012. The royalty rate is progressive, up to a maximum of 5%, with the level of sales through fiscal 2008. The royalty rate becomes a fixed percentage of sales starting in fiscal 2009, and the rate declines each succeeding fiscal year through fiscal 2012. Assays on Demand™, Assays by Design™, reagents for arrays, and new database subscriptions sold by the Knowledge Business are the products subject to royalties.

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APPLIED BIOSYSTEMS GROUP NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS continued

The Celera Genomics group will continue to be responsible for the performance of its obligations under all contracts relating to its information products and services either existing on the effective date of the marketing and distribution agreement or which are entered into during a transition period ending June 30, 2002 (including renewals, if any, of these contracts) and will receive all revenues and other benefits under, and be responsible for all costs and expenses associated with, such contracts. The Applied Biosystems group will reimburse the Celera Genomics group if earnings before interest, taxes, depreciation, and amortization from these contracts over the next four fiscal years are below \$62.5 million and the shortfall is due to business initiatives of the Applied Biosystems group and the Celera Genomics group otherwise continues to perform under its existing contracts.

NOTE 8 - CONTINGENCIES

Amersham

On February 26, 2002, the Company and Amersham plc announced that they reached a courtmediated settlement which ended the previously disclosed patent litigation between the Company and Amersham plc and its affiliates, including Amersham Pharmacia Biotech, Inc. and Molecular Dynamics, Inc. The settlement, reached under the auspices of United States Magistrate Judge Edward A. Infante, Northern District of California, includes a cross-licensing agreement covering all patents involved in the litigation, and a co-development arrangement for the joint development, supply and commercialization of certain new DNA analysis technologies. Both companies' current product offerings will continue to be available.

Other

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The Company has been named as a defendant in several other legal actions, including patent, commercial, and environmental, arising from the conduct of normal business activities. Although the amount of any liability that might arise with respect to any of these matters cannot be accurately predicted, the resulting liability, if any, will not in the opinion of management have a material adverse effect on the combined financial statements of the Applied Biosystems group or the consolidated financial statements of the Company.

The holders of Applera Corporation - Applied Biosystems Group Common Stock are stockholders of the Company and are subject to all risks associated with an investment in the Company, including any legal proceedings and claims affecting the Celera Genomics group.

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CELERA GENOMICS GROUP CONDENSED COMBINED STATEMENTS OF OPERATIONS (unaudited) (Dollar amounts in thousands)

	Three Months Ended March 31,		Nine M
	2001	2002	2001
	-----	-----	-----
Net Revenues	\$ 23,375	\$ 30,487	\$ 61,947
Costs and Expenses			
Cost of sales	11,969	15,402	28,155
Research and development	40,205	37,629	123,508
Selling, general and administrative	15,146	13,636	42,538
Amortization of goodwill and intangible assets	10,916	2,636	32,965
Other special charges		22,959	
Acquired research and development			
	-----	-----	-----
Operating Loss	(54,861)	(61,775)	(165,219)
Interest expense		(209)	(829)
Interest income	15,258	6,805	50,568
Other income (expense), net	(242)	(3,521)	(246)
Loss from joint venture		(12,353)	
	-----	-----	-----
Loss Before Income Taxes	(39,845)	(71,053)	(115,726)
Benefit for income taxes	(10,758)	(21,557)	(31,246)
	-----	-----	-----
Net Loss	\$ (29,087)	\$ (49,496)	\$ (84,480)
	=====	=====	=====

See accompanying notes to the Celera Genomics group unaudited condensed combined financial statements.

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CELERA GENOMICS GROUP CONDENSED COMBINED STATEMENTS OF FINANCIAL POSITION

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(Dollar amounts in thousands)

	At June 30, 2001	At March 31, 2002
	-----	----- (unaudited)
Assets		
Current assets		
Cash and cash equivalents	\$ 216,076	\$ 113,962
Short-term investments	779,482	794,640
Accounts receivable, net	24,019	23,545
Inventories, net	6,239	2,503
Prepaid expenses and other current assets	4,838	7,592
	-----	-----
Total current assets	1,030,654	942,242
Property, plant and equipment, net	123,497	131,097
Other long-term assets	65,985	184,285
	-----	-----
Total Assets	\$ 1,220,136	\$ 1,257,624
	=====	=====
Liabilities And Allocated Net Worth		
Current liabilities		
Accounts payable	\$ 21,024	\$ 17,753
Accrued salaries and wages	15,088	16,485
Deferred revenues	37,486	41,309
Other accrued expenses	11,982	21,662
	-----	-----
Total current liabilities	85,580	97,209
Long-term debt		18,204
Other long-term liabilities	23,840	30,178
	-----	-----
Total Liabilities	109,420	145,591
Allocated Net Worth	1,110,716	1,112,033
	-----	-----
Total Liabilities And Allocated Net Worth	\$ 1,220,136	\$ 1,257,624
	=====	=====

See accompanying notes to the Celera Genomics group unaudited condensed combined financial statements.

CELERA GENOMICS GROUP
CONDENSED COMBINED STATEMENTS OF CASH FLOWS
(unaudited)
(Dollar amounts in thousands)

Nine months ended
March 31,
2001

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Operating Activities		
Net loss	\$ (84,480)	\$ (1
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	48,387	
Asset impairments		
Provisions for excess lease space and severance costs		
Long-term compensation programs	951	
Gain on sale of assets		
Loss from equity method investees		
Deferred income taxes	(1,913)	(
Loss from joint venture		
Nonreimbursable utilization of tax benefits by the Applied Biosystems group	(23,270)	(
Acquired research and development		
Changes in operating assets and liabilities:		
Tax benefit receivable from the Applied Biosystems group	16,702	
Accounts receivable	(7,339)	
Inventories	(1,363)	
Prepaid expenses and other assets	(3,542)	
Accounts payable and other liabilities	32,617	(
Net Cash Used By Operating Activities	(23,250)	(
Investing Activities		
Additions to property, plant and equipment, net	(21,406)	(
Purchases of short-term investments, net	(7,249)	(
Investments	(4,081)	(
Net Cash Used By Investing Activities	(32,736)	(
Financing Activities		
Net change in loans payable		
Principal payments on long-term debt	(46,000)	(
Purchases of common stock for treasury		
Proceeds from stock issued for stock plans	18,214	
Net Cash Used By Financing Activities	(27,786)	
Net Change In Cash And Cash Equivalents	(83,772)	(1
Cash And Cash Equivalents Beginning Of Period	569,894	2
Cash And Cash Equivalents End Of Period	\$ 486,122	\$ 1

See accompanying notes to the Celera Genomics group unaudited condensed combined financial statements.

CELERA GENOMICS GROUP
NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS

NOTE 1 - INTERIM CONDENSED COMBINED FINANCIAL STATEMENTS

The interim condensed combined financial statements should be read in conjunction with the financial statements presented in the Applera Corporation (the "Company") 2001 Annual Report to Stockholders. Significant accounting policies disclosed therein have not changed, except for the

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accounting for goodwill and other intangible assets discussed in Note 2.

The unaudited condensed combined financial statements reflect, in the opinion of the Company's management, all adjustments that are necessary for a fair statement of the results for the interim periods. All such adjustments are of a normal recurring nature. These results are, however, not necessarily indicative of the results to be expected for a full year. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that 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 periods. Actual results could differ from those estimates. Certain amounts in the condensed combined financial statements have been reclassified for comparative purposes.

The Celera Genomics group's condensed combined financial statements should be read in conjunction with the Company's condensed consolidated financial statements and related notes thereto.

NOTE 2 - CHANGE IN ACCOUNTING POLICY

Effective July 1, 2001, the Celera Genomics group adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." As a result, the Celera Genomics group has reclassified certain other intangible assets associated with its workforce to goodwill and no longer amortizes goodwill. Had the provisions of SFAS No. 142 been applied to the fiscal 2001 financial results, the Celera Genomics group's net loss would have been \$19.1 million and \$54.3 million for the three and nine months ended March 31, 2001, respectively, on a pro forma basis.

NOTE 3 - OTHER SPECIAL CHARGES

During the third quarter of fiscal 2002, the Celera Genomics group recorded a non-recurring charge of \$25.9 million related to its Paracel business. This charge was comprised of \$12.7 million for asset impairments, provisions of \$10.1 million for the estimated cost of excess lease space and \$0.2 million for severance, all included in other special charges. This charge also included \$2.9 million for the impairment of Paracel inventory included in cost of sales. During the fourth quarter of fiscal 2001, the Celera Genomics group had recorded a charge of \$69.1 million for the impairment of goodwill and other intangible assets associated with the Paracel business. The charge during fiscal 2001 resulted from Paracel's substantially lower than originally anticipated performance and management's future outlook of the business. The charges recorded during the third quarter of fiscal 2002 resulted from Paracel's unfavorable performance against the lower profitability outlook for the business established during the fourth quarter of fiscal 2001 at the time of the initial charge.

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CELERA GENOMICS GROUP
NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS
continued

The asset impairment charges recorded during the third quarter of fiscal 2002 were for the write-off of the remaining goodwill of \$12.1 million, other intangible assets of \$0.5 million, and leasehold improvements of \$0.1 million. These charges were determined by management through a revised assessment of future cash flows and, as a result, reduced the carrying value of Paracel's net

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assets to their estimated fair value. Excess lease costs reflect the estimated loss associated with the remaining contractual obligations under a non-cancelable lease arrangement and certain costs associated with the expected sublease of the portion of the facility not occupied by the Paracel business, net of estimated sublease income, for the remaining lease term. Severance and related benefits were granted to 19 employees terminated in the third quarter of fiscal 2002 and are expected to be paid by the end of the first quarter of fiscal 2003.

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

(Dollar amounts in millions)	Asset Impairment	Lease	Personnel	Tot
	-----	-----	-----	-----
Total charges	\$12.7	\$10.1	\$0.2	\$23
Non-cash charges	12.7			12
Accrual balance at March 31, 2002	\$ -	\$10.1	\$0.2	\$10
	=====	=====	=====	=====

NOTE 4 - ACQUISITIONS AND OTHER

AXYS PHARMACEUTICALS, INC.

On November 16, 2001, the Company acquired Axys Pharmaceuticals, Inc. ("Axys") in a stock-for-stock transaction. Axys is an integrated small molecule drug discovery and development company that is developing products for chronic therapeutic application through collaborations with pharmaceutical companies and has a proprietary product portfolio in oncology. The Company believes that the acquisition will accelerate the Celera Genomics group's evolution as a drug discovery and development business.

The Company issued 5.5 million shares of Applera Corporation - Celera Genomics Group Common Stock ("Applera - Celera stock") in exchange for all of the outstanding shares of Axys common stock. The acquisition was accounted for using the purchase method of accounting. The total purchase price for the acquisition was \$188.4 million, which consisted of Applera - Celera stock valued at \$170.3 million, stock options valued at \$8.8 million, warrants valued at \$2.8 million and estimated transaction costs of \$6.5 million. The purchase price was calculated using a \$31.04 price per share of Applera - Celera stock, based upon a measurement date of July 17, 2001. This date, determined in accordance with Emerging Issues Task Force Abstracts Issue 99-12, "Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination," represented the first date on which the exchange ratio was fixed under the merger

CELERA GENOMICS GROUP
NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS
continued

agreement. The fair value of the options and warrants was calculated using the Black-Scholes pricing model.

The purchase price of \$188.4 million was allocated to tangible net assets and intangible assets as follows:

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	(millions)
Current assets	\$ 6.8
Long-term assets	118.7
Current liabilities	(34.9)
Long-term liabilities	(20.7)

Tangible net assets acquired, at approximate fair value	69.9

Acquired in-process research and development	99.0
Existing technology	7.9
Favorable operating leases	11.6

Total intangible assets	118.5

Total purchase price	\$ 188.4
	=====

The recorded values of the intangible assets are being amortized over their expected period of benefit, which on a weighted average basis is 2.8 years. Included in the long-term assets is a \$61.3 million deferred tax asset, recorded in purchase accounting, for net operating loss carryforwards and other temporary differences of Axys expected to be utilized by the Company. Current liabilities included \$4.2 million of contractual severance and involuntary termination costs. As of March 31, 2002, the Celera Genomics group had paid \$3.4 million of these severance costs.

In connection with the acquisition, the Company assumed \$26.0 million of 8% senior secured convertible notes. These notes mature on October 1, 2004. Interest is payable quarterly and the principal is payable at maturity as a lump sum. These notes are convertible at any time into 499,009 shares of Applera - Celera stock at a conversion price of \$52.10 per share. Holders of notes having an aggregate principal amount of \$10 million exercised their right following the acquisition to require the Company to repurchase such notes, which the Company did in January 2002. These notes are secured by 6.7 million shares, or approximately 90%, of the Company's holding of Discovery Partners International, Inc. ("DPI") common stock. As a result of the acquisition, the Company received an approximate 30% interest in DPI, as of the acquisition date. The investment is accounted for under the equity method of accounting. Additionally, the Company assumed an existing Axys construction loan of \$8.4 million related to its medicinal chemistry building located in South San Francisco, California. The Celera Genomics group repaid this loan during the second quarter of fiscal 2002 following the acquisition.

In connection with the acquisition of Axys, the Celera Genomics group allocated approximately \$99.0 million of the purchase price to acquired in-process research and development ("IPR&D"). As of the acquisition date, the technological feasibility of the related projects had not been established, and

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it was determined that the acquired projects had no future alternative uses. The amounts attributed to acquired IPR&D were based on an independent appraisal and were developed using an income approach. The in-process technologies were valued using a discounted cash flow model on a project-by-project basis. This valuation incorporated a percentage of completion analysis using revenues allocated to in-process technologies. The risk-adjusted discount rate used to value the projects at acquisition ranged from 38% to 43%. The discount rates applied in the discounted cash flow model were risk adjusted, since the assumed periods of milestone receipts and assumed timing of product launch may vary significantly from the assumptions. The valuation assumptions were made solely for the purpose of calculating projected cash flows and valuing the intangible assets acquired at the date of acquisition.

Below is a brief description of the IPR&D projects.

Project	Development Status at Acquisition Date	Valuation Assumptions at Acquisition Date	
		Project's Stage of Completion at Acquisition Date	Assumed Period of Milestone Receipt
Cathepsin S: Collaboration with Aventis Pharmaceuticals Products, Inc. with the objective of discovery and development of small molecule drugs that inhibit Cathepsin S, a human cysteine protease associated with certain inflammatory and autoimmune diseases, such as asthma and atherosclerosis	Pre-clinical studies	90%	Years 1 - 7 date of acquisition
Cathepsin K: Collaboration with Merck & Co., Inc. to develop small molecule inhibitors of Cathepsin K for the treatment of osteoporosis	Pre-clinical studies	91%	Years 2 - 6 date of acquisition
Tryptase: Collaboration with Bayer A.G. to identify oral tryptase inhibitors for the treatment of asthma	Pre-clinical studies	89%	Years 3 - 8 date of acquisition
Cathepsin F: Development of compounds for inflammatory diseases such as asthma and rheumatoid arthritis	Pre-clinical studies	28%	Years 2 - 8 date of acquisition
Urokinase: Oncology program focused on development of inhibitors of the protease urokinase to interfere with angiogenesis and metastasis processes	Pre-clinical studies	50%	Years 2 - 8 date of acquisition

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continued

Project	Development Status at Acquisition Date	Valuation Assumptions at Acquisition Date	
		Project's Stage of Completion at Acquisition Date	Assumed Period of Milestone Receipt
Serm-beta: Oncology program utilizing licenses granted by Celgene Corp. for exclusive rights to selective estrogen receptor-beta modulators	Pre-clinical studies	71%	Years 3 - 7 from date of acquisition
Factors VIIa & Xa: Development of oral and parenteral therapeutics for blood clotting disorders, such as deep vein thrombosis, stroke, and myocardial infarction or heart attack	Pre-clinical studies	54%	Years 2 - 7 from date of acquisition

For valuation purposes, the Celera Genomics group assumed that all projects would be partnered and the initial material net cash inflows would result from milestone payments. The Celera Genomics group also assumed there would be cash inflows resulting from royalties after product launch. Product launches were assumed to occur in five to nine years after the date of acquisition.

The Celera Genomics group has initiated a review of its unpartnered pre-clinical programs that may lead to revised prioritization, resourcing and strategy to move toward clinical trials and commercialization. As a consequence, actual results may vary from the valuation assumptions outlined above.

The net assets and results of operations of Axys have been included in the Celera Genomics group's combined financial statements since the date of the acquisition. The following selected unaudited pro forma information for the Celera Genomics group has been prepared assuming the acquisition had occurred at the beginning of fiscal 2001 and gives effect to purchase accounting adjustments:

(Dollar amounts in millions)	Three months ended		Nine months ended	
	March 31, 2001	2002	March 31, 2001	2002
Net revenues	\$ 26.4	\$ 30.5	\$ 69.1	\$ 95.4
Net loss	\$ (43.1)	\$ (49.5)	\$ (119.9)	\$ (111.4)

Upon consummation of the acquisition, the Celera Genomics group recorded a \$99.0 million non cash charge for the value of acquired IPR&D, which has been excluded from the pro forma results above. Had the acquired IPR&D charge been excluded from the reported amounts for the nine

CELERA GENOMICS GROUP
 NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS
 continued

months ended March 31, 2002, the Celera Genomics group would have reported a net loss of \$84.0 million.

Included in the results for the nine months ended March 31, 2002, is a non-cash pretax charge of \$10.8 million recorded by Axys, prior to the acquisition date, for the impairment of an investment accounted for under the cost method.

TRANSFER OF BUSINESS UNIT TO THE APPLIED BIOSYSTEMS GROUP

Effective July 1, 2001, the Company transferred the assets, liabilities and personnel of a business unit from the Celera Genomics group to the Applied Biosystems group. The Company's Board of Directors determined that the assets of the business to be transferred and the liabilities of the business to be assumed by the Applied Biosystems group constituted fair value for the transfer. The net assets were transferred at recorded book value as a charge to the Celera Genomics group's allocated net worth.

NOTE 5 - COMPREHENSIVE LOSS

Accumulated other comprehensive income (loss) included in allocated net worth in the Condensed Combined Statements of Financial Position consists of foreign currency translation adjustments and unrealized gains and losses on available-for-sale investments. Total comprehensive loss for the three and nine months ended March 31, 2001 and 2002 is presented in the following table:

(Dollar amounts in millions)	Three months ended		Nine months ended	
	March 31,		March 31,	
	2001	2002	2001	2002
	-----	-----	-----	-----
Net loss	\$ (29.1)	\$ (49.5)	\$ (84.5)	\$ (183.0)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(0.2)	0.1	(0.2)	(0.1)
Unrealized gain (loss) on investments, net of tax	(0.1)	(2.7)	0.4	(0.8)
	-----	-----	-----	-----
Other comprehensive income (loss)	(0.3)	(2.6)	0.2	(0.9)
	-----	-----	-----	-----
Comprehensive loss	\$ (29.4)	\$ (52.1)	\$ (84.3)	\$ (183.9)
	=====	=====	=====	=====

CELERA GENOMICS GROUP
 NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS
 continued

NOTE 6 - INVENTORIES

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Inventories are stated at the lower of cost (on a first-in, first-out basis) or market. Inventories included the following components:

	June 30,	March 31,
(Dollar amounts in millions)	2001	2002
	-----	-----
Raw materials and supplies	\$ 4.9	\$ 1.1
Work-in-process	0.6	1.0
Finished products	0.7	0.4
	-----	-----
Total inventories	\$ 6.2	\$ 2.5
	=====	=====

NOTE 7 - SUPPLEMENTAL CASH FLOW INFORMATION

Significant non-cash financing activities were as follows:

	Nine months ended March 31,	
(Dollar amounts in millions)	2001	2002
	-----	-----
Nonreimbursable utilization of tax benefits by the Applied Biosystems group	\$ (23.3)	\$ 15.7
Tax benefit related to employee stock options	\$ 12.4	\$ 7.5
Transfer of business unit to the Applied Biosystems group (Note 4)		\$ 8.1
Applera - Celera stock issued in the Axys acquisition		\$181.9
Debt and capital lease obligation assumed in the Axys acquisition		\$ 39.1

NOTE 8 - RELATED PARTY TRANSACTIONS

Sales of Products and Services Between Groups. For the three and nine months ended March 31, 2001, cost of sales and research and development expenses included \$14.5 million and \$45.1 million, respectively, for lease payments on instruments, the purchase of consumables and project materials, and services contracted from the Applied Biosystems group. For the three and nine months ended March 31, 2002, cost of sales and research and development expenses included \$4.6 million and \$19.5 million, respectively, for lease payments on instruments, the purchase of consumables, and services contracted from the Applied Biosystems group.

Online/Information Business Marketing and Distribution Agreement. Effective April 1, 2002, the Applied Biosystems group became the exclusive distributor of the Celera Discovery System ("CDS") operated by the Celera Genomics group. As a result of this arrangement, the Applied Biosystems group will integrate CDS and other genomic and biological information into a new Knowledge Business. In exchange for marketing and distribution rights to CDS and other genomic and biological information and access to CDS and related content, the Applied Biosystems group will provide the Celera Genomics group with royalty payments

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on revenues generated by sales of certain products of the Knowledge Business from July 1, 2002 through the end of fiscal 2012. The royalty rate is progressive, up to a maximum of 5%, with the level of sales

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CELERA GENOMICS GROUP NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS continued

through fiscal 2008. The royalty rate becomes a fixed percentage of sales starting in fiscal 2009, and the rate declines each succeeding fiscal year through fiscal 2012. Assays on Demand™, Assays by Design™, reagents for arrays, and new database subscriptions sold by the Knowledge Business are the products subject to royalties.

The Celera Genomics group will continue to be responsible for the performance of its obligations under all contracts relating to its information products and services either existing on the effective date of the marketing and distribution agreement or which are entered into during a transition period ending June 30, 2002 (including renewals, if any, of these contracts) and will receive all revenues and other benefits under, and be responsible for all costs and expenses associated with, such contracts. The Applied Biosystems group will reimburse the Celera Genomics group if earnings before interest, taxes, depreciation, and amortization from these contracts over the next four fiscal years are below \$62.5 million and the shortfall is due to business initiatives of the Applied Biosystems group and the Celera Genomics group otherwise continues to perform under its existing contracts.

NOTE 9 - CONTINGENCIES

Amersham

On February 26, 2002, the Company and Amersham plc announced that they reached a court-mediated settlement which ended the previously disclosed patent litigation between the Company and Amersham plc and its affiliates, including Amersham Pharmacia Biotech, Inc. and Molecular Dynamics, Inc. The settlement, reached under the auspices of United States Magistrate Judge Edward A. Infante, Northern District of California, includes a cross-licensing agreement covering all patents involved in the litigation, and a co-development arrangement for the joint development, supply and commercialization of certain new DNA analysis technologies. Both companies' current product offerings will continue to be available.

Other

The Company has been named as a defendant in several other legal actions, including patent, commercial, and environmental, arising from the conduct of normal business activities. Although the amount of any liability that might arise with respect to any of these matters cannot be accurately predicted, the resulting liability, if any, will not in the opinion of management have a material adverse effect on the combined financial statements of the Celera Genomics group or the consolidated financial statements of the Company.

The holders of Applera - Celera stock are stockholders of the Company and are subject to all risks associated with an investment in the Company, including any legal proceedings and claims affecting the Applied Biosystems group.

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

Management's Discussion of Operations

The purpose of the following management's discussion and analysis is to provide an overview of the business of Applera Corporation ("Applera" or the "Company"), to help facilitate the understanding of significant factors influencing the historical operating results, financial condition and cash flows and also to convey management's expectations of the potential impact of known trends, events or uncertainties that may impact future results. This discussion should be read in conjunction with the consolidated and combined financial statements and related notes included in this report and in the Company's 2001 Annual Report to Stockholders. Historical results and percentage relationships are not necessarily indicative of operating results for future periods.

Overview

The Company is comprised of two operating groups: the Applied Biosystems group and the Celera Genomics group (collectively referred to as "groups").

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

The Celera Genomics group is engaged principally in integrating advanced technologies to discover and develop new therapeutics. The Celera Genomics group intends to leverage its genomic and proteomic technology platforms to identify drug targets and diagnostic marker candidates and to discover novel therapeutic candidates. Its Celera Discovery System™ ("CDS") online platform, to be marketed exclusively through the new Knowledge Business of the Applied Biosystems group, is an integrated source of information based on the human genome and other biological and medical sources.

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

In 1999, following a recapitalization, the Company created two classes of stock referred to as "tracking" stocks. Tracking stock is a class of stock of a corporation intended to "track" or reflect the performance of a specific business within the corporation.

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

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RESULTS OF OPERATIONS continued

Holders of Applera - Applied Biosystems stock and Applera - Celera stock are stockholders of Applera. The Applied Biosystems group and the Celera Genomics group are not separate legal entities, and holders of these stocks are stockholders of a single company, Applera. As a result, holders of these stocks are subject to all of the risks associated with an investment in Applera and all of its businesses, assets, and liabilities.

The Applied Biosystems group and the Celera Genomics group do not have separate Boards of Directors. Applera has one Board of Directors, which will make any decision in accordance with its good faith business judgment that the decision is in the best interests of Applera and all of its stockholders as a whole.

This quarterly report on Form 10-Q includes combined financial statements for both the Applied Biosystems group and the Celera Genomics group, in addition to the consolidated financial statements of Applera. The Company's fiscal year ends on June 30. The following discussion is presented in two parts; consolidated operations followed by the groups' operations.

During the current fiscal year, the following noteworthy developments have occurred at the Company:

Applied Biosystems Group

- o In November 2001, the Applied Biosystems group completed the acquisition of Boston Probes, Inc. ("Boston Probes"). The Boston Probes acquisition furthers the development of the Applied Biosystems group's platform for analysis of genetic information.
- o In March 2002, the Applied Biosystems group and MDS Inc. announced a favorable ruling in a patent infringement lawsuit against Micromass.
- o In February 2002, the Applied Biosystems group and Amersham plc announced a court-mediated settlement in patent litigation between the parties.
- o Effective April 1, 2002, the Applied Biosystems group and the Celera Genomics group entered into an agreement in which the Applied Biosystems group will become the exclusive distributor of CDS operated by the Celera Genomics group. The Applied Biosystems group plans to integrate CDS and other genomic and biological information into a new Knowledge Business to include genomic assays and related content, as well as other information-rich products, services, and analytical tools to meet the needs of its customers.
- o During the third quarter of fiscal 2002, the Applied Biosystems group introduced the commercial version of the 4700 Proteomics Analyzer with TOF/TOFTM Optics for high-throughput proteomics.
- o In April 2002, the Applied Biosystems group introduced the ABI 3730 and ABI 3730XL DNA Analyzers, which are expected to allow for cost-effective, large-scale genome sequencing programs.

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

Celera Genomics Group

- o In November 2001, the Celera Genomics group completed the acquisition of Axys Pharmaceuticals, Inc. ("Axys"). The Axys acquisition was intended to accelerate the Celera Genomics group's evolution as a drug discovery and development business.
- o In January 2002, J. Craig Venter, Ph.D. stepped down as President of the Celera Genomics group.

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- o In April 2002, Kathy Ordonez was appointed President of the Celera Genomics group in addition to her role as President of Celera Diagnostics.
- o Effective April 1, 2002, the Celera Genomics group and the Applied Biosystems group entered into an agreement in which the Applied Biosystems group will become the exclusive distributor of CDS.
- o The Celera Genomics group sold its plant and animal genotyping businesses.

Critical Accounting Policies

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. The Company believes that, of the significant accounting policies discussed in Note 1 to the consolidated financial statements and Note 1 to the combined financial statements of both the Applied Biosystems group and the Celera Genomics group included in the 2001 Annual Report to Stockholders, the following accounting policies require management's most difficult, subjective or complex judgments:

- o Revenue recognition;
- o Asset impairment;
- o Allocation of purchase price to acquired assets and liabilities in business combinations;
- o Restructuring;
- o Allocations to the Applied Biosystems group, the Celera Genomics group, and Celera Diagnostics; and
- o Related party transactions.

REVENUE RECOGNITION

The Applied Biosystems group records revenue generally at the time of shipment of products or performance of services. Concurrently, it records provisions for warranty, returns, and installation based on historical experience and anticipated product performance. Revenue is not recognized at the time of shipment of products in situations where risks and rewards of ownership are transferred to the customer at a point other than shipping due to either the stated shipping terms or the existence of an acceptance clause.

The Celera Genomics group recognizes revenue on subscription fees for access to the Online/Information business databases ratably over the contracted period.

The Celera Genomics group recognizes revenue and profit on long-term contracts in accordance with the percentage-of-completion method. Under this method, revenue is recognized based on either the

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

costs incurred compared to total costs expected to be incurred as work is performed or on the relative costs for a completed phase compared to the estimate of total expected contract costs when delivery and/or acceptance provisions are present. Shorter term contracts are recognized upon completion. The percentage-of-completion method relies on estimates of total expected contract revenues and costs. Material changes in estimated costs to complete could have a material impact on the profitability of such long-term contracts in future periods.

ASSET IMPAIRMENT

Inventory

Inventories are stated at the lower of cost (on a first-in, first-out

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basis) or market. Reserves for obsolescence and excess inventory are provided based on historical experience and estimates of future product demand. If actual demand is less favorable than the Company's estimates, additional inventory write-downs may be required.

Deferred tax asset

The Company records a valuation allowance against the deferred tax asset for foreign tax loss carryforwards and domestic tax credit carryforwards if it is more likely than not that the Company will not be able to utilize these carryforwards to offset future taxes. This valuation allowance is based on estimates of future taxable profits and losses and tax planning strategies. Subsequent revisions to estimates of future taxable profits and losses and tax planning strategies could change the amount of the deferred tax asset the Company would be able to realize in the future, and therefore could increase or decrease the valuation allowance.

Long-lived assets, including goodwill

In July 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," and as a result no longer amortizes goodwill. Instead, goodwill must be tested for impairment at the reporting unit level, at least annually, by determining the fair value of the reporting unit and comparing it with its book value. A reporting unit is the lowest level of an entity that is a business and can be distinguished from other activities, operations, and assets of the entity. If, during the annual impairment review, the book value of the reporting unit exceeds the fair value, the implied fair value of the reporting unit's goodwill is compared with the carrying amount of the unit's goodwill. If the carrying amount exceeds the implied fair value, goodwill is written down to its implied fair value. SFAS No. 142 requires management to estimate the fair value of each reporting unit, as well as the fair value of the assets and liabilities of each reporting unit, other than goodwill. The implied fair value of goodwill is determined as the difference between the fair value of a reporting unit, taken as a whole, and the fair value of the assets and liabilities of such reporting unit.

Other long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Events which could trigger an impairment review include, among others, a decrease in the market value of an asset, the asset's inability to

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

generate income from operations and positive cash flow in future periods, a decision to change the manner in which an asset is used, a physical change to the asset or a change in business climate. The Company calculates estimated future undiscounted cash flows of the related operation and compares it to the carrying value of the asset in determining whether impairment potentially exists. This calculation is based upon a valuation model and discount rate commensurate with the risks involved.

Future adverse changes in market conditions or poor operating results of a related reporting unit may require the Company to record an impairment charge in the future.

ALLOCATION OF PURCHASE PRICE TO ACQUIRED ASSETS AND LIABILITIES IN BUSINESS COMBINATIONS

The cost of an acquired business is assigned to the tangible and identifiable

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intangible assets acquired and liabilities assumed on the basis of their fair values at the date of acquisition. The Company assesses fair value by a variety of methods, including the use of independent appraisers, present value models, and estimation of current selling prices and replacement values. Amounts recorded as intangible assets, including acquired in-process research and development ("IPR&D"), are based upon assumptions and estimates regarding the amount and timing of projected revenues and costs, appropriate risk-adjusted discount rates, as well as assessing the competition's ability to commercialize products prior to the Company. Also, upon acquisition, the Company determines the estimated economic lives of the acquired intangible assets for amortization purposes. Actual results may vary from projected results.

RESTRUCTURING

From time to time, the Company may undertake special actions to improve profitability and cash flow performance as appropriate. Upon approval of a restructuring plan by management, the Company will expense costs related to the plan that do not benefit future periods. These costs could include estimates of severance and termination benefits, facility-related expenses, elimination or reduction of product lines, asset-related write-offs, and termination of contractual obligations, among other items. The Company will periodically review these cost estimates and adjust the restructuring liability, as appropriate.

During the third quarter of fiscal 2002, the Celera Genomics group recorded a liability based on management's estimates related to sublease activities for office space associated with its Paracel business. The Company will evaluate the commercial real estate market conditions periodically to determine if estimates of the amount and timing of future sublease income are reasonable based on current and expected commercial real estate market conditions and actual sublease activity. If the Company determines that the estimates for sublease proceeds have significantly changed, an adjustment to the liability would be recognized in the period in which such determination was made.

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

ALLOCATIONS TO THE APPLIED BIOSYSTEMS GROUP, THE CELERA GENOMICS GROUP, AND CELERA DIAGNOSTICS

The attribution of the assets, liabilities, revenues and expenses to each group is primarily based on specific identification of the businesses included in each group and Celera Diagnostics. Where specific identification is not practical, other methods and criteria, which require the use of judgments and estimates, are used that the Company believes are equitable and provide a reasonable estimate of the assets, liabilities, revenues and expenses attributable to each group.

It is not practical to specifically identify the portion of corporate overhead expenses attributable to each of the businesses. The Company allocates such corporate overhead expenses primarily based upon headcount, total expenses, and revenues attributable to each business.

During the fourth quarter of fiscal 2001, Celera Diagnostics was established as a joint venture between the Applied Biosystems group and the Celera Genomics group. Refer to Note 2 in the Combined Financial Statements of The Applied Biosystems group or The Celera Genomics group in the 2001 Annual Report to Stockholders for more information regarding Celera Diagnostics. The Celera

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Genomics group and the Applied Biosystems group will account for their investments in Celera Diagnostics under the equity method of accounting, with the Celera Genomics group recording 100 percent of the initial losses, up to \$300 million, in its income statement as loss from joint venture. Losses incurred by Celera Diagnostics in excess of \$300 million will be shared equally by the Celera Genomics group and the Applied Biosystems group. Celera Diagnostics has accumulated net losses of \$35.2 million through March 31, 2002. Celera Diagnostics' profits, if any, will be shared in the ratio of 65 percent to the Celera Genomics group and 35 percent to the Applied Biosystems group until the cumulative profits of Celera Diagnostics equal the initial losses. Once cumulative profits exceed initial losses up to \$300 million, Celera Diagnostics' profits will be shared equally between the groups.

To determine earnings per share, the earnings allocated to each class of common stock is determined by the Company's Board of Directors. This determination is generally based on the net income or loss amounts of the corresponding group determined in accordance with generally accepted accounting principles in the United States, consistently applied.

The management and allocation policies applicable to the attribution of assets, liabilities, revenues and expenses to the businesses may be modified or rescinded, or additional policies may be adopted, at the sole discretion of the Company's Board of Directors at any time without stockholder approval. The Company's Board of Directors would make any decision in accordance with its good faith business judgment that its decision is in the best interests of the Company and all of its stockholders as a whole.

A decision to modify or rescind the management and allocation policies, or adopt additional policies, could have different effects on holders of Applera - Applied Biosystems stock and holders of

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

Applera - Celera stock or could result in a benefit or detriment to one class of stockholders compared to the other class.

RELATED PARTY TRANSACTIONS

The Applied Biosystems group is a supplier of instruments and consumables to the Celera Genomics group and Celera Diagnostics. The Celera Genomics group makes its genomic information and bioinformatic tools available to the Applied Biosystems group and Celera Diagnostics.

The Applied Biosystems group, the Celera Genomics group or Celera Diagnostics may sell or lease products to or perform services for one another at fair value to be used in the purchasing business' commercial activities. The selling business records revenues on these transactions when the product is shipped, as the service is performed, or over the term of the lease.

The Applera businesses also may jointly undertake a project, such as the Applera genomics initiative, where the total costs and benefits of the project are shared. Shipments of products or performance of services related to such joint projects are not recorded as revenue by any of the businesses, but instead are included, at cost, in the total project costs that are shared based on each business' expected benefit.

The Applera businesses may perform services for one another, which are not

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directly attributable to either businesses' revenue generating activities. The business performing such services charges the benefiting business the cost of performing the services, including overhead.

Effective April 1, 2002, the Applied Biosystems group became the exclusive distributor of CDS operated by the Celera Genomics group. As a result of this arrangement, the Applied Biosystems group will integrate CDS and other genomic and biological information into a new Knowledge Business. In exchange for marketing and distribution rights to CDS and other genomic and biological information and access to CDS and related content, the Applied Biosystems group will provide the Celera Genomics group with royalty payments on revenues generated by sales of certain products of the Knowledge Business from July 1, 2002 through the end of fiscal 2012. The royalty rate is progressive, up to a maximum of 5%, with the level of sales through fiscal 2008. The royalty rate becomes a fixed percentage of sales starting in fiscal 2009, and the rate declines each succeeding fiscal year through fiscal 2012. Assays on Demand™, Assays by Design™, reagents for arrays, and new database subscriptions sold by the Knowledge Business are the products subject to royalties.

The Celera Genomics group will continue to be responsible for the performance of its obligations under all contracts relating to its information products and services either existing on the effective date of the marketing and distribution agreement or which are entered into during a transition period ending June 30, 2002 (including renewals, if any, of these contracts) and will receive all revenues and other benefits under, and be responsible for all costs and expenses associated with, such contracts. The Applied Biosystems group will reimburse the Celera Genomics group if earnings before interest, taxes, depreciation, and amortization from these contracts over the next four fiscal years are below \$62.5 million, and the shortfall is due to

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

business initiatives of the Applied Biosystems group and the Celera Genomics group otherwise continues to perform under its existing contracts.

Events Impacting Comparability

Acquisitions. The Company acquired Axys and Boston Probes during the second quarter of fiscal 2002. The results of operations for the above acquisitions, which were accounted for using the purchase method of accounting, have been included in the consolidated financial statements since the date of acquisition. The net assets and results of operations of Axys have been allocated to the Celera Genomics group. The net assets and results of operations of Boston Probes have been allocated to the Applied Biosystems group. A discussion of these acquisitions is provided in Note 4 to the Company's condensed consolidated financial statements.

Acquired research and development. During the first nine months of fiscal 2002, the Company recorded charges to write-off the value of acquired IPR&D in connection with the Axys and Boston Probes acquisitions. The Applied Biosystems group recorded a charge of \$2.2 million relating to Boston Probes during the second quarter of fiscal 2002 and the Celera Genomics group recorded a charge of \$99.0 million relating to Axys during the second quarter of fiscal 2002. As of the acquisition date, the technological feasibility of the related projects had not been established, and it was determined that the acquired projects had no future alternative uses.

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The amounts attributed to acquired IPR&D were based on an independent appraisal and were developed using an income approach. The in-process technologies were valued using a discounted cash flow model on a project-by-project basis.

The Axys projects acquired as part of the acquisition are in various stages of research and development and will require additional research and development efforts by the Company or its collaborators before any eventual products can be marketed, if ever. These efforts include extensive pre-clinical and clinical testing and are subject to lengthy regulatory review and approval by the United States Food and Drug Administration. The nature and timing of these remaining efforts are dependent upon successful testing and approval of the products as well as maintaining the existing collaborative relationships and entering into new collaborative relationships. If collaboration partners terminate or elect to cancel their agreements or otherwise fail to conduct their collaborative activities in a timely manner, the development or commercialization process may be delayed or abandoned.

Following is a brief description of the IPR&D projects.

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

Project	Development Status at Acquisition	Development Status Nature/Timing of Research Efforts at March 31, 2002
Partnered Projects:		
Cathepsin S: Collaboration with Aventis Pharmaceuticals Products, Inc. with the objective of discovery and development of small molecule drugs that inhibit Cathepsin S, a human cysteine protease associated with certain inflammatory and autoimmune diseases, such as asthma and atherosclerosis	Pre-clinical studies	Investigational new drug ("IND") enabling studies announced in January 2002. Expect to complete pre-clinical studies calendar 2002. Applera's portion of collaboration completed April 2002.
Cathepsin K: Collaboration with Merck & Co., Inc. to develop small molecule inhibitors of Cathepsin K for the treatment of osteoporosis	Pre-clinical studies	Expect to identify and carry out safety assessment candidate(s) and carry out further pre-clinical efficacy, safety and toxicology studies during calendar 2002. Applera's portion of collaboration expected to be completed in December 2002.
Tryptase: Collaboration with Bayer A.G. to identify oral tryptase inhibitors for the treatment of asthma	Pre-clinical studies	Expect to complete pre-clinical studies calendar 2002.

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Applera's portion of collaboration completed January 2002.

Total for partnered projects

Unpartnered Projects:

<p>Cathepsin F: Development of compounds for inflammatory diseases such as asthma and rheumatoid arthritis</p>	<p>Pre-clinical studies</p>	<p>Expect to continue pre-clinical studies calendar 2002. IND studies expected in calendar 2003.</p>
<p>Urokinase: Oncology program focused on development of inhibitors of the protease urokinase to interfere with angiogenesis and metastasis processes</p>	<p>Pre-clinical studies</p>	<p>Project is no longer pursued.</p>
<p>Serm-beta: Oncology program utilizing licenses granted by Celgene Corp. for exclusive rights to selective estrogen receptor-beta modulators</p>	<p>Pre-clinical studies</p>	<p>Expect to complete pre-clinical studies calendar 2002.</p>
<p>Factors VIIa & Xa: Development of oral and parenteral therapeutics for blood clotting disorders, such as deep vein thrombosis, stroke, and myocardial infarction or heart attack</p>	<p>Pre-clinical studies</p>	<p>Expect to complete pre-clinical studies calendar 2002.</p>

Total for unpartnered projects

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

As of March 31, 2002, the Company's portion of the estimated costs to complete the partnered projects is not deemed material. The costs to complete the unpartnered programs are dependent on decisions of how to commercialize, such as whether to partner the program, and at what stage to partner. The Celera Genomics group has initiated a review of the unpartnered pre-clinical programs that may lead to revised prioritization, resourcing and strategy to move toward clinical trials and commercialization. As a consequence, actual results may vary from the valuation assumptions outlined in Note 4 to the condensed consolidated financial statements and Note 4 to the Celera Genomics group's condensed combined financial statements.

Other special charges. During the quarter ended March 31, 2002, the Company recorded a non-recurring charge of \$25.9 million related to the Celera Genomics group's Paracel business. This charge was comprised of \$23.0 million recorded in other special charges primarily for the impairment of goodwill and other intangible assets and a provision for the estimated cost of excess lease space. Additionally, the Company recorded a charge of \$2.9 million in cost of sales for the impairment of Paracel inventory. Refer to the Discussion of Consolidated Operations for the three months ended March 31, 2002 for a further

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discussion of the other special charges.

Gain on Investments. The first nine months of fiscal 2001 included pretax gains of \$15.0 million, or \$9.7 million on an after-tax basis, related to the sales of minority equity investments. These sales occurred during the first and second quarters of fiscal 2001.

Discussion of Consolidated Operations

Results of Operations--The Three Months Ended March 31, 2002 Compared With The Three Months Ended March 31, 2001

The Company reported a net loss of \$2.9 million for the third quarter of fiscal 2002 compared with net income of \$28.3 million for the third quarter of fiscal 2001. Excluding the special charges of \$21.0 million on an after-tax basis, net income for the third quarter of fiscal 2002 was \$18.2 million. The decrease in net income reflected lower net revenues and interest income and higher R&D expenses, which were partially offset by lower SG&A expenses and amortization of goodwill and other intangible assets. On a segment basis, the Applied Biosystems group reported net income of \$49.1 million for the third quarter of fiscal 2002 compared with \$57.7 million for the prior year period. Excluding the non-recurring special charges, the Celera Genomics group reported a net loss of \$28.5 million for the third quarter of fiscal 2002 compared with a net loss of \$29.1 million for the third quarter of fiscal 2001.

Net revenues for the Company were \$434.4 million for the third quarter of fiscal 2002 compared with \$447.1 million for the third quarter of fiscal 2001, a decrease of 2.8%. On a segment basis, net revenues for the Applied Biosystems group were \$409.0 million for the third quarter of fiscal 2002 compared with \$439.8 million for the third quarter of fiscal 2001, a decrease of 7.0%. The Celera

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

Genomics group reported net revenues of \$30.5 million for the third quarter of fiscal 2002 compared with \$23.4 million for the third quarter of fiscal 2001, an increase of 30.4%.

Gross margin, as a percentage of net revenues for the Company, was 53.3% for the third quarter of fiscal 2002 compared with 52.9% for the third quarter of fiscal 2001. Third quarter fiscal 2002 gross margin included \$2.9 million of inventory-related write-offs related to the Paracel business, as further described below. Excluding the special charge, gross margin increased to 54.0% of revenues. The higher gross margin percentage in fiscal 2002 was due primarily to increased subscription revenues for the Celera Genomics group, changes in customer mix, and price increases in certain product lines of the Applied Biosystems group implemented in early fiscal 2002, partially offset by the negative effects of foreign currency.

SG&A expenses for the Company were \$108.6 million for the third quarter of fiscal 2002 compared with \$119.3 million for the third quarter of fiscal 2001. As a percentage of net revenues, SG&A expenses decreased to 25.0% for the third quarter of fiscal 2002 compared with 26.7% for the third quarter of fiscal 2001 primarily due to the Company's efforts to restrain discretionary spending. On a segment basis, SG&A expenses for the Applied Biosystems group were \$93.0 million and \$104.1 million for the third quarters of fiscal 2002 and 2001,

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respectively. SG&A expenses for the Celera Genomics group were \$13.6 million and \$15.1 million for the third quarters of fiscal 2002 and 2001, respectively.

R&D expenses increased \$22.8 million for the third quarter of fiscal 2002 to \$103.6 million from \$80.8 million for the third quarter of fiscal 2001 primarily due to spending on: diagnostics programs associated with the Celera Diagnostics business; the Company's genomics initiative for commercializing products from information obtained through analysis of the human genome, which is a collaboration for which expenses have been shared equally among the Company's businesses; the continued development of new products and technologies by the Applied Biosystems group; and therapeutic discovery programs by the Celera Genomics group. On a segment basis, R&D expenses for the Applied Biosystems group were \$56.7 million and \$47.5 million for the third quarters of fiscal 2002 and 2001, respectively. R&D expenses for the Celera Genomics group were \$37.6 million and \$40.2 million for the third quarters of fiscal 2002 and 2001, respectively. R&D expenses for Celera Diagnostics were \$11.1 million for the third quarter of fiscal 2002.

The Company recorded non-cash amortization expenses of \$2.6 million in the third quarter of fiscal 2002 compared to \$10.9 million in the third quarter of fiscal 2001 relating to the amortization of goodwill and other intangible assets. Effective July 1, 2001, the Company adopted the provisions of SFAS No. 142, and as a result, no longer amortizes goodwill. Refer to Note 2 of the Company's condensed consolidated financial statements for a further discussion.

During the third quarter of fiscal 2002, the Company recorded a non-recurring charge of \$25.9 million related to the Celera Genomics group's Paracel business. This charge was comprised of

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

\$12.7 million for asset impairments, provisions of \$10.1 million for the estimated cost of excess lease space and \$0.2 million for severance, all included in other special charges. This charge also included \$2.9 million for the impairment of Paracel inventory included in cost of sales. During the fourth quarter of fiscal 2001, the Company had recorded a charge of \$69.1 million for the impairment of goodwill and other intangible assets associated with the Paracel business. The charge during fiscal 2001 resulted from Paracel's substantially lower than originally anticipated performance and management's future outlook of the business. The charges recorded during the third quarter of fiscal 2002 resulted from Paracel's unfavorable performance against the lower profitability outlook for the business established during the fourth quarter of fiscal 2001 at the time of the initial charge.

The asset impairment charges recorded during the third quarter of fiscal 2002 were for the write-off of the remaining goodwill of \$12.1 million, other intangible assets of \$0.5 million, and leasehold improvements of \$0.1 million. These charges were determined by management through a revised assessment of future cash flows and, as a result, reduced the carrying value of Paracel's net assets to their estimated fair value. Excess lease costs reflect the estimated loss associated with the remaining contractual obligations under a non-cancelable lease arrangement and certain costs associated with the expected sublease of the portion of the facility not occupied by the Paracel business, net of estimated sublease income, for the remaining lease term. Severance and related benefits were granted to 19 employees terminated in the third quarter of fiscal 2002 and are expected to be paid by the end of the first quarter of

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fiscal 2003.

Operating loss for the Company was \$6.3 million for the third quarter of fiscal 2002 compared with operating income of \$25.3 million for the third quarter of fiscal 2001. Excluding the non-recurring special charges, operating income for the Company was \$19.5 million in the third quarter of fiscal 2002. On a segment basis, operating income for the Applied Biosystems group decreased to \$66.8 million for the third quarter of fiscal 2002 from \$79.6 million for the third quarter of fiscal 2001. This decrease in operating income was caused primarily by lower net revenues and higher R&D expenses, in large part due to continued development of new products and technologies as further described in the Applied Biosystems group's discussion of operations, partially offset by higher gross margin as a percentage of net revenues, resulting from changes in customer mix and price increases in certain product lines, and lower SG&A expenses due to restraints on discretionary spending. Operating income as a percentage of net revenues for the Applied Biosystems group was 16.3% in the third quarter of fiscal 2002 compared with 18.1% in the third quarter of fiscal 2001.

Excluding the special charges in the third quarter of fiscal 2002, operating loss for the Celera Genomics group was \$35.9 million compared with \$54.9 million for the third quarter of fiscal 2001. The decrease in the Celera Genomics group's operating loss reflected continued growth in subscription revenues, lower R&D expenses, and lower amortization of goodwill and other intangible assets. Including the special charge, the Celera Genomics group's operating loss for the third quarter of fiscal 2002 was \$61.8 million.

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

Interest income was \$9.8 million for the third quarter of fiscal 2002 compared with \$19.3 million for the third quarter of fiscal 2001. This decrease was primarily attributable to lower average interest rates during the third quarter of fiscal 2002 as compared to the third quarter of fiscal 2001.

Excluding the special charges, the effective income tax rate was 27% for the third quarter of fiscal 2002 compared with 34% for the third quarter of fiscal 2001. The lower effective income tax rate in fiscal 2002 was primarily due to the discontinued amortization of nondeductible goodwill, resulting from the adoption of SFAS No. 142, and the implementation of certain tax planning strategies.

Results of Operations--The Nine Months Ended March 31, 2002 Compared With The Nine Months Ended March 31, 2001

The Company reported a net loss of \$47.3 million for the first nine months of fiscal 2002 compared with net income of \$80.3 million for the first nine months of fiscal 2001. Net income for the Company, on a comparable basis excluding the acquired IPR&D and other special charges during fiscal 2002 and the gain from the sale of investments during fiscal 2001 previously described, increased 6.2% to \$74.9 million for the first nine months of fiscal 2002 compared with \$70.5 million for the first nine months of fiscal 2001. The increase in net income reflected increased net revenues and lower SG&A expenses and amortization of goodwill and other intangible assets, which were partially offset by lower interest income and higher R&D expenses. On a segment basis, excluding the special items, the Applied Biosystems group reported net income of \$132.5 million for the first nine months of fiscal 2002 compared with \$155.0

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million for the first nine months of fiscal 2001 and the Celera Genomics group reported a net loss of \$63.0 million for the first nine months of fiscal 2002 compared with a net loss of \$84.5 million for the first nine months of fiscal 2001.

Net revenues for the Company were \$1,259.5 million for the first nine months of fiscal 2002 compared with \$1,227.8 million for the first nine months of fiscal 2001, an increase of 2.6%. On a segment basis, net revenues for the Applied Biosystems group were \$1,186.8 million and \$1,214.4 million for the first nine months of fiscal 2002 and fiscal 2001, respectively. The Celera Genomics group reported net revenues of \$92.8 million for the first nine months of fiscal 2002 compared with \$61.9 million for the first nine months of fiscal 2001.

Gross margin, as a percentage of net revenues for the Company, was 52.7% for the first nine months of fiscal 2002 compared with 52.8% for the first nine months of fiscal 2001. Fiscal 2002 gross margin included \$2.9 million of inventory-related write-offs related to the Paracel business. Excluding the special charge, gross margin increased to 52.9% of revenues. The slightly higher gross margin percentage for the first nine months in fiscal 2002 was due primarily to increased subscription revenues for the Celera Genomics group, changes in product and customer mix, and price increases in certain product lines of the Applied Biosystems group, partially offset by lower margins from increased revenue generated by contract sequencing and the negative effects of foreign currency.

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

SG&A expenses for the Company were \$325.0 million for the first nine months of fiscal 2002 compared with \$331.5 million for the first nine months of fiscal 2001. As a percentage of net revenues, SG&A expenses decreased to 25.8% for the first nine months of fiscal 2002 compared with 27.0% for the first nine months of fiscal 2001 primarily due to the Company's efforts to restrain discretionary spending. On a segment basis, SG&A expenses for the Applied Biosystems group were \$278.4 million and \$288.9 million for the first nine months of fiscal 2002 and 2001, respectively. SG&A expenses for the Celera Genomics group were \$40.2 million and \$42.5 million for the first nine months of fiscal 2002 and 2001, respectively.

R&D expenses increased \$42.2 million for the first nine months of fiscal 2002 to \$276.6 million from \$234.4 million for the first nine months of fiscal 2001 due primarily to spending on: diagnostics programs associated with the Celera Diagnostics business; the Company's genomics initiative for commercializing products from information obtained through analysis of the human genome, which is a collaboration for which expenses have been shared equally among the Company's businesses; the continued development of new products and technologies by the Applied Biosystems group; and therapeutic discovery programs by the Celera Genomic group. These increases were partially offset by lower R&D expenses associated with the shotgun phase of certain whole genome sequencing programs conducted by the Celera Genomics group. On a segment basis, R&D expenses for the Applied Biosystems group were \$161.6 million and \$135.6 million for the first nine months of fiscal 2002 and 2001, respectively. R&D expenses for the Celera Genomics group were \$96.0 million and \$123.5 million for the first nine months of fiscal 2002 and 2001, respectively. R&D expenses for Celera Diagnostics were \$25.6 million for the first nine months of fiscal 2002.

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The Company recorded non-cash amortization expenses of \$4.7 million in the first nine months of fiscal 2002 compared to \$33.0 million in the first nine months of fiscal 2001 relating to the amortization of goodwill and other intangible assets. Effective July 1, 2001, the Company adopted the provisions of SFAS No. 142, and as a result, no longer amortizes goodwill. Refer to Note 2 of the Company's condensed consolidated financial statement for a further discussion.

Operating loss for the Company was \$66.8 million for the first nine months of fiscal 2002 compared with operating income of \$49.2 million for the first nine months of fiscal 2001. Operating income, on a comparable basis, excluding the acquired IPR&D and Paracel related charges in fiscal 2002, increased 22.4% to \$60.2 million for the first nine months of fiscal 2002. On a segment basis, operating income for the Applied Biosystems group decreased to \$178.0 million for the first nine months of fiscal 2002, excluding the acquired IPR&D charge, from \$213.8 million for the first nine months of fiscal 2001. This decrease in operating income was caused primarily by lower net revenues and higher R&D expenses due primarily to continued development of new products and technologies as further described in the Applied Biosystems group's discussion of operations.

Operating loss for the Celera Genomics group was \$90.5 million for the first nine months of fiscal 2002, excluding the acquired IPR&D and Paracel related charges, compared with \$165.2 million for

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

the first nine months of fiscal 2001. The decrease in the Celera Genomics group's operating loss reflected growth in revenues, lower R&D expenses, and lower amortization of goodwill and other intangible assets.

Interest income was \$36.1 million for the first nine months of fiscal 2002 compared with \$63.2 million for the first nine months of fiscal 2001. This decrease was primarily attributable to lower average interest rates during the first nine months of fiscal 2002 as compared to the first nine months of fiscal 2001.

Other income (expense), net was expense of \$5.2 million for the first nine months of fiscal 2002, which consisted primarily of the Company's share of losses from equity method investments and other nonoperating costs, partially offset by a net gain on the sale of the Celera Genomics group's AgGen plant genotyping business. Other income (expense), net was expense of \$4.3 million for the first nine months of fiscal 2001, which was primarily related to costs associated with the Company's foreign currency risk management program.

Excluding the special items, the effective income tax rate was 16% for the first nine months of fiscal 2002 compared with 34% for the first nine months of fiscal 2001. The lower effective income tax rate in fiscal 2002 was primarily due to the discontinued amortization of nondeductible goodwill, due to the adoption of SFAS No. 142, and the implementation of certain tax planning strategies allowing for the use of foreign tax credits.

Discussion of Segment Operations

Applied Biosystems Group

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Results of Operations--The Three Months Ended March 31, 2002 Compared With The Three Months Ended March 31, 2001

The Applied Biosystems group reported net income of \$49.1 million for the third quarter of fiscal 2002 compared with \$57.7 million for the third quarter of fiscal 2001, a decrease of 14.8%. This decrease was primarily attributable to a decline in sales volume and higher R&D expenses, partially offset by lower SG&A expenses during the third quarter of fiscal 2002. The negative effects of foreign currency reduced net income by approximately \$3 million, or 5%, as compared with the third quarter of fiscal 2001.

Net revenues were \$409.0 million for the third quarter of fiscal 2002 compared with \$439.8 million for the third quarter of fiscal 2001. Net revenues from the Celera Genomics group, primarily from leased instruments and consumables shipments, were \$4.6 million for the third quarter of fiscal 2002, or 1.1% of the Applied Biosystems group's net revenues, and \$16.1 million for the third quarter of fiscal 2001, or 3.7%.

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

Revenue growth was adversely impacted by the biotechnology sector's limited access to capital, both in the U.S. and Europe. It also appears that pharmaceutical companies have lengthened or altered their purchasing cycles. Additionally, many academic customers have been slow to receive funds from the fiscal 2002 National Institutes of Health ("NIH") budget, and the NIH has been deliberating on how best to distribute the significant portion of its fiscal 2002 budget increase that has been earmarked to fight bio-terrorism.

Geographically, during the third quarter of fiscal 2002, net revenues decreased 9.9% in the United States, 8.2% in Asia Pacific, and 16.5% in Latin America and other markets, and increased 1.0% in Europe compared with the prior fiscal year period. Excluding the effects of foreign currency, revenues grew approximately 5% in Europe and decreased approximately 4% in Asia Pacific compared to the prior year period.

For the third quarter of fiscal 2002, revenues from instrument sales were \$201.3 million, a decrease of 12.2% from \$229.2 million in the prior year period. The decrease in instrument sales was due primarily to lower sales of the 3700 DNA Analyzer, which declined approximately 61% compared with the prior year quarter. During the current fiscal year quarter, the Applied Biosystems group observed some decline in market share in the low- and mid-throughput DNA sequencer segment believed to be due to a price gap in product lines between the models 310 and 3100 DNA Analyzers. The Applied Biosystems group has recently introduced the Model 3100 Avant with the intention of filling this price gap between product lines. While DNA sequencer sales were weaker in the quarter, sales of mass spectrometer instruments were strong, increasing approximately 28% year-over-year as a result of strong demand in the drug metabolism and pharmacokinetics market. This increase was driven by strength in the API 4000 LC/MS/MS product and by the recently released 4700 Proteomics Analyzer with TOF/TOFTM Optics. Sequence detection system ("SDS") instruments sales increased 5% over the prior year quarter.

Consumables sales were \$149.1 million in the third quarter of fiscal 2002 compared to \$159.0 million in the third quarter of fiscal 2001, a decrease of 6.2%. The decline in consumables sales was due largely to a lower rate of growth in the Applied Biosystems group's installed sequencer base and a

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decrease in sales of DNA sequencing consumables to the Celera Genomics group and five large academic genome labs. Consumable sales to the Celera Genomics group and five large academic genome labs decreased from \$31.3 million during the third quarter of fiscal 2001 to \$12.5 million during the third quarter of fiscal 2002. Excluding sales to these six customers, consumables revenues increased 7% during the third quarter of fiscal 2002 compared to the prior year quarter. Reagent dilution, a shift of much of the Celera Genomics group's sequencing capacity to the Applera genomics initiative, for which the Applied Biosystems group does not recognize revenue, and a winding down of the sequencing phase of the Japanese Millennium Project have driven this decline.

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

Revenues from other sources, which included service contracts, royalties, licenses, and contract research, increased 13.6% to \$58.6 million in the third quarter of fiscal 2002 from \$51.6 million in the third quarter of fiscal 2001.

Gross margin, as a percentage of net revenues, increased to 52.9% for the third quarter of fiscal 2002 from 52.6% for the third quarter of fiscal 2001 due primarily to changes in customer mix and previously implemented price increases in certain product lines, partially offset by the negative effects of currency.

SG&A expenses were \$93.0 million for the third quarter of fiscal 2002 compared with \$104.1 million for the third quarter of fiscal 2001, a decrease of 10.7%. SG&A expenses have decreased due to a focused effort to lower discretionary spending in response to lower sales growth rates.

R&D expenses were \$56.7 million for third quarter of fiscal 2002 compared with \$47.5 million for the third quarter of fiscal 2001, an increase of 19.4%. As a percentage of net revenues, R&D expenses were 13.9% for the third quarter of fiscal 2002 compared with 10.8% for the third quarter of fiscal 2001. The increase in R&D expenses was primarily a result of the funding of the Applera genomics initiative and support for new products in development, including the 3730 product line and Assays on Demand(TM).

Interest income was \$3.0 million for the third quarter of fiscal 2002 compared with \$4.0 million for the third quarter of fiscal 2001. The decrease was primarily due to lower average interest rates partially offset by larger average cash balances for the third quarter of fiscal 2002 compared with the third quarter of fiscal 2001.

The effective income tax rate was 29% for the third quarter of fiscal 2002 and 30% for the third quarter of fiscal 2001. The decrease in the effective income tax rate was due to the implementation of certain tax planning strategies allowing for the utilization of foreign tax credits. See Note 1 to the Applied Biosystems group's combined financial statements in the Company's 2001 Annual Report to Stockholders for a discussion of allocations of federal and state income taxes.

Results of Operations--The Nine Months Ended March 31, 2002 Compared With The Nine Months Ended March 31, 2001

The Applied Biosystems group reported net income of \$130.3 million for the first nine months of fiscal 2002 compared with \$164.8 million for the first nine months of fiscal 2001. On a comparable basis excluding the special items from the first nine months of fiscal 2002 and fiscal 2001 previously described,

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net income decreased 14.5% to \$132.5 million compared with \$155.0 million for the first nine months of fiscal 2001. This decrease was primarily attributable to lower revenues and higher R&D expenses, partially offset by restraints on discretionary spending. The negative effects of foreign currency reduced net income by approximately \$5 million, or 3%, as compared with the first nine months of fiscal 2001.

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

Net revenues were \$1,186.8 million and \$1,214.4 million for the first nine months of fiscal 2002 and 2001, respectively. Net revenues from the Celera Genomics group, primarily from leased instruments and consumables shipments, were \$19.5 million for the first nine months of fiscal 2002, or 1.6% of the Applied Biosystems group's net revenues, and \$47.9 million for the same period in fiscal 2001, or 3.9% of net revenues.

Geographically, during the first nine months of fiscal 2002, net revenues decreased 5.6% in the United States and 11.0% in Latin America and other markets, and increased 2.5% in Europe and 0.7% in Asia Pacific, compared with the first nine months of the prior fiscal year. Excluding the effects of foreign currency, revenues grew approximately 3% in Europe and 5% in Asia Pacific during the first nine months of fiscal 2002 compared to the prior year period.

For the first nine months of fiscal 2002, revenues from instrument sales were \$563.3 million, a decrease of 9.4% from \$621.9 million in the first nine months of the prior year. The decrease in instrument sales was caused primarily by weakened economic and equity market conditions, as well as the comparison with a strong first nine months in fiscal 2001 resulting in part from numerous placements of the ABI PRISM(R) 3700 DNA Analyzer at large genome centers. Sales of ABI PRISM(R) 3700 DNA Analyzers declined approximately 66% in the first nine months of fiscal 2002 compared to the levels in the first nine months of fiscal 2001. These factors, which contributed to the decrease in instrument sales, were partially offset by significant increases in sales of SDS instruments, for gene expression and single nucleotide polymorphism ("SNP") analysis, and strong increases in revenues from mass spectrometry systems in the first nine months of fiscal 2002 compared to the first nine months of fiscal 2001, led by the API 4000 triple-quadrupole mass spectrometer for studies of drug metabolism and pharmacokinetics, which began shipping in the fourth quarter of fiscal 2001. Excluding sales of the ABI PRISM(R) 3700 DNA Analyzers, instrument sales increased approximately 6% in the first nine months of fiscal 2002 as compared to the prior year period.

Consumables sales increased to \$448.5 million in the first nine months of fiscal 2002 from \$433.8 million in the first nine months of fiscal 2001, an increase of 3.4%. Sales of consumables were strong in TaqMan(R) reagents for gene expression and SNP analysis. DNA sequencing consumables sales declined largely due to a lower rate of growth in our installed sequencer base and a decrease in sales of DNA sequencing consumables to the Celera Genomics group and five large academic genome labs. Reagent dilution, a shift of much of the Celera Genomics group's sequencing capacity to the Applera genomics initiative, for which the Applied Biosystems group does not recognize revenue, and a winding down of the sequencing phase of the Japanese Millennium Project have driven this decline.

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

Revenues from other sources, which included service contracts, royalties, licenses, and contract research, increased 10.3% to \$175.0 million in the first nine months of fiscal 2002 from \$158.7 million in the first nine months of fiscal 2001.

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

(Dollar amounts in millions)	2002	2001	% Change
	-----	-----	-----
DNA sequencing products	\$ 455	\$ 559	(18%)
% of total revenues	38%	46%	
SDS and other applied genomics products	234	190	23%
% of total revenues	20%	16%	
Mass Spectrometry	206	166	24%
% of total revenues	18%	14%	
Core DNA synthesis and PCR products	180	189	(5%)
% of total revenues	15%	15%	
Other	111	110	1%
% of total revenues	9%	9%	
	-----	-----	
Total	\$1,186	\$1,214	(2%)
	=====	=====	

Gross margin, as a percentage of net revenues, declined to 52.1% for the first nine months of fiscal 2002 from 52.6% for the first nine months of fiscal 2001 due primarily to lower license fee income in the first nine months of fiscal 2002 as compared to the prior year and the negative effects of foreign currency, partially offset by price increases in certain product lines and changes in customer mix.

SG&A expenses of \$278.4 million for the first nine months of fiscal 2002 decreased 3.7% from the prior year amount of \$288.9 million due to restraints on discretionary spending in response to lower sales growth rates.

R&D expenses were \$161.6 million for first nine months of fiscal 2002 compared with \$135.6 million for the first nine months of fiscal 2001, an increase of 19.2%. As a percentage of net revenues, R&D expenses were 13.6% for the first nine months of fiscal 2002 compared with 11.2% for the same period in fiscal 2001. The increase in R&D expenses was primarily a result of continued development of new products and technologies such as novel, high-throughput instruments for gene and protein studies and related consumable products, including the ABI 3730 and ABI 3730XL DNA Analyzers, SDS systems, and the 4700 Proteomics Analyzer with TOF/TOF(TM) Optics introduced during fiscal 2002, as well as the Applied Biosystems group's participation in the Applera genomics initiative shared among the Company's businesses.

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

Interest income was \$9.8 million for the first nine months of fiscal 2002 compared with \$12.6 million for the first nine months of fiscal 2001. The decrease was primarily due to lower average interest rates, partially offset by larger average cash balances during the first nine months of fiscal 2002 compared with the first nine months of fiscal 2001. Other income (expense), net was expense of \$4.1 million for the first nine months of fiscal 2001, and was primarily related to the Applied Biosystems group's foreign currency risk management program.

The effective income tax rate was 29% for the first nine months of fiscal 2002 compared with 30% for the first nine months of fiscal 2001. The decrease in the effective income tax rate was due to the implementation of certain tax planning strategies allowing for the utilization of foreign tax credits. See Note 1 to the Applied Biosystems group's combined financial statements in the Company's 2001 Annual Report to Stockholders for a discussion of allocations of federal and state income taxes.

Celera Genomics Group

Results of Operations--The Three Months Ended March 31, 2002 Compared With The Three Months Ended March 31, 2001

The Celera Genomics group reported a net loss of \$49.5 million for the third quarter of fiscal 2002 compared with a net loss of \$29.1 million for the third quarter of fiscal 2001. On a comparable basis excluding the non-recurring special charges from fiscal 2002 previously described, the net loss decreased 2.1% to \$28.5 million. The lower net loss primarily resulted from operating growth in the Online/Information business, lower amortization of goodwill, and lower R&D spending. Partially offsetting these factors were continued investment in the Celera Diagnostics joint venture with the Applied Biosystems group, lower interest income and losses recognized from equity method investments.

Net revenues for the Celera Genomics group were \$30.5 million for the third quarter of fiscal 2002 compared with \$23.4 million for the third quarter of fiscal 2001. Online/Information business revenues for the quarter were \$18.5 million, compared to \$12.4 million in the third quarter of fiscal 2001. The increased revenues resulted primarily from new database subscription agreements with commercial and academic customers signed over the last twelve months.

Cost of sales increased \$3.4 million to \$15.4 million for the third quarter of fiscal 2002 from \$12.0 million in the third quarter of the prior year. The increase in cost of sales was substantially due to the \$2.9 million of Paracel inventory-related write-offs as further described below.

R&D expenses decreased \$2.6 million to \$37.6 million for the third quarter of fiscal 2002 from \$40.2 million in the third quarter of the prior year. R&D expenses associated with therapeutic discovery programs, including the Axys programs, proteomics, and discovery informatics increased in

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

comparison to the same quarter last year. R&D spending also increased as a result of the Celera Genomics group's participation in the Applera genomics initiative. These increases were more than offset by lower R&D expenses for whole genome sequencing and an increased use of sequencing capacity for commercial activity in the third quarter of fiscal 2002 as compared to the prior year. R&D expenses also decreased due to the transfer of personnel to the Applied Biosystems group effective July 1, 2001. See Note 4 to the Celera Genomics group's condensed combined financial statements for a further discussion.

The Celera Genomics group recorded non-cash amortization expenses of \$2.6 million in the third quarter of fiscal 2002 compared with \$10.9 million in the third quarter of fiscal 2001 relating to the amortization of goodwill and other intangible assets primarily from the Axys acquisition. Effective July 1, 2001, the Celera Genomics group adopted the provisions of SFAS No. 142, and as a result, no longer amortizes goodwill. Refer to Note 2 of the Celera Genomics group's condensed combined financial statements for a further discussion.

During the third quarter of fiscal 2002, the Celera Genomics group recorded a non-recurring charge of \$25.9 million related to its Paracel business. This charge was comprised of \$12.7 million for asset impairments, provisions of \$10.1 million for the estimated cost of excess lease space and \$0.2 million for severance, all included in other special charges. This charge also included \$2.9 million for the impairment of Paracel inventory included in cost of sales. During the fourth quarter of fiscal 2001, the Celera Genomics group had recorded a charge of \$69.1 million for the impairment of goodwill and other intangible assets associated with the Paracel business. The charge during fiscal 2001 resulted from Paracel's substantially lower than originally anticipated performance and management's future outlook of the business. The charges recorded during the third quarter of fiscal 2002 resulted from Paracel's unfavorable performance against the lower profitability outlook for the business established during the fourth quarter of fiscal 2001 at the time of the initial charge.

The asset impairment charges recorded during the third quarter of fiscal 2002 were for the write-off of the remaining goodwill of \$12.1 million, other intangible assets of \$0.5 million, and leasehold improvements of \$0.1 million. These charges were determined by management through a revised assessment of future cash flows and, as a result, reduced the carrying value of Paracel's net assets to their estimated fair value. Excess lease costs reflect the estimated loss associated with the remaining contractual obligations under a non-cancelable lease arrangement and certain costs associated with the expected sublease of the portion of the facility not occupied by the Paracel business, net of estimated sublease income, for the remaining lease term. Severance and related benefits were granted to 19 employees terminated in the third quarter of fiscal 2002 and are expected to be paid by the end of the first quarter of fiscal 2003.

Interest income was \$6.8 million for the third quarter of fiscal 2002 compared with \$15.3 million for the third quarter of fiscal 2001. The decrease was primarily attributable to lower average interest rates and lower average cash balances during fiscal 2002 compared to the prior year.

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

Other income (expense), net was expense of \$3.5 million in the third quarter of fiscal 2002 and consisted of the Celera Genomics group's share of losses from equity method investments and other non-operating costs.

Loss from joint venture of \$12.4 million in the third quarter of fiscal 2002 reflected the loss recognized by the Celera Genomics group as a result of its interest in Celera Diagnostics, a joint venture with the Applied Biosystems group. Refer to Note 2 of the Celera Genomics group's Combined Financial Statements included in the Company's 2001 Annual Report for a further discussion of this joint venture.

The effective income tax benefit rate was 30% for the third quarter of fiscal 2002 and 27% for the third quarter of fiscal 2001. Excluding the non-recurring special charges, the income tax benefit rate was 37% during the third quarter of fiscal 2002. The income tax benefit rate was lower in fiscal 2001 due to the amortization of nondeductible goodwill. As previously discussed, the Celera Genomics group no longer amortizes goodwill due to the adoption of SFAS No. 142.

Results of Operations--The Nine Months Ended March 31, 2002 Compared With The Nine Months Ended March 31, 2001

The Celera Genomics group reported a net loss of \$183.0 million for the first nine months of fiscal 2002 compared with a net loss of \$84.5 million for the first nine months of fiscal 2001. On a comparable basis excluding the acquired IPR&D and other special charges from fiscal 2002, the net loss decreased 25.4% to \$63.0 million during fiscal 2002. The decrease in the net loss primarily resulted from operating growth in the Online/Information business, the completion of R&D related genome sequencing programs, and lower amortization of goodwill. Partially offsetting these factors were recognition of losses from the investment in the Celera Diagnostics joint venture with the Applied Biosystems group and lower interest income.

Net revenues for the Celera Genomics group were \$92.8 million for the first nine months of fiscal 2002 compared with \$61.9 million for the first nine months of fiscal 2001, an increase of 49.8%. Online/Information business revenues increased to \$52.8 million in the first nine months of fiscal 2002 compared with \$34.3 million for the same period in fiscal 2001 as a result of increased database subscription agreements from commercial and academic customers. The remaining revenue increase resulted primarily from increased genomic services and collaborations.

Cost of sales increased \$17.1 million to \$45.3 million for the first nine months of fiscal 2002 from \$28.2 million in the first nine months of fiscal 2001. Fiscal 2002 cost of sales included \$2.9 million of inventory-related write-offs related to the Paracel business. Excluding the special charge, cost of sales increased \$14.2 million. This increase was primarily due to the increased use of sequencing capacity for commercial activities.

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

R&D expenses decreased \$27.5 million to \$96.0 million for the first nine months of fiscal 2002 from \$123.5 million for the first nine months of fiscal 2001. R&D expenses associated with therapeutic discovery programs, including the Axyx

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programs, proteomics, and discovery informatics increased in comparison to the same period last year. R&D spending also increased for the Celera Genomics group's participation in the Applera genomics initiative. These increases were more than offset by lower R&D expenses for whole genome sequencing and an increased use of sequencing capacity for commercial activity in the first nine months of fiscal 2002 as compared to the prior year. R&D expenses decreased due to the transfer of personnel to the Applied Biosystems group effective July 1, 2001. See Note 4 to the Celera Genomics group's condensed combined financial statements for a further discussion.

The Celera Genomics group recorded non-cash amortization expenses of \$4.7 million in the first nine months of fiscal 2002 compared with \$33.0 million in the first nine months of fiscal 2001 relating to the amortization of goodwill and other intangible assets primarily from the Axys acquisition. Effective July 1, 2001, the Celera Genomics group adopted the provisions of SFAS No. 142, and as a result, no longer amortizes goodwill. Refer to Note 2 of the Celera Genomics group's condensed combined financial statements for a further discussion.

Interest income was \$26.4 million for the first nine months of fiscal 2002 compared with \$50.6 million for the first nine months of fiscal 2001. The decrease was primarily attributable to lower average interest rates during the first nine months of fiscal 2002.

Other income (expense), net was expense of \$5.3 million for the first nine months of fiscal 2002, which consisted primarily of the Celera Genomics group's share of losses from equity method investments and other non-operating costs, partially offset by a net gain on the sale of the Celera Genomics group's AgGen plant genotyping business.

Loss from joint venture of \$30.2 million for the first nine months of fiscal 2002 reflects the loss recognized by the Celera Genomics group as a result of its interest in Celera Diagnostics, a joint venture with the Applied Biosystems group. Refer to Note 2 of the Celera Genomics group's Combined Financial Statements included in the Company's 2001 Annual Report.

The effective income tax benefit rate was 19% for the first nine months of fiscal 2002 and 27% for the first nine months of fiscal 2001. Excluding the acquired IPR&D and other special charges, the effective income tax benefit rate was 37% for fiscal 2002. The income tax benefit rate was lower in fiscal 2001 primarily due to the amortization of nondeductible goodwill. As discussed previously, the Celera Genomics group no longer amortizes goodwill due to the adoption of SFAS No. 142.

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

Management's Discussion of Condensed Consolidated Financial Resources and Liquidity

The Company had cash and cash equivalents and short-term investments of \$1.4 billion at March 31, 2002 and June 30, 2001. The Company maintains a \$100 million revolving credit agreement with four banks that expires on April 20, 2005, under which there are no outstanding borrowings. Cash provided by operating activities has been and is expected to continue to be the Company's primary source of funds.

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The Company believes that existing funds, cash generated from operations, and existing sources of debt financing are adequate to satisfy its normal operating cash flow needs, planned capital expenditure requirements, and dividends. However, the Company may raise additional capital from time to time.

The Company manages the investment of surplus cash and the issuance and repayment of short-term and long-term debt for the Applied Biosystems group and the Celera Genomics group and allocates activity within these balances to the group that uses or generates such resources.

The following discussion of financial resources and liquidity focuses on the Company's Condensed Consolidated Statements of Financial Position and Condensed Consolidated Statements of Cash Flows, the Applied Biosystems group's Condensed Combined Statements of Financial Position and Condensed Combined Statements of Cash Flows, and the Celera Genomics group's Condensed Combined Statements of Financial Position and Condensed Combined Statements of Cash Flows.

Significant Changes in the Condensed Consolidated Statements of Financial Position

Working capital was \$1.4 billion at March 31, 2002 and \$1.5 billion at June 30, 2001. Debt to total capitalization was 1% at March 31, 2002 and 2% at June 30, 2001. During the second quarter of fiscal 2002, in connection with the Axys acquisition, the Company assumed \$26.0 million of 8% senior secured convertible notes, of which \$10.0 million was repaid in the third quarter of fiscal 2002 and an \$8.4 million short-term loan, which was repaid during the second quarter of fiscal 2002. Also during the third quarter of fiscal 2002, the Company repaid its yen 3.8 billion, or \$29.0 million, loan upon its scheduled maturity.

Accounts receivable decreased by \$19.5 million to \$381.3 million at March 31, 2002 from \$400.8 million at June 30, 2001, primarily due to the strong collection efforts by the Applied Biosystems group.

Prepaid expenses and other current assets increased \$13.9 million to \$116.9 million at March 31, 2002 from \$103.0 million at June 30, 2001, primarily due to a change in investments used to fund a deferred compensation plan.

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

Property, plant and equipment, net increased \$36.3 million to \$471.9 million at March 31, 2002, from \$435.6 million at June 30, 2001 primarily due to assets acquired as part of the acquisitions of Axys and Boston Probes.

Other long-term assets increased \$157.7 million to \$568.5 million at March 31, 2002 from \$410.8 million at June 30, 2001 primarily due to the acquisitions of Axys and Boston Probes. In connection with these acquisitions, the Company recorded approximately \$23 million of goodwill, \$41 million of other intangible assets, and net deferred tax assets of \$57 million for net operating loss carryforwards and other temporary differences. As a result of these acquisitions, the Company also received investments in equity securities of approximately \$32 million. Non-current deferred tax assets increased approximately \$50 million in addition to the acquired tax assets, and the Company spent approximately \$27 million relating to purchased licensed technology and prepaid supply agreements during fiscal 2002. Partially offsetting these increases was a decrease in the fair value of the Company's minority equity investments of approximately \$44 million primarily caused by

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the decline in market values of the securities, as well as the \$12.7 million charge for the impairment of goodwill and other intangible assets related to the Celera Genomics group's Paracel business.

Accounts payable decreased to \$150.1 million at March 31, 2002 from \$178.3 million at June 30, 2001. The decrease was primarily related to the timing of vendor payments and management of inventory on hand.

Accrued taxes on income increased \$13.2 million to \$96.2 million at March 31, 2002 from \$83.0 million at June 30, 2001, primarily due to the timing of income tax payments.

Discussion of the Condensed Consolidated Statements of Cash Flows

Operating activities generated \$122.4 million of cash for the first nine months of fiscal 2002 compared with \$24.9 million for the same period in fiscal 2001. For the first nine months of fiscal 2002 compared with the first nine months of fiscal 2001, strong working capital management and lower compensation-related payments were only partially offset by lower income-related cash flows.

During the first nine months of fiscal 2002, net cash used by investing activities was \$129.3 million, compared with \$140.6 million for the first nine months of fiscal 2001. Capital expenditures, net of disposals, were \$78.0 million for the first nine months of fiscal 2002 compared with \$139.9 million in the prior year period. Capital expenditures were higher during the first nine months of fiscal 2001 primarily due to the Applied Biosystems group's purchase of additional property in Pleasanton, California. During the first nine months of fiscal 2002, the Company had net purchases of short-term investments of \$15.2 million compared with \$7.2 million during the prior year. The Company realized \$5.2 million and \$15.5 million in net cash proceeds from the sale of minority equity investments during the first nine months of fiscal 2002 and 2001, respectively. The Company acquired the remaining 87% of Boston Probes, not previously owned, for approximately \$37 million

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

in the second quarter of fiscal 2002 as described in Note 4 of the Company's condensed consolidated financial statements.

Net cash used by financing activities was \$44.8 million for the first nine months of fiscal 2002 compared with \$14.6 million for the first nine months of fiscal 2001. The Company made net payments of \$14.5 million on loans payable during the first nine months of fiscal 2002 compared with net proceeds of \$7.8 million during the first nine months of fiscal 2001. Subsequent to the acquisition of Axys, the Company repaid \$8.4 million of short-term debt and \$10.0 million of long-term debt assumed in the Axys acquisition. Also during fiscal 2002, the Company repaid a yen 3.8 billion, or \$29.0 million, loan on its scheduled maturity date. During fiscal 2001, the Company repaid \$46.0 million of its commercial paper borrowing, which it secured specifically for the purchase of the Celera Genomics group's Rockville, Maryland facilities. During the first nine months of fiscal 2002, the Company received \$36.6 million of proceeds from stock issued for stock plans compared with \$50.2 million for the first nine months of fiscal 2001. Dividends paid on Applera - Applied Biosystems stock were \$27.0 million during the first nine months of fiscal 2002 compared with \$26.7 million for the first nine months of fiscal 2001. During the first nine months of fiscal 2002, the Company also purchased \$0.9 million

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of Applera - Celera stock for treasury, which was subsequently reissued for stock plans.

Discussion of Segment Financial Resources and Liquidity

Applied Biosystems Group

Significant Changes in the Applied Biosystems Group's Condensed Combined Statements of Financial Position

Cash and cash equivalents were \$447.7 million at March 31, 2002 and \$392.5 million at June 30, 2001, with total debt of \$9.1 million at March 31, 2002 and \$45.2 million at June 30, 2001. Working capital was \$584.7 million at March 31, 2002 and \$505.9 million at June 30, 2001. Debt to total capitalization decreased to 1% at March 31, 2002 from 4% at June 30, 2001.

Accounts receivable decreased \$22.6 million to \$360.0 million at March 31, 2002 from \$382.6 million at June 30, 2001, primarily due to the strong collection efforts as evidenced by the improvement in days sales outstanding to 68 days at March 31, 2002 from 79 days at June 30, 2001, calculated on a consistent basis.

Prepaid expenses and other current assets increased \$10.4 million to \$108.5 million at March 31, 2002 from \$98.1 million at June 30, 2001, primarily due to a change in investments used to fund a deferred compensation plan.

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

Other long-term assets increased \$33.9 million to \$382.5 million at March 31, 2002 from \$348.6 million at June 30, 2001, primarily due to the acquisition of Boston Probes. In conjunction with this acquisition, the Applied Biosystems group recorded approximately \$23 million of goodwill and \$22 million of other intangible assets. Also, during fiscal 2002, non-current deferred tax assets increased approximately \$18 million and the Applied Biosystems group spent approximately \$27 million relating to purchased licensed technology and supply agreements. Partially offsetting these increases was a decrease in the fair value of minority equity investments by approximately \$44 million primarily caused by the decline in market values of the securities.

Accounts payable decreased to \$131.7 million at March 31, 2002 from \$162.1 million at June 30, 2001 primarily due to the timing of vendor payments and management of inventory on hand.

Accrued taxes on income increased \$8.9 million to \$91.6 million at March 31, 2002 from \$82.7 million at June 30, 2001 primarily due to the timing of income tax payments.

Discussion of the Applied Biosystems Group's Condensed Combined Statements of Cash Flows

Operating activities generated \$185.0 million of cash for the first nine months of fiscal 2002 compared with \$49.7 million during the first nine months of fiscal 2001. For the first nine months of fiscal 2002 compared with the same period of fiscal 2001, strong working capital management and lower compensation-related payments were only partially offset by lower income-related cash flows. Calculated on a consistent basis, the Applied Biosystems group's days sales outstanding was 68 days at March 31, 2002

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compared to 79 days at March 31, 2001 and there were 3.4 months of inventory on hand at March 31, 2002 compared to 3.2 months on hand at June 30, 2001.

For the first nine months of fiscal 2002, net cash used by investing activities was \$89.9 million, compared with \$109.4 million for the first nine months of fiscal 2001. Capital expenditures, net of disposals, were \$57.2 million for the first nine months of fiscal 2002 compared with \$120.1 million in the prior year period. Capital expenditures were higher during the first nine months of fiscal 2001 primarily due to the Applied Biosystems group's purchase of property in Pleasanton, California for approximately \$54 million. During the first nine months of fiscal 2002, the Applied Biosystems group acquired the remaining shares of Boston Probes that it did not already own for approximately \$37 million and realized proceeds of \$5.2 million from the sale of investments. During the first nine months of fiscal 2001, the Applied Biosystems group realized \$15.5 million in net cash proceeds from the sales of minority equity investments and invested \$4.8 million in other minority equity investments.

Net cash used by financing activities was \$44.6 million for the first nine months of fiscal 2002 compared with net cash provided by financing activities of \$13.2 million for the first nine months of fiscal 2001. During the first nine months of fiscal 2002, the Applied Biosystems group received \$17.4 million of proceeds from stock issued for stock plans compared with \$32.0 million during the

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

first nine months of fiscal 2001. Dividends paid on Applera - Applied Biosystems stock were \$27.0 million during the first nine months of fiscal 2002 compared with \$26.7 million for the first nine months of fiscal 2001. Also during the first nine months of fiscal 2002, the Company repaid a yen 3.8 billion, or \$29.0 million, loan on its scheduled maturity date. The Applied Biosystems group made net payments of \$6.1 million on loans payable during the first nine months of fiscal 2002 compared with net proceeds of \$7.8 million from loans during the first nine months of fiscal 2001.

Celera Genomics Group

Significant Changes in the Celera Genomics Group's Condensed Combined Statements of Financial Position

Cash and cash equivalents and short-term investments were \$908.6 million at March 31, 2002 compared with \$995.6 million at June 30, 2001. During the second quarter of fiscal 2002, in connection with the Axys acquisition, the Company assumed \$26.0 million of 8% senior secured convertible notes, of which \$10.0 million was repaid in the third quarter of fiscal 2002, and an \$8.4 million short-term loan, which was repaid during the second quarter of fiscal 2002. Working capital was \$845.0 million at March 31, 2002 and \$945.1 million at June 30, 2001.

Property, plant and equipment, net increased \$7.6 million to \$131.1 million at March 31, 2002, from \$123.5 million at June 30, 2001 primarily related to assets received in the acquisition of Axys.

Other long-term assets increased by \$118.3 million to \$184.3 million at March 31, 2002 from \$66.0 million at June 30, 2001, primarily as a result of the acquisition of Axys. In conjunction with this acquisition, the Celera Genomics

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group recorded \$19.5 million of intangible assets and \$61.3 million of deferred tax assets for deductible net operating loss carryforwards and other temporary differences. The Celera Genomics group also received approximately \$32 million of equity investments as a result of this acquisition. Non-current deferred tax assets increased \$23 million in addition to the acquired tax assets. Partially offsetting these increases was the \$12.7 million charge for the impairment of goodwill and other intangible assets related to the Paracel business.

Deferred revenues increased \$3.8 million to \$41.3 million at March 31, 2002 from \$37.5 million at June 30, 2001 due to the timing of subscriptions received for database agreements and payments received on contract sequencing agreement offsets by revenue recognized under these agreements.

Other accrued expenses increased \$9.7 million to \$21.7 million at March 31, 2002 from \$12.0 million at June 30, 2001, primarily due to other accruals associated with the acquisition of Axys and an increase in accrued rent for the short-term portion of the provision for Paracel's estimated loss associated with the excess lease costs.

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

Other long-term liabilities increased \$6.4 million to \$30.2 million at March 31, 2002 from \$23.8 million at June 30, 2001, primarily due to an increase in accrued rent for the long-term portion of the provision for Paracel's estimated loss associated with the excess lease costs.

Discussion of the Celera Genomics Group's Condensed Combined Statements of Cash Flows

Operating activities used \$37.7 million of cash during the first nine months of fiscal 2002 compared with \$23.3 million for the first nine months of fiscal 2001. The increase in cash used by operating activities during the first nine months of fiscal 2002 compared with the first nine months of fiscal 2001 was primarily due to the payment of compensation and other liabilities assumed in the Axys' acquisition and a decrease in reimbursable tax benefits of the Celera Genomics group utilized by the Applied Biosystems group, partially offset by lower net cash operating losses and management of receivables. During the first quarter of fiscal 2001, the Applied Biosystems group began utilizing tax benefits in excess of the maximum reimbursable amount. See Note 1 to the Celera Genomics group's combined financial statements in the Company's 2001 Annual Report to Stockholders for a discussion of allocations of federal and state income taxes.

For the first nine months of fiscal 2002, net cash used by investing activities was \$64.2 million, compared with \$32.7 million for the first nine months of fiscal 2001. Capital expenditures, net of disposals, were \$14.9 million for the first nine months of fiscal 2002 compared to \$21.4 million for the first nine months of fiscal 2001. Capital expenditures for the first nine months of fiscal 2001 included \$2.9 million of purchases from the Applied Biosystems group. During the first nine months of fiscal 2002, the Celera Genomics group had net purchases of short-term investments of \$15.2 million compared with \$7.2 million during the prior year period. Also during the first nine months of fiscal 2002, the Celera Genomics group made investments of \$34.1 million, which were primarily related to the Celera Diagnostics joint venture. During the first nine months of fiscal 2001, the Celera Genomics group acquired an

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interest in Hubit Genomix for \$4.1 million.

Net cash used by financing activities was \$0.2 million during the first nine months of fiscal 2002 compared with \$27.8 million for the first nine months of fiscal 2001. During the first nine months of fiscal 2002, the Celera Genomics group received \$19.2 million of proceeds from stock issued for stock plans compared with \$18.2 million during the prior year period. During the first nine months of fiscal 2002, the Company purchased \$0.9 million of Applera - Celera Stock for treasury, which was subsequently reissued for stock plans. During the first nine months of fiscal 2002, the Celera Genomics group repaid \$8.4 million of short-term debt and \$10.0 million of long-term debt assumed in the acquisition of Axys. During the comparable prior year period, the Company repaid \$46.0 million of its commercial paper borrowing attributed to the Celera Genomics group.

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

Recently Issued Accounting Standards

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations", which will be effective for the Company beginning in fiscal year 2003. SFAS No. 143 addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company has not yet determined the impact of adopting SFAS No. 143 on its consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of and also broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. SFAS No. 144 is effective for the Company's fiscal year 2003 and is not expected to materially change the methods used by the Company to measure impairment losses on long-lived assets, but may result in more dispositions being reported as discontinued operations than is permitted under current accounting principles.

Outlook

Applied Biosystems Group

The continued market uncertainty makes forecasting operations extremely difficult. The Applied Biosystems group expects that revenues for the fourth quarter of fiscal 2002 will be approximately equal to or slightly above the prior year period. The Applied Biosystems group expects diluted earnings per share for Applera - Applied Biosystems stock for the fourth fiscal quarter to be in a range of \$0.18 to \$0.21.

The Applied Biosystems group expects that growth in fiscal 2003 will be heavily influenced by the adoption of new products. At this time, on a preliminary basis, the Applied Biosystems group anticipates that fiscal 2003 revenue percentage growth will be in the high-single-digits to low-teens. Given the confidence in the long-term prospects of the business, the Applied Biosystems group anticipates maintaining its commitment to investment in R&D. After further analysis of the projected adoption rate of its new products, the

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Applied Biosystems group will provide additional revenue, expense and EPS guidance for fiscal 2003 in July 2002 in conjunction with its fourth fiscal quarter earnings release.

Celera Genomics Group

Consistent with the Celera Genomics group's transformation into a drug discovery business, management believes that revenues for the remainder of the fiscal year attributable to low-margin

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services and collaborations will be lower than previously anticipated. As a result, revenues for the fiscal fourth quarter of 2002 are expected to be between \$27 million and \$29 million, including approximately \$20 million in Online/Information business revenues. Total revenues for fiscal 2002 are expected to be between \$119 million and \$121 million, including approximately \$73 million in Online/Information business revenues. Revenue for CDS subscriptions and for Knowledge Business royalties for fiscal 2003 is expected to be between \$75 million and \$80 million. The Celera Genomics group anticipates total revenues during fiscal 2003 to be between \$85 million and \$95 million, based upon its new focus on cash flow and the decision not to pursue new service business.

The Celera Genomics group expects R&D expenses to be in the range of \$135 million to \$140 million. The outlook for SG&A expenses has been lowered to a range of \$50 million to \$55 million. Pre-tax losses related to the Celera Diagnostics joint venture are now expected to be approximately \$50 million.

The Celera Genomics group's fiscal 2002 net cash use expectation has been reduced by approximately \$35 million since the update provided in the Quarterly Report on Form 10-Q for the period ended December 31, 2001, to between \$110 million and \$120 million. The lower expected cash use is primarily due to lower R&D expenses and related capital expenditures, lower development expenses within Celera Diagnostics, and higher than anticipated cash receipts from the exercise of stock options.

Applera Genomics Initiative

The Applera genomics initiative, which includes the resequencing of genes and regulatory regions at the Celera Genomics group, validation of SNP's at the Applied Biosystems group, and disease gene association studies at Celera Diagnostics, commenced during the first quarter of fiscal 2002 and is expected to be substantially completed by the end of the second quarter of fiscal 2003. Expenses associated with this initiative amounted to \$33.0 million through the nine months ended March 31, 2002 and have been shared equally by the Company's three businesses. Costs, including those which will be capitalized as inventory, for this initiative are anticipated to total approximately \$70 million in fiscal 2002. The initiative has been expanded to include gene validation and expression. The total anticipated costs associated with the Applera genomics initiative, including costs capitalized as inventory, are expected to be approximately \$100 million. The portion of the costs being capitalized are primarily associated with the production of the Applied Biosystems group's Assays On Demand(TM).

Forward-Looking Statements

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Certain statements contained in this report, including the Outlook section, are forward-looking and are subject to a variety of risks and uncertainties. These statements may be identified by the use of forward-looking words or phrases such as "expect," "anticipate," "should," "plan," "estimate," and

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"potential," among others. These forward-looking statements are based on the Company's current expectations. The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for such forward-looking statements. In order to comply with the terms of the safe harbor, the Company notes that a variety of factors could cause actual results and experience to differ materially from the anticipated results or other expectations expressed in such forward-looking statements. The risks and uncertainties that may affect the operations, performance, development and results of the Company's businesses include, but are not limited to:

Factors Relating to the Applied Biosystems Group

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

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

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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

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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 level and timing of funding from government sources. As a result, the timing and amount of revenues from these sources may vary significantly due to factors that can be difficult to forecast. Although research funding has increased during the past several years, grants have, in the past, been frozen for extended periods or otherwise become unavailable to various institutions, sometimes without advance notice. Budgetary pressures may result in reduced allocations to government agencies that fund research and development activities. If government funding necessary to purchase the Applied Biosystems group's products were to become unavailable to researchers for any extended period of time, or if overall research funding were to decrease, the business of the Applied Biosystems group could be adversely affected.

The Applied Biosystems group is currently and could in the future be subject to claims for infringement of patents and other intellectual property rights. The Applied Biosystems group's products are based on complex, rapidly developing technologies. These products could be developed without knowledge of previously filed patent applications that mature into patents that cover some aspect of these technologies. In addition, there are relatively few decided court cases interpreting the scope of patent claims in these technologies, and the Applied Biosystems group's belief that its products do not infringe the technology covered by valid and enforceable patents could be successfully challenged by third parties. Also, in the course of its business, the Applied Biosystems group may from time to time have access to confidential or proprietary information of third parties, and these parties could bring a theft of trade secret claim against the Applied Biosystems group asserting that the Applied Biosystems group's products improperly use technologies which are not patented but which are protected as trade secrets. The Applied Biosystems group has been made a party to litigation regarding intellectual property matters, and due to the fact that the Applied Biosystems group's business depends in large part on rapidly developing and dynamic technologies, there remains a constant risk of intellectual property litigation affecting the group. The Applied Biosystems group has from time to time been notified that it may be infringing patents and other intellectual property rights of others. It may be necessary or desirable in the future to obtain licenses relating to one or more products or relating to current or future technologies, and the Applied Biosystems group cannot be assured that it will be able to obtain these licenses or other rights on commercially reasonable terms.

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Since the Applied Biosystems group's business is dependent on foreign sales, fluctuating currencies will make revenues and operating results more volatile. Approximately 50% of the Applied Biosystems group's net revenues during fiscal 2001 were derived from sales to customers outside of the United States. The majority of these sales were based on the relevant customer's local currency. A significant portion of the related costs for the Applied Biosystems group are based on the U.S. dollar. As a result, the Applied Biosystems group's reported and anticipated operating results and cash flows are subject to fluctuations due to material changes in foreign currency exchange rates that are beyond the Applied Biosystems group's control.

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

Electricity shortages and earthquakes could disrupt operations in California. The headquarters and principal operations of the Applied Biosystems group are located in Foster City, California. The State of California and its principal electrical utility companies have recently indicated that there is a statewide electricity shortage and that these utility companies are in poor financial condition. As a result, California has experienced temporary localized electricity outages, or rolling blackouts, which may continue or worsen into blackouts of longer duration in the future. Blackouts in Foster City, even of modest duration, could impair or cause a temporary suspension of the group's operations, including the manufacturing and shipment of new products. Power disruptions of an extended duration or high frequency could have a material adverse effect on operating results. In addition, Foster City is located near major California earthquake faults. The ultimate impact of earthquakes on the Applied Biosystems group, its significant suppliers, and the general infrastructure is unknown, but operating results could be materially affected in the event of a major earthquake.

Celera Diagnostics' ability to develop proprietary diagnostic products is unproven. Celera Diagnostics faces the difficulties inherent in developing and commercializing diagnostic tests. Celera Diagnostics' ability to develop proprietary diagnostic and products is unproven, and it is possible that Celera Diagnostics' discovery and development efforts will not result in any commercial products or services. Even if Celera Diagnostics is able to discover potential products and services, development of these products and services would be subject to various risks, including that they may be found to be ineffective or that they may fail to receive necessary regulatory approvals. Furthermore, products that are developed may not be commercially viable or successful due to a variety of reasons, including competitive conditions, the inability to obtain necessary intellectual property protection, the need to build distribution channels, failure to get adequate reimbursement for these products from

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insurance or government payors, or the inability of Celera Diagnostics to recover its development costs in a reasonable period.

Factors Relating to the Celera Genomics Group

The Celera Genomics group has incurred net losses to date and may not achieve profitability. The Celera Genomics group has accumulated net losses of \$548.0 million as of March 31, 2002, and expects that it will continue to incur additional net losses for the foreseeable future. These cumulative losses are expected to increase as the Celera Genomics group continues to make investments in new technology and product development, including its investments in its therapeutics business and the Company's genomics initiative for commercializing products from information obtained through the analysis of the human genome, as well as investments in diagnostics through Celera Diagnostics, its joint venture with the Applied Biosystems group. The Celera Genomics group will record all initial operating losses of Celera Diagnostics up to a maximum of \$300 million, after which any additional operating losses would be shared equally by the Celera Genomics group and the Applied Biosystems group. As an early stage business, the Celera Genomics group faces significant challenges in expanding its operations into the therapeutics research and development business. As a result, there is a high degree of uncertainty that the Celera Genomics group will be able to achieve profitable operations.

The Celera Genomics group has entered into an exclusive arrangement with the Applied Biosystems group to distribute the Celera Discovery System and related information as part of the Applied Biosystems group's new Knowledge Business, and the revenue that the Celera Genomics Group receives from the Applied Biosystems group will depend heavily on the Applied Biosystems group's ability to market and distribute its Knowledge Business products. Effective April 2002, the Applied Biosystems group became the exclusive distributor of Celera Discovery System and the Celera Genomics group's related human genomic and other biological and medical information under the terms of a ten-year marketing and distribution agreement. The Celera Genomics group expects that the Applied Biosystems group will integrate the Celera Discovery System and the related information into a new Knowledge Business that combines current Applied Biosystems assay products with new biological information content and analytical tools. Under the terms of the agreement, the Applied Biosystems group is obligated to pay a royalty to the Celera Genomics group based on sales, if any, of certain Knowledge Business products after July 1, 2002. Whether the Celera Genomics group actually receives any royalties from the Applied Biosystems group under this agreement, and the amount of these royalties, depends on the Applied Biosystems group's ability to successfully commercialize Knowledge Business products. The Knowledge Business is an emerging business and is unproven, and the Celera Genomics group believes that in order for it to be successful the Applied Biosystems group may have to devote a significant amount of its resources to researching and developing additional products which combine the Celera Genomics group's information with the Applied Biosystems group's assays and tools, and in marketing and distributing these products. However, the Celera Genomics group has no control over the amount and timing of the Applied Biosystems group's use of its resources. In addition, the market for these products is intensely competitive, and there can be no assurance that there will be market acceptance of the utility and value of the product offerings of the Knowledge Business.

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The Celera Genomics group does not intend to seek any new customers for its Celera Discovery System and related information products and services after June 30, 2002, and therefore its future revenues from these products and services will be limited. Under the terms of the marketing and distribution agreement between the Celera Genomics group and the Applied Biosystems group, the Celera Genomics group will receive all revenues under Celera Discovery System and related information contracts that were in effect on April 1, 2002, the effective date of the agreement, or which are entered into during a three-month transition period ending June 30, 2002 (including renewals of these contracts, if any). In addition, the Applied Biosystems group has agreed to reimburse the Celera Genomics group for any shortfall in earnings before interest, taxes, depreciation, and amortization from these contracts below \$62.5 million (including renewals, if any) if the shortfall is due to changes made to Celera Discovery System products by or at the request of the Applied Biosystems group, provided the Celera Genomics group otherwise satisfies its obligations under these contracts. However, during the term of the marketing and distribution agreement (other than the transition period), the Celera Genomics group will not be marketing Celera Discovery System products and services to, and will not be

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contracting with, new customers. Accordingly, except for the anticipated revenue under existing Celera Discovery System contracts (or contracts expected during the transition period) and renewals of these contracts, if any, and the Applied Biosystems' corresponding reimbursement obligation, the Celera Genomics group does not expect any revenues from Celera Discovery System and related products and services other than the potential royalty payments from the Applied Biosystems group under the marketing and distribution agreement. Although under certain contracts with existing Celera Discovery System customers the Celera Genomics group is entitled to milestone payments or future royalties based on products developed by its customers, the Celera Genomics group believes these arrangements are unlikely to produce any significant revenue for the group.

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

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may have a material adverse effect on the Celera Genomics group's business.

The Celera Genomics group's ability to develop proprietary therapeutics and Celera Diagnostics' ability to develop proprietary diagnostics are unproven. As the Celera Genomics group expands its therapeutic discovery and development business, it faces the difficulties inherent in developing and commercializing therapeutic products. Similarly, Celera Diagnostics faces the difficulties inherent in developing and commercializing diagnostic tests. Given the Celera Genomics group's unproven ability to develop proprietary therapeutics and Celera Diagnostics' unproven ability to develop proprietary diagnostic products, it is possible that the Celera Genomics group's and Celera

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

Diagnostics' discovery and development efforts will not result in any commercial products or services. Even if the Celera Genomics group or Celera Diagnostics were able to discover potential therapeutic or diagnostic products and services, development of these products and services would be subject to various risks, including that they may be found to be toxic or ineffective, or that they may fail to receive necessary regulatory approvals. Furthermore, products that are developed may not be commercially viable or successful for a variety of reasons, including competitive conditions, the inability to get necessary intellectual property protection, the need to build distribution channels, failure to get adequate reimbursement for these products from insurance or government payors, or the inability of the Celera Genomics group or Celera Diagnostics to recover its development costs in a reasonable period.

If the Celera Genomics group or its collaborators fail to discover or develop or are delayed in the development of therapeutics, the Celera Genomics group's business and results of operations will be adversely affected. All of the Celera Genomics group's potential therapeutic products, including those projects acquired in the acquisition of Axys, are in various stages of research and development and will require significant additional research and development efforts by the Celera Genomics group or its collaborators before these products can be marketed. These efforts include extensive preclinical and clinical testing and lengthy regulatory review and approval by the United States Food and Drug Administration. The development of the Celera Genomics group's new therapeutics products is highly uncertain and subject to a number of significant risks. To date, the Celera Genomics group has not developed a commercial therapeutic and the Celera Genomics group does not expect any of its therapeutics to be commercially available for a number of years, if ever. Therapeutics that appear to be promising at early stages of development may not reach the market for a number of reasons, including:

- o the Celera Genomics group or its collaborators may not successfully complete any research and development efforts;
- o any therapeutics the Celera Genomics group or its collaborators develop may be found to be ineffective or to cause harmful side effects during preclinical testing or clinical trials;
- o the Celera Genomics group or its collaborators may fail to obtain required regulatory approvals for any products it develops;
- o the Celera Genomics group or its collaborators may be unable to manufacture enough of any potential products at an acceptable cost and with appropriate quality;
- o the Celera Genomics group's or its collaborator's products may not be competitive with other existing or future products; and

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- o proprietary rights of third parties may prevent the Celera Genomics group or its collaborators from commercializing its products.

If the Celera Genomics group fails to maintain its existing collaborative relationships and enter into new collaborative relationships, or if collaboration partners do not perform under collaboration agreements, development of its therapeutic products could be delayed. The Celera Genomics group's

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

strategy for the development, clinical testing, manufacturing and commercialization of most of its therapeutic product candidates includes entering into collaborations with partners. Although the Celera Genomics group has expended, and continues to expend, time and money on internal research and development programs, the Celera Genomics group may be unsuccessful in creating therapeutic product candidates that would enable it to form additional collaborations and receive milestone and/or royalty payments from collaborators.

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

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

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Even if the Celera Genomics group obtains regulatory approval, the Celera Genomics group may be subject to certain risks and uncertainties relating to regulatory compliance, including: post approval Phase IV clinical studies and inability to meet the compliance requirements of the Good Manufacturing Practices regulations. In addition, identification of certain side effects after a therapeutic is on the market or the occurrence of manufacturing problems could cause subsequent withdrawal of approval, reformulation of a therapeutic, additional preclinical testing or clinical trials

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and changes in labeling of the product. This could delay or prevent the Celera Genomics group from generating revenues from the sale of that therapeutic, or cause the Celera Genomics group's revenues to decline.

The Celera Genomics group's research and product development, including its proteomics efforts, depends on access to tissue samples and other biological materials. To carry out a portion of its current business plan, the Celera Genomics group will need access to normal and diseased human and other tissue samples, other biological materials and related clinical and other information, which may be in limited supply. The Celera Genomics group may not be able to obtain or maintain access to these materials and information on acceptable terms. In addition, government regulation in the United States and foreign countries could result in restricted access to, or use of, human and other tissue samples. If the Celera Genomics group loses access to sufficient numbers or sources of tissue samples, or if tighter restrictions are imposed on its use of the information generated from tissue samples, its business may be harmed.

The industries in which the Celera Genomics group operates are intensely competitive and evolving. There is intense competition among pharmaceutical, biotechnology, and diagnostic companies attempting to discover potential candidates for new diagnostic and therapeutic products. These companies may:

- o develop new diagnostic or therapeutic products in advance of the Celera Genomics group or its customers;
- o develop diagnostic or therapeutic products which are more effective than those developed by the Celera Genomics group or its customers;
- o obtain regulatory approvals of their diagnostic or therapeutic products more rapidly than the Celera Genomics group or its customers;
- or
- o obtain patent protection or other intellectual property rights that would limit the Celera Genomics group's rights or its customers' ability to use the Celera Genomics group's products to develop and commercialize therapeutic or diagnostic products.

Introduction of new products may expose the Celera Genomics group to product liability claims. New products developed by the Celera Genomics group or its partners could expose the Celera Genomics group to potential product liability risks that are inherent in the testing, manufacturing, marketing and sale of human therapeutic and diagnostic products. Product liability claims or product recalls, regardless of the ultimate outcome, could require the Celera Genomics group to spend significant time and money in litigation and to pay significant damages. Although the Celera Genomics group expects to seek product liability insurance to cover claims relating to the testing and use of therapeutic and diagnostic products, there can be no assurance that such insurance will be

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available on commercially reasonable terms, if at all, or that the amount of coverage obtained will be adequate to cover losses from any particular claim.

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

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The Celera Genomics group could incur liabilities relating to hazardous materials that it uses in its research and development activities. The Celera Genomics group's research and development activities involve the controlled use of hazardous materials, chemicals and various radioactive materials. In the event of an accidental contamination or injury from these materials, the Celera Genomics group could be held liable for damages in excess of its resources.

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

The Celera Genomics group's computer and communications hardware is protected through physical and software safeguards. However, it is still vulnerable to fire, storm, flood, power loss, earthquakes, telecommunications failures, physical or software break-ins, and similar events. In addition, the Celera Genomics group's on-line products are complex and sophisticated, and as such, could contain data, design or software errors that could be difficult to detect and correct. Software defects could be found in current or future products. If the Celera Genomics group fails to maintain and further develop the necessary computer capacity and data to support its computational needs and its customers' therapeutic discovery and research efforts, it could result in loss of or delay in revenues and market acceptance. In addition, any sustained disruption in Internet access provided by third parties could adversely affect the Celera Genomics group's business.

The Celera Genomics group's competitive position depends on maintaining its trade secrets, the patent and copyright protection it obtains for itself, and

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licenses to intellectual property it may need to obtain from others, which licenses may not always be available. The Celera Genomics group's ability to compete and to achieve and maintain profitability will be affected by its ability to protect its proprietary technology, in large part, through obtaining and enforcing patent rights, obtaining copyright protection, maintaining its trade secrets, and operating without infringing the intellectual property rights of others. The Celera Genomics group's ability to obtain patent protection for the intellectual property it creates is uncertain. The patentability of biotechnology and pharmaceutical inventions involves complex factual and legal questions. As a result, it is difficult to predict whether patents will issue or the breadth of claims that will be allowed in biotechnology and pharmaceutical patents. This may be particularly true with regard to the patenting of gene sequences, gene functions, and genetic variations. In this regard, the United States Patent and Trademark Office recently adopted new guidelines for use in the review of the utility of inventions, particularly biotechnology inventions. These guidelines increased the amount of evidence required to illustrate utility in order to

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obtain a patent in the biotechnology field, making patent protection more difficult to obtain. Although others have been successful in obtaining patents to biotechnology inventions, since the adoption of these guidelines, these patents have been issued with increasingly less frequency. As a result, patents may not issue from patent applications that the Celera Genomics group may own or license if the applicant is unable to satisfy the new guidelines.

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

In some instances, patent applications in the United States are maintained in secrecy until a patent issues. In most instances, the content of domestic and international patent applications is made available to the public within 18 months of the application's filing date. As a result, the Celera Genomics group cannot be certain that others have not filed patent applications for technology covered by the Celera Genomics group's patent applications or that the Celera Genomic group inventors were the first to invent the technology. Accordingly, the Celera Genomics group's patent applications may be preempted or the Celera Genomics group may have to participate in interference proceedings declared by the United States Patent and Trademark Office. These proceedings determine the priority of invention and the right to a patent for the claimed technology in the United States.

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

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outcome could subject the Celera Genomics group to significant liabilities to third parties and require the Celera Genomics group to license disputed rights from third parties or to cease using the technology.

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

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

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

The Celera Genomics group may infringe the intellectual property rights of third parties and may become involved in expensive intellectual property litigation. The intellectual property rights of biotechnology companies, including the Celera Genomics group, are generally uncertain and involve complex legal, scientific and factual questions. The Celera Genomics group's success in therapeutic and diagnostic discovery and development may depend, in part, on its ability to operate without infringing on the intellectual property rights of others and to prevent others from infringing on its intellectual property rights.

There has been substantial litigation regarding patents and other intellectual property rights in the genomics and pharmaceutical industries. The Celera Genomics group may become a party to patent litigation or proceedings at the United States Patent and Trademark Office to determine its patent rights with respect to third parties, which may include subscribers to the Celera Genomics group's on-line products. Interference proceedings may be necessary to establish which party was the first to discover the intellectual property. The

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Celera Genomics group may become involved in patent litigation against third parties to enforce the Celera Genomics group's patent rights, to invalidate patents held by the third parties, or to defend against these claims. The cost to the Celera Genomics group of any patent litigation or similar proceeding could be substantial, and it may absorb significant management time. If infringement litigation against the Celera Genomics group is resolved unfavorably to the Celera Genomics group, the Celera Genomics group may be enjoined from manufacturing or selling its products or services without a license from a third party. The Celera Genomics group may not be able to obtain a license on commercially acceptable terms, or at all.

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

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

Use of genomics and proteomics information to develop or commercialize therapeutic and diagnostic products is unproven. Both the Celera Genomics group, its collaborators and its customers are, among other things, seeking to develop new therapeutic and the diagnostic products based on information derived from the study of the genetic material of organisms, or genomics, and the study of proteins, or proteomics. This method is unproven, as few therapeutic or diagnostic products based on genomic or proteomic discoveries have been developed and commercialized and to date no one has developed or commercialized any therapeutic or diagnostic products based on the Celera Genomics group's technologies. Furthermore, even if therapeutic or diagnostic products are developed in this manner, therapeutic and some diagnostic products are subject to regulation by the United States Food and Drug Administration and must undergo an extensive regulatory review and approval process. This process can take many years and require substantial expense and may not be successful. Also, current and future patient privacy and health care laws and regulations issued by the United States Food and Drug Administration may limit the use of data concerning an individual's genetic information. If the Celera Genomics group or its existing Celera Discovery System customers are not successful in developing and commercializing products using the Celera Genomics group's genomics databases, or if regulations restrict or discourage the Celera Genomics group or its customers from developing these products, the Celera Genomics group's revenues may be adversely affected and the Celera Genomics group's business may suffer as a result.

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Future acquisitions and other transactions may absorb significant resources, may be unsuccessful and could dilute the holders of Applera - Celera stock. As part of the Celera Genomics group's strategy, it expects to pursue acquisitions, investments and other strategic relationships and alliances. Acquisitions, investments and other strategic relationships and alliances may involve significant cash expenditures, debt incurrence, additional operating losses, and expenses that could have a material effect on the Celera Genomics group's financial condition and results of operations. Acquisitions involve numerous other risks, including:

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

It may be difficult for the Celera Genomics group to complete these transactions quickly and to integrate these businesses efficiently into its current business. Any acquisitions, investments or other strategic relationships and alliances by the Celera Genomics group may ultimately have a negative impact on its business and financial condition. For example, future acquisitions may not be as successful as originally anticipated and may result in special charges, such as the charges for impairment of Paracel goodwill, intangibles and other assets in the amount of \$69.1 million during fiscal 2001 and \$25.9 million during fiscal 2002 and for the Molecular Informatics business in the amount of \$14.5 million during fiscal 1999.

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

Applera - Celera stock price is highly volatile. The market price of Applera - Celera stock has been and may continue to be highly volatile due to the risks and uncertainties described in this section of this Form 10-Q, as well as other factors that may have affected or may in the future affect the market price, such as:

- o conditions and publicity regarding the genomics, biotechnology, pharmaceutical, or life sciences industries generally;
- o price and volume fluctuations in the stock market at large which do not relate to the Celera Genomics group's operating performance; and

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- o 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

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biotechnology companies, or the Celera Genomics group's failure 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.

The Company is subject to a purported class action lawsuit relating to its 2000 offering of shares of Applera - Celera stock that may be expensive and time consuming. The Company and some of its officers have been served in five lawsuits purportedly on behalf of purchasers of Applera - Celera stock in the Company's follow-on public offering of Applera - Celera stock completed on March 6, 2000. In the offering, the Company sold an aggregate of approximately 4.4 million shares of Applera - Celera stock at a public offering price of \$225 per share. All of these lawsuits have been consolidated into a single case and an amended consolidated complaint was filed on August 21, 2001. The consolidated complaint generally alleges that the prospectus used in connection with the offering was inaccurate or misleading because it failed to adequately disclose the alleged opposition of the Human Genome Project and two of its supporters, the governments of the United States and the United Kingdom, to providing patent protection to the Company's genomic-based products. Although the Celera Genomics group has never sought, or intended to seek, a patent on the basic human genome sequence data, the complaint also alleges that the Company did not adequately disclose the risk that it would not be able to patent this data. The consolidated complaint seeks unspecified money damages, rescission, costs and expenses, and other relief as the court deems proper. The Company and the other defendants have filed a motion to dismiss the case, which motion is pending before the court. Although the Company believes the asserted claims are without merit and intends to defend the case vigorously, the outcome of this or any other litigation is inherently uncertain. The defense of this case will require management attention and resources.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

On February 26, 2002, the Company and Amersham plc announced that they reached a court-mediated settlement which ended the previously disclosed patent litigation between the Company and Amersham plc and its affiliates, including Amersham Pharmacia Biotech, Inc. and Molecular Dynamics, Inc. The settlement, reached under the auspices of United States Magistrate Judge Edward A. Infante, Northern District of California, includes a cross-licensing agreement covering all patents involved in the litigation, and a co-development arrangement for the joint development, supply and commercialization of certain new DNA analysis technologies. Both companies' current product offerings will continue to be available.

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

(a) Reports on Form 8-K.

During the quarter ended March 31, 2002, the Company filed the following Current Reports on Form 8-K:

- (1) Current Report on Form 8-K dated January 10, 2002 to

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incorporate under Item 5 thereof the text of the Company's press release issued January 3, 2002, in which the Company announced a meeting with the investment community on January 10, 2002 to discuss the Company's Applied Biosystems group and Celera Diagnostics, a joint venture between the Company's Applied Biosystems Group and Celera Genomics group, and the text of the Company's presentations intended to be made at the meeting.

- (2) Current Report on Form 8-K dated January 22, 2002 to incorporate under Item 5 thereof the text of the Company's press releases issued January 22, 2002 in which the Company announced that Dr. J. Craig Venter has stepped down as President of the Company's Celera Genomics group.
- (3) Current Report on Form 8-K/A dated November 16, 2001 to report under Item 7 thereof an amendment to Item 7 of the Company's Current Report on Form 8-K/A dated November 16, 2001 and filed November 29, 2001 in order to include the financial statements and pro forma financial information with respect to the Company's acquisition of Axys Pharmaceuticals, Inc. required by Item 7(a) and Item 7(b) of Form 8-K.
- (4) Current Report on Form 8-K dated February 26, 2002 to incorporate under Item 5 thereof the text of the Company's press release issued February 26, 2002, in which the Company announced that the Company and Amersham plc reached a court-mediated settlement which ends the previously disclosed patent litigation between the two companies.

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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/ Vikram Jog

Vikram Jog
Corporate Controller
(Chief Accounting Officer)

Dated: May 15, 2002

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