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APPLERA CORP
Form 10-Q
November 14, 2001

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 September 30, 2001

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 November 7, 2001, there were 211,930,744 shares of Applera Corporation - Applied Biosystems Group Common Stock and 62,171,827 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 September 30, | |
|--|-------------------------------------|-----------|
| | 2000 | 2001 |
| | ----- | ----- |
| Net Revenues | \$367,414 | \$387,854 |
| Cost of sales | 169,268 | 186,524 |
| | ----- | ----- |
| Gross Margin | 198,146 | 201,330 |
| Selling, general and administrative | 103,005 | 107,107 |
| Research, development and engineering | 77,940 | 84,502 |
| Amortization of goodwill and intangibles | 11,081 | 471 |
| | ----- | ----- |
| Operating Income | 6,120 | 9,250 |

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| | | |
|---------------------------------------|-------------|-------------|
| Gain on investments | 12,004 | |
| Interest expense | (1,053) | (240) |
| Interest income | 22,567 | 14,347 |
| Other expense, net | (2,902) | (1,738) |
| | ----- | ----- |
| Income Before Income Taxes | 36,736 | 21,619 |
| Provision for income taxes | 12,280 | 4,634 |
| | ----- | ----- |
| Net Income | \$ 24,456 | \$ 16,985 |
| | ===== | ===== |
| Applied Biosystems Group (see Note 5) | | |
| Net Income | \$ 49,144 | \$ 32,196 |
| Basic per share | \$ 0.23 | \$ 0.15 |
| Diluted per share | \$ 0.22 | \$ 0.15 |
| Dividends Per Share | \$ 0.0425 | \$ 0.0425 |
| Celera Genomics Group (see Note 5) | | |
| Net Loss | \$ (25,689) | \$ (15,562) |
| Basic and diluted per share | \$ (0.43) | \$ (0.25) |

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 September 30, 2001 |
|---|---------------------|--------------------------|
| | ----- | ----- |
| | | (unaudited) |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 608,535 | \$ 599,180 |
| Short-term investments | 779,482 | 791,859 |
| Accounts receivable, net | 400,803 | 374,949 |
| Inventories, net | 149,658 | 160,903 |
| Prepaid expenses and other current assets | 103,006 | 88,675 |
| | ----- | ----- |
| Total current assets | 2,041,484 | 2,015,566 |
| Property, plant and equipment, net | 435,560 | 448,112 |
| Other long-term assets | 410,814 | 401,475 |
| | ----- | ----- |
| Total Assets | \$2,887,858 | \$2,865,153 |
| | ===== | ===== |
| Liabilities and Stockholders' Equity | | |
| Current liabilities | | |
| Loans payable | \$ 14,678 | \$ 11,954 |
| Current portion of long-term debt | 30,480 | 31,757 |
| Accounts payable | 178,264 | 151,831 |
| Accrued salaries and wages | 64,854 | 58,808 |
| Accrued taxes on income | 83,016 | 86,992 |
| Other accrued expenses | 215,823 | 221,394 |
| | ----- | ----- |

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| | | |
|--|-------------|-------------|
| Total current liabilities | 587,115 | 562,736 |
| Other long-term liabilities | 152,432 | 152,703 |
| | ----- | ----- |
| Total Liabilities | 739,547 | 715,439 |
| Stockholders' Equity | | |
| Capital stock | | |
| Applera Corporation - Applied Biosystems Group | 2,115 | 2,117 |
| Applera Corporation - Celera Genomics Group | 617 | 620 |
| Capital in excess of par value | 1,832,000 | 1,844,070 |
| Retained earnings | 369,444 | 377,435 |
| Accumulated other comprehensive loss | (55,865) | (73,716) |
| Treasury stock | | (812) |
| | ----- | ----- |
| Total Stockholders' Equity | 2,148,311 | 2,149,714 |
| | ----- | ----- |
| Total Liabilities and Stockholders' Equity | \$2,887,858 | \$2,865,153 |
| | ===== | ===== |

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

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

| | Three months ended September 30, | |
|---|-------------------------------------|-----------|
| | 2000 | 2001 |
| | ----- | ----- |
| Operating Activities from Continuing Operations | | |
| Net income | \$ 24,456 | \$ 16,985 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 28,962 | 24,483 |
| Long-term compensation programs | 1,950 | 2,102 |
| Gain on sale of assets | (12,004) | |
| Deferred income taxes | (249) | (9,563) |
| Changes in operating assets and liabilities: | | |
| Decrease in accounts receivable | 5,532 | 36,664 |
| Increase in inventories | (2,806) | (9,889) |
| Increase in prepaid expenses and other assets | (13,480) | (7,383) |
| Decrease in accounts payable and other liabilities | (94,169) | (29,381) |
| | ----- | ----- |
| Net Cash Provided (Used) by Operating Activities | (61,808) | 24,018 |
| | ----- | ----- |
| Investing Activities from Continuing Operations | | |
| Additions to property, plant and equipment, net | (76,674) | (31,451) |
| Sales (purchases) of short-term investments, net | 622 | (9,594) |
| Investments | (3,006) | |
| Proceeds from the sale of assets, net | 12,004 | |
| | ----- | ----- |
| Net Cash Used by Investing Activities | (67,054) | (41,045) |
| | ----- | ----- |

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| | | |
|--|------------|------------|
| Net Cash From Continuing Operations | | |
| Before Financing Activities | (128,862) | (17,027) |
| | ----- | ----- |
| Net Cash Used by Operating Activities | | |
| From Discontinued Operations | (1,228) | (300) |
| | ----- | ----- |
| Financing Activities | | |
| Net change in loans payable | (1,462) | (3,115) |
| Dividends | (8,860) | (8,979) |
| Purchases of common stock for treasury | | (941) |
| Proceeds from stock issued for stock plans | 25,817 | 6,652 |
| | ----- | ----- |
| Net Cash Provided (Used) by Financing Activities | 15,495 | (6,383) |
| | ----- | ----- |
| Effect of Exchange Rate Changes on Cash | (5,637) | 14,355 |
| | ----- | ----- |
| Net Change in Cash and Cash Equivalents | (120,232) | (9,355) |
| Cash and Cash Equivalents Beginning of Period | 964,502 | 608,535 |
| | ----- | ----- |
| Cash and Cash Equivalents End of Period | \$ 844,270 | \$ 599,180 |
| | ===== | ===== |

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 intangibles 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 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

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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 months ended September 30, 2000 had the provisions of SFAS No. 142 been applied to the fiscal 2001 financial results:

| | |
|-----------------------------|----------|
| Applera Net Income | \$ 34.8 |
| | |
| Applied Biosystems Group | |
| Net Income | \$ 49.6 |
| Basic per share | \$ 0.24 |
| Diluted per share | \$ 0.22 |
| | |
| Celera Genomics Group | |
| Net Loss | \$(15.6) |
| Basic and diluted per share | \$(0.26) |

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APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

NOTE 3 - PENDING ACQUISITIONS

Axys Pharmaceuticals, Inc.

In June 2001, the Company signed a definitive merger agreement to acquire Axys Pharmaceuticals, Inc. ("Axys") in a stock-for-stock transaction. A special meeting of Axys' stockholders is scheduled for November 16, 2001 in order for the Axys stockholders to vote on the proposed merger. Subject to the approval of the Axys stockholders and the satisfaction of other closing conditions, the merger is expected to be completed on November 16, 2001, or shortly thereafter. The net assets and results of operations of Axys are not included in the Company's consolidated financial statements. The following selected unaudited pro forma information for the Company has been prepared assuming the merger had occurred at the beginning of fiscal 2001 and gives effect to purchase accounting adjustments, except for the write-off of between approximately \$65 million and \$75 million relating to in-process research and development expected to be expensed upon consummation of the merger.

| | Three months ended | |
|---|--------------------|----------|
| | September 30, | |
| (Dollar amounts in millions except per share amounts) | 2000 | 2001 |
| | ----- | ----- |
| Net revenues | \$370.0 | \$388.7 |
| Net income | \$ 18.9 | \$ 2.0 |
| | | |
| Applied Biosystems Group | | |
| Net Income | \$ 49.1 | \$ 32.2 |
| Basic per share | \$ 0.23 | \$ 0.15 |
| Diluted per share | \$ 0.22 | \$ 0.15 |
| | | |
| Celera Genomics group | | |
| Net Loss | \$(31.2) | \$(30.5) |
| Basic and diluted per share | \$(0.48) | \$(0.45) |

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During the three months ended September 30, 2001, Axys recorded a noncash pretax charge of \$10.8 million for the impairment of an investment.

See Note 2 to the consolidated financial statements in the Company's 2001 Annual Report to Stockholders for a further discussion of this pending acquisition.

Boston Probes, Inc.

During the second quarter of fiscal 2002, the Company acquired the remaining shares of Boston Probes, Inc. not previously owned, or approximately 87% of the outstanding shares, and certain intellectual property rights related to peptide nucleic acids for approximately \$33 million in cash. Boston Probes develops and commercializes products employing peptide nucleic acid (PNA) probe technology and has developed novel chemistry platforms based on its PNA technology.

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APPLERA CORPORATION NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 4 - COMPREHENSIVE LOSS

Accumulated other comprehensive loss included in stockholders' equity on 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 available-for-sale investments, and minimum pension liability adjustments. Total comprehensive loss for the three months ended September 30, 2000 and 2001 is presented in the following table:

| (Dollar amounts in millions) | Three months ended September 30, | |
|--|-------------------------------------|---------|
| | 2000 | 2001 |
| | ----- | ----- |
| Net income | \$ 24.5 | \$ 17.0 |
| Other comprehensive loss: | | |
| Foreign currency translation adjustments | (12.6) | 19.3 |
| Unrealized gain (loss) on hedge contracts, net of tax | 5.1 | (8.9) |
| Reclassification adjustments for net gains on hedge contracts included in net income, net of tax | (.7) | (3.3) |
| Unrealized loss on investments, net of tax | (21.9) | (24.9) |
| Reclassification adjustments for gains on investments included in net income, net of tax | (7.8) | |
| | ----- | ----- |
| Other comprehensive loss | (37.9) | (17.8) |
| | ----- | ----- |
| Comprehensive loss | \$ (13.4) | \$ (.8) |
| | ===== | ===== |

NOTE 5 - EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share for each class of common stock is computed by

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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 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.

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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 three months ended September 30:

| (Amounts in thousands except per share amounts) | Applied Biosystems Group | | Celera Genomics Group | |
|---|-----------------------------|-----------|--------------------------|-------------|
| | 2000 | 2001 | 2000 | 2001 |
| Weighted average number of common shares used in the calculation of basic earnings (loss) per share | 209,127 | 211,363 | 59,709 | 61,792 |
| Common stock equivalents | 12,046 | 3,850 | | |
| Shares used in the calculation of diluted earnings (loss) per share | 221,173 | 215,213 | 59,709 | 61,792 |
| Earnings (loss) used in the calculation of basic and diluted earnings (loss) per share | \$ 49,144 | \$ 32,196 | \$ (25,689) | \$ (15,562) |
| Earnings (loss) per share | | | | |
| Basic | \$ 0.23 | \$ 0.15 | \$ (0.43) | \$ (0.25) |
| Diluted | \$ 0.22 | \$ 0.15 | \$ (0.43) | \$ (0.25) |

Options to purchase 6.1 million and 20.1 million shares of Applera Corporation - Applied Biosystems Group Common Stock were outstanding at September 30, 2000 and 2001, respectively, but were not included in the computation of diluted earnings per share because the effect was antidilutive. Options and warrants to purchase 12.3 million and 17.6 million shares of Applera Corporation - Celera Genomics Group Common Stock were outstanding at September 30, 2000 and 2001, respectively, but were not included in the computation of diluted loss per share because the effect was antidilutive.

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APPLERA CORPORATION NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 6 - 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 ----- | September 30, 2001 ----- |
|------------------------------|---------------------------|--------------------------------|
| Raw materials and supplies | \$ 58.8 | \$ 63.8 |
| Work-in-process | 12.9 | 10.4 |
| Finished products | 78.0 | 86.7 |
| | ----- | ----- |
| Total inventories | \$149.7 ===== | \$160.9 ===== |

NOTE 7 - SUPPLEMENTAL CASH FLOW INFORMATION

Significant non-cash financing activities were as follows:

| (Dollar amounts in millions) | Three months ended September 30, 2000 2001 ----- ---- | |
|---|--|-------|
| Tax benefit related to employee stock options | \$20.3 | \$3.4 |
| Dividends declared not paid | \$ 8.9 | \$9.0 |

NOTE 8 - FINANCIAL INSTRUMENTS

Cash Flow Hedges

The Company's international sales are typically denominated in the customers' local (non-U.S. dollar) currency. 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 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 first three months of fiscal 2002, the Company recognized net gains of \$4.7 million in net revenues from derivative instruments designated as cash flow hedges of anticipated sales. At September 30, 2001, \$1.3 million of derivative losses (\$1.1

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APPLERA CORPORATION
 NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 continued

million net of deferred taxes) recorded in other comprehensive income (loss) are expected to be reclassified to earnings during the next twelve months.

NOTE 9 - SEGMENT INFORMATION

The following table presents summarized segment financial information for the three months ended September 30:

| (Dollar amounts in millions) | Applied Biosystems Group | Celera Genomics Group | Other | Consolidated |
|------------------------------|--------------------------------|-----------------------------|-----------|--------------|
| | ----- | ----- | ----- | ----- |
| 2000 | | | | |
| Net revenues from | | | | |
| external customers | \$ 349.1 | \$ 18.3 | \$ -- | \$ 367.4 |
| Intersegment revenues | 14.5 | -- | (14.5) | -- |
| | ----- | ----- | ----- | ----- |
| Total revenues | \$ 363.6 | \$ 18.3 | \$ (14.5) | \$ 367.4 |
| | ===== | ===== | ===== | ===== |
| Operating income (loss) | \$ 57.9 | \$ (52.6) | \$ 0.8 | \$ 6.1 |
| | ===== | ===== | ===== | ===== |
| 2001 | | | | |
| Net revenues from | | | | |
| external customers | \$ 360.5 | \$ 27.3 | \$ 0.1 | \$ 387.9 |
| Intersegment revenues | 6.1 | -- | (6.1) | -- |
| | ----- | ----- | ----- | ----- |
| Total revenues | \$ 366.6 | \$ 27.3 | \$ (6.0) | \$ 387.9 |
| | ===== | ===== | ===== | ===== |
| Operating income (loss) | \$ 43.1 | \$ (25.5) | \$ (8.3) | \$ 9.3 |
| | ===== | ===== | ===== | ===== |

The "Other" column represents the elimination of intergroup activity and the results of the Celera Diagnostics joint venture, a joint venture between the Applied Biosystems group and the Celera Genomics group. See Note 6 to the consolidated financial statements included in the Company's 2001 Annual Report to Stockholders.

NOTE 10 - CONTINGENCIES

Amersham

On November 18, 1997, Amersham Pharmacia Biotech, Inc. ("Amersham") filed a patent infringement action against the Company in the United States District Court for the Northern District of California. The complaint alleges that the Company is directly, contributorily, or by inducement infringing U.S. Patent No. 5,688,648 ("the `648 patent"). Amersham asserts that the Company's use and sale of DNA analysis reagents and systems that incorporate "BigDye" fluorescence detection technology infringe the `648 patent, and seeks injunctive and monetary relief. The Company answered the complaint, alleging that the `648 patent is invalid and unenforceable, and that the

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Company has not infringed the '648 patent. In December 2000, the court granted Amersham's motion for summary judgment in part, finding that certain of the Company's activities infringe the claims of the '648 patent, but denied Amersham's motion for summary judgment that the Company induced its customers to infringe the claims of the '648 patent. On April 6, 2001, the court granted the Company's motion for summary judgment finding that the Company's recently introduced BigDye Version 3.0 dye technology does not infringe the '648 patent.

On March 13, 1998, the Company filed a patent infringement action against Amersham and Molecular Dynamics, Inc. in the United States District Court for the Northern District of California. The Company asserts that one of its patents (U.S. Patent No. 4,811,218) is infringed by reason of Molecular Dynamics' and Amersham's sale of certain DNA analysis systems (e.g., the MegaBACE 1000 System). In response, Amersham has asserted various affirmative defenses and several counterclaims, including that the Company is infringing two patents, U.S. Patent No. 5,091,652 ("the '652 patent") and U.S. Patent No. 5,459,325, each owned by or licensed to Molecular Dynamics, by selling certain ABI PRISM(TM) DNA sequencing systems. In December 2000, the court granted the Company's motion for summary judgment of non-infringement of the '652 patent. The trial date previously scheduled for August 6, 2001 was vacated in July 2001.

On May 21, 1998, Amersham filed a patent infringement action against the Company in the United States District Court for the Southern District of New York. The complaint alleges that the Company is infringing, contributing to the infringement of, and inducing the infringement of U.S. Patent No. 4,707,235 ("the '235 patent") by reason of the Company's sale of certain ABI PRISM(TM) DNA sequencing systems. The complaint seeks injunctive and monetary relief. The Company answered the complaint, alleging that the '235 patent is invalid and that the Company does not infringe the '235 patent. The matters described in this paragraph and the immediately preceding paragraph have been consolidated into a single case to be heard in the United States District Court for the Northern District of California. In December 2000, the court granted the Company's motion for summary judgment of non-infringement of the '235 patent. However, on December 18, 2000, Amersham filed a new complaint alleging that the Company is infringing the '235 patent by reason of the Company's sale of certain DNA sequencing systems, which allegations were not in the previous suit under the '235 patent. This action is in the early stages of discovery.

On May 30, 2000, the Company filed a patent infringement action against Amersham in the United States District Court for the Northern District of California. The Company asserts that one of its patents (U.S. Patent No. 5,945,526) is infringed by reason of Amersham's sale of DNA analysis reagents and systems that incorporate ET Terminator fluorescence detection technology. The claims construction hearing previously scheduled for June 7, 2001 has been postponed.

On July 10, 2001, United States Judge Charles R. Breyer stayed all cases in the litigation described above for the purpose of facilitating court ordered settlement mediation. The stay is scheduled to expire on March 11, 2002.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued

The Company believes that the claims asserted by Amersham and Molecular Dynamics in the foregoing cases are without merit and intends to defend the cases vigorously. However, the outcome of this or any other litigation is inherently uncertain, and the Company cannot be sure that it will prevail in any of these matters. An adverse determination in any of the actions brought by Amersham could have a material adverse effect on the financial statements of the Company.

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 financial statements of the Company.

NOTE 11 - CONSOLIDATING INFORMATION

Presented below is the consolidating financial information reflecting the businesses of the individual groups, including the allocation of expenses between groups in accordance with the Company's 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 has been determined in accordance with accounting principles generally accepted in the U.S.

See Note 1 to 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 allocation policies.

In the following tables, the "Eliminations/Other" column represents the elimination of intergroup activity and the results of the Celera Diagnostics joint venture, a joint venture between the Applied Biosystems group and the Celera Genomics group.

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APPLERA CORPORATION NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued

Consolidating Statement of Operations For the Three Months Ended
September 30, 2001

| (Dollar amounts in thousands) | Applied Biosystems Group | Celera Genomics Group | Eliminations/ Other | Consolidated |
|--------------------------------------|--------------------------------|-----------------------------|------------------------|--------------|
| | ----- | ----- | ----- | ----- |
| Net revenues from external customers | \$ 360,480 | \$ 27,274 | \$ 100 | \$ 387,854 |
| Intergroup revenues | 6,072 | | (6,072) | |
| | ----- | ----- | ----- | ----- |
| Net Revenues | 366,552 | 27,274 | (5,972) | 387,854 |
| Cost of sales | 179,373 | 11,915 | (4,764) | 186,524 |
| | ----- | ----- | ----- | ----- |

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| | | | | |
|--|-----------|-------------|----------|-----------|
| Gross Margin | 187,179 | 15,359 | (1,208) | 201,330 |
| Selling, general and administrative | 81,727 | 10,588 | 14,792 | 107,107 |
| Corporate allocated expenses | 10,023 | 2,017 | (12,040) | |
| Research, development and engineering | 52,318 | 27,742 | 4,442 | 84,502 |
| Amortization of goodwill and intangibles | | 471 | | 471 |
| | ----- | ----- | ----- | ----- |
| Operating Income (Loss) | 43,111 | (25,459) | (8,402) | 9,250 |
| Interest expense | (240) | | | (240) |
| Interest income | 3,497 | 10,850 | | 14,347 |
| Other expense, net | (1,022) | (716) | | (1,738) |
| Loss from joint venture | | (9,377) | 9,377 | |
| | ----- | ----- | ----- | ----- |
| Income (Loss) Before Income Taxes | 45,346 | (24,702) | 975 | 21,619 |
| Provision (benefit) for income taxes | 13,150 | (9,140) | 624 | 4,634 |
| | ----- | ----- | ----- | ----- |
| Net Income (Loss) | \$ 32,196 | \$ (15,562) | \$ 351 | \$ 16,985 |
| | ===== | ===== | ===== | ===== |

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APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Consolidating Statement of Financial Position At September 30, 2001

| (Dollar amounts in thousands) | Applied Biosystems Group | Celera Genomics Group | Eliminations/ Other |
|---|--------------------------------|-----------------------------|------------------------|
| | ----- | ----- | ----- |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 422,690 | \$ 176,490 | \$ -- |
| Short-term investments | | 791,859 | |
| Accounts receivable, net | 354,244 | 24,211 | (3,506) |
| Inventories | 152,112 | 6,414 | 2,377 |
| Prepaid expenses and other current assets | 81,654 | 5,962 | 1,059 |
| | ----- | ----- | ----- |
| Total current assets | 1,010,700 | 1,004,936 | (70) |
| Property, plant and equipment, net | 336,360 | 112,516 | (764) |
| Other long-term assets | 337,601 | 64,249 | (375) |
| | ----- | ----- | ----- |
| Total Assets | \$1,684,661 | \$1,181,701 | \$ (1,209) |
| | ===== | ===== | ===== |
| Liabilities And Stockholders' Equity | | | |
| Current liabilities | | | |
| Loans payable | \$ 11,954 | \$ -- | \$ -- |
| Current portion of long-term debt | 31,757 | | |
| Accounts payable | 140,898 | 10,751 | 182 |
| Accrued salaries and wages | 47,005 | 10,479 | 1,324 |
| Accrued taxes on income | 83,573 | | 3,419 |
| Other accrued expenses | 172,447 | 51,816 | (2,869) |
| | ----- | ----- | ----- |
| Total current liabilities | 487,634 | 73,046 | 2,056 |
| Other long-term liabilities | 130,190 | 22,513 | |
| | ----- | ----- | ----- |
| Total Liabilities | 617,824 | 95,559 | 2,056 |

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| | | | |
|--|-------------|-------------|------------|
| Stockholders' Equity | | | |
| Applera Corporation - Applied Biosystems stock | | | 2,117 |
| Applera Corporation - Celera Genomics stock | | | 620 |
| Other stockholders' equity | 1,066,837 | 1,086,142 | (6,002) |
| Total Stockholders' Equity | 1,066,837 | 1,086,142 | (3,265) |
| Total Liabilities And Stockholders' Equity | \$1,684,661 | \$1,181,701 | \$ (1,209) |

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APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Consolidating Statement of Cash Flows For the Three Months Ended
September 30, 2001

| (Dollar amounts in thousands) | Applied Biosystems Group | Celera Genomics Group | Elimin Ot |
|---|--------------------------------|-----------------------------|--------------|
| Operating Activities From Continuing Operations | | | |
| Net income (loss) | \$ 32,196 | \$ (15,562) | \$ |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities | | | |
| Depreciation and amortization | 17,511 | 7,353 | |
| Long-term compensation programs | 1,619 | 483 | |
| Deferred income taxes | (9,322) | 1,218 | (1) |
| Loss from joint venture | | 9,377 | (9) |
| Nonreimbursable utilization of tax benefits generated by the Celera Genomics group | 7,934 | (7,934) | |
| Changes in operating assets and liabilities | | | |
| (Increase) decrease in accounts receivable | 39,126 | (192) | (2) |
| Increase in inventories | (9,943) | (175) | |
| Increase in prepaid expenses and other assets | (4,063) | (1,699) | (1) |
| Decrease in accounts payable and other liabilities | (23,928) | (13,879) | 8 |
| Net Cash Provided (Used) By Operating Activities | 51,130 | (21,010) | (6) |
| Investing Activities From Continuing Operations | | | |
| Additions to property, plant and equipment, net | (26,446) | (3,236) | (1) |
| Purchases of short-term investments, net | | (9,594) | |
| Acquisitions and investments, net | 431 | (8,302) | 7 |
| Net Cash Used By Investing Activities | (26,015) | (21,132) | 6 |
| Net Cash From Continuing Operations Before Financing Activities | 25,115 | (42,142) | |
| Net Cash Used by Operating Activities From Discontinued Operations | (300) | | |
| Financing Activities | | | |
| Net change in loans payable | (3,115) | | |

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| | | |
|--|------------|------------|
| Dividends | (8,979) | |
| Purchases of treasury stock | | (941) |
| Proceeds from stock issued for stock plans | 3,155 | 3,497 |
| Net Cash Provided (Used) By Financing Activities | (8,939) | 2,556 |
| Effect of Exchange Rate on Changes In Cash | 14,355 | |
| Net Change In Cash And Cash Equivalents | 30,231 | (39,586) |
| Cash And Cash Equivalents Beginning Of Period | 392,459 | 216,076 |
| Cash And Cash Equivalents End Of Period | \$ 422,690 | \$ 176,490 |

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APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Consolidating Statement of Operations For the Three Months Ended
September 30, 2000

| (Dollar amounts in thousands) | Applied Biosystems Group | Celera Genomics Group | Eliminations/ Other | Consolidated |
|--|--------------------------------|-----------------------------|------------------------|--------------|
| Net revenues from external customers | \$ 349,161 | \$ 18,253 | \$ -- | \$ 367,414 |
| Intergroup revenues | 14,411 | | (14,411) | |
| Net Revenues | 363,572 | 18,253 | (14,411) | 367,414 |
| Cost of sales | 169,625 | 5,767 | (6,124) | 173,268 |
| Gross Margin | 193,947 | 12,486 | (8,287) | 198,146 |
| Selling, general and administrative | 79,878 | 10,939 | 12,188 | 102,995 |
| Corporate allocated expenses | 10,097 | 2,091 | (12,188) | 990 |
| Research, development and engineering | 46,115 | 40,977 | (9,152) | 77,940 |
| Amortization of goodwill and intangibles | | 11,081 | | 11,081 |
| Operating Income (Loss) | 57,857 | (52,602) | 865 | 5,120 |
| Gain on investments | 12,004 | | | 12,004 |
| Interest expense | (267) | (786) | | (1,053) |
| Interest income | 4,381 | 18,186 | | 22,567 |
| Other income (expense), net | (2,913) | 11 | | (2,902) |
| Income (Loss) Before Income Taxes | 71,062 | (35,191) | 865 | 36,736 |
| Provision (benefit) for income taxes | 21,918 | (9,502) | (136) | 11,310 |
| Net Income (Loss) | \$ 49,144 | \$ (25,689) | \$ 1,001 | \$ 24,456 |

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APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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continued

Consolidating Statement of Financial Position At June 30, 2001

| (Dollar amounts in thousands) | Applied Biosystems Group ----- | Celera Genomics Group ----- | Eliminations/ Other ----- |
|---|---|--------------------------------------|---------------------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 392,459 | \$ 216,076 | \$ -- |
| Short-term investments | | 779,482 | |
| Accounts receivable, net | 382,560 | 24,019 | (5,776) |
| Inventories | 140,813 | 6,239 | 2,606 |
| Prepaid expenses and other current assets | 98,124 | 4,838 | 44 |
| | ----- | ----- | ----- |
| Total current assets | 1,013,956 | 1,030,654 | (3,126) |
| Property, plant and equipment, net | 315,356 | 123,497 | (3,293) |
| Other long-term assets | 348,575 | 65,985 | (3,746) |
| | ----- | ----- | ----- |
| Total Assets | \$1,677,887 | \$1,220,136 | \$ (10,165) |
| | ===== | ===== | ===== |
| Liabilities And Stockholders' Equity | | | |
| Current liabilities | | | |
| Loans payable | \$ 14,678 | \$ -- | \$ -- |
| Current portion of long-term debt | 30,480 | | |
| Accounts payable | 162,104 | 21,024 | (4,864) |
| Accrued salaries and wages | 49,553 | 15,088 | 213 |
| Accrued taxes on income | 82,717 | | 299 |
| Other accrued expenses | 168,552 | 49,468 | (2,197) |
| | ----- | ----- | ----- |
| Total current liabilities | 508,084 | 85,580 | (6,549) |
| Other long-term liabilities | 128,592 | 23,840 | |
| | ----- | ----- | ----- |
| Total Liabilities | 636,676 | 109,420 | (6,549) |
| | ----- | ----- | ----- |
| Stockholders' Equity | | | |
| Applera Corporation - Applied Biosystems stock | | | 2,115 |
| Applera Corporation - Celera Genomics stock | | | 617 |
| Other stockholders' equity | 1,041,211 | 1,110,716 | (6,348) |
| | ----- | ----- | ----- |
| Total Stockholders' Equity | 1,041,211 | 1,110,716 | (3,616) |
| | ----- | ----- | ----- |
| Total Liabilities And Stockholders' Equity | \$1,677,887 | \$1,220,136 | \$ (10,165) |
| | ===== | ===== | ===== |

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Consolidating Statement of Cash Flows For the Three Months Ended
September 30, 2000

| (Dollar amounts in thousands) | Applied Biosystems Group ----- | Celera Genomics Group ----- | E ----- |
|-------------------------------|---|--------------------------------------|------------|
|-------------------------------|---|--------------------------------------|------------|

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| | | |
|---|-----------|-------------|
| Operating Activities From Continuing Operations | | |
| Net income (loss) | \$ 49,144 | \$ (25,689) |
| Adjustments to reconcile net income (loss) to net cash used by operating activities | | |
| Depreciation and amortization | 13,866 | 15,961 |
| Long-term compensation programs | 1,618 | 332 |
| Deferred income taxes | | (249) |
| Gain from sales of assets | (12,004) | |
| Nonreimbursable utilization of tax benefits generated by the Celera Genomics group | 2,908 | (2,908) |
| Changes in operating assets and liabilities | | |
| Decrease in tax benefit receivable from the Applied Biosystems group | | 10,224 |
| (Increase) decrease in accounts receivable | (655) | 3,422 |
| (Increase) decrease in inventories | (3,336) | 530 |
| (Increase) decrease in prepaid expenses and other assets | (13,847) | 503 |
| Decrease in accounts payable and other liabilities | (92,310) | (9,318) |
| Net Cash Used By Operating Activities | (54,616) | (7,192) |
| Investing Activities From Continuing Operations | | |
| Additions to property, plant and equipment, net | (71,707) | (4,967) |
| Purchases of short-term investments, net | | 622 |
| Acquisitions and investments, net | (3,006) | |
| Proceeds from the sale of assets, net | 12,004 | |
| Net Cash Used By Investing Activities | (62,709) | (4,345) |
| Net Cash From Continuing Operations Before Financing Activities | (117,325) | (11,537) |
| Net Cash Used by Operating Activities From Discontinued Operations | (1,228) | |
| Financing Activities | | |
| Net change in loans payable | (1,462) | |
| Dividends | (8,860) | |
| Proceeds from stock issued for stock plans | 17,626 | 8,191 |
| Net Cash Provided By Financing Activities | 7,304 | 8,191 |
| Effect of Exchange Rate on Changes In Cash | (5,637) | |
| Net Change In Cash And Cash Equivalents | (116,886) | (3,346) |
| Cash And Cash Equivalents Beginning Of Period | 394,608 | 569,894 |
| Cash And Cash Equivalents End Of Period | \$277,722 | \$566,548 |

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| | September 30, 2000 | ----- |
|---------------------------------------|-----------------------|-------|
| Net Revenues | \$363,572 | \$36 |
| Cost of sales | 169,625 | 17 |
| | ----- | ----- |
| Gross Margin | 193,947 | 18 |
| Selling, general and administrative | 89,975 | 9 |
| Research, development and engineering | 46,115 | 5 |
| | ----- | ----- |
| Operating Income | 57,857 | 4 |
| Gain on investments | 12,004 | |
| Interest expense | (267) | |
| Interest income | 4,381 | |
| Other expense, net | (2,913) | (|
| | ----- | ----- |
| Income Before Income Taxes | 71,062 | 4 |
| Provision for income taxes | 21,918 | 1 |
| | ----- | ----- |
| Net Income | \$ 49,144 | \$ 3 |
| | ===== | ===== |

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 September 30, 2001 |
|--|---------------------|--------------------------|
| | ----- | ----- |
| | | (unaudited) |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 392,459 | \$ 422,690 |
| Accounts receivable, net | 382,560 | 354,244 |
| Inventories, net | 140,813 | 152,112 |
| Prepaid expenses and other current assets | 98,124 | 81,654 |
| | ----- | ----- |
| Total current assets | 1,013,956 | 1,010,700 |
| Property, plant and equipment, net | 315,356 | 336,360 |
| Other long-term assets | 348,575 | 337,601 |
| | ----- | ----- |
| Total Assets | \$ 1,677,887 | \$1,684,661 |
| | ===== | ===== |
| Liabilities and Allocated Net Worth | | |
| Current liabilities | | |
| Loans payable | \$ 14,678 | \$ 11,954 |
| Current portion of long-term debt | 30,480 | 31,757 |
| Accounts payable | 162,104 | 140,898 |
| Accrued salaries and wages | 49,553 | 47,005 |
| Accrued taxes on income | 82,717 | 83,573 |
| Other accrued expenses | 168,552 | 172,447 |

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| | | |
|---|--------------|-------------|
| Total current liabilities | 508,084 | 487,634 |
| Other long-term liabilities | 128,592 | 130,190 |
| Total Liabilities | 636,676 | 617,824 |
| Allocated Net Worth | 1,041,211 | 1,066,837 |
| Total Liabilities and Allocated Net Worth | \$ 1,677,887 | \$1,684,661 |

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)

| | September 30 |
|--|--------------|
| | 2000 |
| | ----- |
| Operating Activities from Continuing Operations | |
| Net income | \$ 49,144 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | |
| Depreciation and amortization | 13,866 |
| Long-term compensation programs | 1,618 |
| Gain on sale of assets | (12,004) |
| Nonreimbursable utilization of tax benefits generated by the Celera Genomics group | 2,908 |
| Deferred income taxes | |
| Changes in operating assets and liabilities: | |
| (Increase) decrease in accounts receivable | (655) |
| Increase in inventories | (3,336) |
| Increase in prepaid expenses and other assets | (13,847) |
| Decrease in accounts payable and other liabilities | (92,310) |
| Net Cash Provided (Used) by Operating Activities | (54,616) |
| Investing Activities from Continuing Operations | |
| Additions to property, plant and equipment, net | (71,707) |
| Investments | (3,006) |
| Proceeds from the sale of assets, net | 12,004 |
| Net Cash Used by Investing Activities | (62,709) |
| Net Cash from Continuing Operations Before Financing Activities | (117,325) |
| Net Cash Used by Operating Activities From Discontinued Operations | (1,228) |
| Financing Activities | |
| Net change in loans payable | (1,462) |
| Dividends | (8,860) |

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| | |
|--|------------|
| Proceeds from stock issued for stock plans | 17,626 |
| | ----- |
| Net Cash Provided (Used) by Financing Activities | 7,304 |
| | ----- |
| Effect of Exchange Rate Changes on Cash | (5,637) |
| | ----- |
| Net Change in Cash and Cash Equivalents | (116,886) |
| Cash and Cash Equivalents Beginning of Period | 394,608 |
| | ----- |
| Cash and Cash Equivalents End of Period | \$ 277,722 |
| | ===== |

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 intangibles. 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.

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. not previously owned, or approximately 87% of the outstanding shares, and certain intellectual property rights related to peptide nucleic acids for approximately \$33 million in cash. Boston Probes develops and commercializes products employing peptide nucleic acid (PNA) probe technology and has developed novel chemistry platforms based on its PNA technology.

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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 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.

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APPLIED BIOSYSTEMS GROUP NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS continued

NOTE 3 - COMPREHENSIVE INCOME

Accumulated other comprehensive loss included in allocated net worth on the Condensed Combined 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 available-for-sale investments, and minimum pension liability adjustments. Total comprehensive income for the three months ended September 30, 2000 and 2001 is presented in the following table:

| (Dollar amounts in millions) | Three months ended September 30, | |
|--|-------------------------------------|--------|
| | 2000 | 2001 |
| | ----- | ----- |
| Net income | \$49.1 | \$32.2 |
| Other comprehensive loss: | | |
| Foreign currency translation adjustments | (12.6) | 19.2 |
| Unrealized gain (loss) on hedge contract, net of tax | 5.1 | (8.9) |
| Reclassification adjustments for net gains on hedge contracts included in net income, net of tax | (.7) | (3.3) |
| Unrealized loss on investments, net of tax | (22.2) | (26.7) |
| Reclassification adjustments for gains on investments included in net income, net of tax | (7.8) | |
| | ----- | ----- |
| Other comprehensive loss | (38.2) | (19.7) |
| | ----- | ----- |
| Comprehensive income | \$10.9 | \$12.5 |
| | ===== | ===== |

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APPLIED BIOSYSTEMS GROUP NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS continued

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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 ----- | September 30, 2001 ----- |
|------------------------------|---------------------------|--------------------------------|
| Raw materials and supplies | \$ 51.8 | \$ 57.0 |
| Work-in-process | 12.2 | 9.4 |
| Finished products | 76.8 | 85.7 |
| | ----- | ----- |
| Total inventories | \$ 140.8 ===== | \$ 152.1 ===== |

NOTE 5 - SUPPLEMENTAL CASH FLOW INFORMATION

Significant non-cash financing activities were as follows:

| (Dollar amounts in millions) | Three months ended September 30, 2000 2001 ----- ----- | |
|---|---|--------|
| Nonreimbursable utilization of tax benefits generated by the Celera Genomics group | \$ 2.9 | \$ 7.9 |
| Tax benefit related to employee stock options | \$ 14.6 | \$ 1.3 |
| Dividends declared not paid | \$ 8.9 | \$ 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) currency. 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, is reclassified to net revenues in the Condensed Combined Statements of Operations. During the first three months of

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APPLIED BIOSYSTEMS GROUP
NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS
continued

fiscal 2002, the Applied Biosystems group recognized net gains of \$4.7 million in net revenues from derivative instruments designated as cash flow hedges of anticipated sales. At September 30, 2001, \$1.3 million of derivative losses (\$1.1 million net of deferred taxes) recorded in other comprehensive income (loss) are expected to be reclassified to earnings during the next twelve months.

NOTE 7 - RELATED PARTY TRANSACTIONS

Sales of Products and Services Between Groups. For the three month periods ended September 30, 2000 and 2001, net revenues from leased instruments, shipments of consumables and project materials, and contracted R&D services to the Celera Genomics group totaled \$14.4 million and \$6.1 million, respectively.

NOTE 8 - CONTINGENCIES

Amersham

On November 18, 1997, Amersham Pharmacia Biotech, Inc. ("Amersham") filed a patent infringement action against the Company in the United States District Court for the Northern District of California. The complaint alleges that the Company is directly, contributorily, or by inducement infringing U.S. Patent No. 5,688,648 ("the '648 patent"). Amersham asserts that the Company's use and sale of DNA analysis reagents and systems that incorporate "BigDye" fluorescence detection technology infringe the '648 patent, and seeks injunctive and monetary relief. The Company answered the complaint, alleging that the '648 patent is invalid and unenforceable, and that the Company has not infringed the '648 patent. In December 2000, the court granted Amersham's motion for summary judgment in part, finding that certain of the Company's activities infringe the claims of the '648 patent, but denied Amersham's motion for summary judgment that the Company induced its customers to infringe the claims of the '648 patent. On April 6, 2001, the court granted the Company's motion for summary judgment finding that the Company's recently introduced BigDye Version 3.0 dye technology does not infringe the '648 patent.

On March 13, 1998, the Company filed a patent infringement action against Amersham and Molecular Dynamics, Inc. in the United States District Court for the Northern District of California. The Company asserts that one of its patents (U.S. Patent No. 4,811,218) is infringed by reason of Molecular Dynamics' and Amersham's sale of certain DNA analysis systems (e.g., the MegaBACE 1000 System). In response, Amersham has asserted various affirmative defenses and several counterclaims, including that the Company is infringing two patents, U.S. Patent No. 5,091,652 ("the '652 patent") and U.S. Patent No. 5,459,325, each owned by or licensed to Molecular Dynamics, by selling certain ABI PRISM(TM) DNA sequencing systems. In December 2000, the court granted the Company's motion for summary judgment of non-infringement of the '652 patent. The trial date previously scheduled for August 6, 2001 was vacated in July 2001.

On May 21, 1998, Amersham filed a patent infringement action against the Company in the United States District Court for the Southern District of New York. The complaint alleges that the Company

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NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS continued

is infringing, contributing to the infringement of, and inducing the infringement of U.S. Patent No. 4,707,235 ("the '235 patent") by reason of the Company's sale of certain ABI PRISM(TM) DNA sequencing systems. The complaint seeks injunctive and monetary relief. The Company answered the complaint, alleging that the '235 patent is invalid and that the Company does not infringe the '235 patent. The matters described in this paragraph and the immediately preceding paragraph have been consolidated into a single case to be heard in the United States District Court for the Northern District of California. In December 2000, the court granted the Company's motion for summary judgment of non-infringement of the '235 patent. However, on December 18, 2000, Amersham filed a new complaint alleging that the Company is infringing the '235 patent by reason of the Company's sale of certain DNA sequencing systems, which allegations were not in the previous suit under the '235 patent. This action is in the early stages of discovery.

On May 30, 2000, the Company filed a patent infringement action against Amersham in the United States District Court for the Northern District of California. The Company asserts that one of its patents (U.S. Patent No. 5,945,526) is infringed by reason of Amersham's sale of DNA analysis reagents and systems that incorporate ET Terminator fluorescence detection technology. The claims construction hearing previously scheduled for June 7, 2001 has been postponed.

On July 10, 2001, United States Judge Charles R. Breyer stayed all cases in the litigation described above for the purpose of facilitating court ordered settlement mediation. The stay is scheduled to expire on March 11, 2002.

The Company believes that the claims asserted by Amersham and Molecular Dynamics in the foregoing cases are without merit and intends to defend the cases vigorously. However, the outcome of this or any other litigation is inherently uncertain, and the Company cannot be sure that it will prevail in any of these matters. An adverse determination in any of the actions brought by Amersham could have a material adverse effect on the financial statements of the Company.

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 financial statements of the Applied Biosystems group or the Company.

The holders of Applera Corporation - Applied Biosystems Group Common Stock are stockholders of the Company and will continue to be 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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| | Three months ended September 30, | |
|--|-------------------------------------|-------------|
| | 2000 | 2001 |
| | ----- | ----- |
| Net Revenues | \$ 18,253 | \$ 27,274 |
| | ----- | ----- |
| Costs and Expenses | | |
| Cost of sales | 5,767 | 11,915 |
| Research and development | 40,977 | 27,742 |
| Selling, general and administrative | 13,030 | 12,605 |
| Amortization of goodwill and intangibles | 11,081 | 471 |
| | ----- | ----- |
| Operating Loss | (52,602) | (25,459) |
| Interest expense | (786) | |
| Interest income | 18,186 | 10,850 |
| Other income (expense), net | 11 | (716) |
| Loss from joint venture | | (9,377) |
| | ----- | ----- |
| Loss Before Income Taxes | (35,191) | (24,702) |
| Benefit for income taxes | (9,502) | (9,140) |
| | ----- | ----- |
| Net Loss | \$ (25,689) | \$ (15,562) |
| | ===== | ===== |

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
(Dollar amounts in thousands)

| | At June 30, 2001 | At September 30, 2001 |
|---|---------------------|--------------------------|
| | ----- | ----- |
| | | (unaudited) |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 216,076 | \$ 176,490 |
| Short-term investments | 779,482 | 791,859 |
| Accounts receivable, net | 24,019 | 24,211 |
| Inventories, net | 6,239 | 6,414 |
| Prepaid expenses and other current assets | 4,838 | 5,962 |
| | ----- | ----- |
| Total current assets | 1,030,654 | 1,004,936 |
| Property, plant and equipment, net | 123,497 | 112,516 |
| Other long-term assets | 65,985 | 64,249 |
| | ----- | ----- |
| Total Assets | \$1,220,136 | \$1,181,701 |
| | ===== | ===== |
| Liabilities and Allocated Net Worth | | |
| Current liabilities | | |
| Accounts payable | \$ 21,024 | \$ 10,751 |

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| | | |
|---|-------------|-------------|
| Accrued salaries and wages | 15,088 | 10,479 |
| Deferred revenues | 37,486 | 34,296 |
| Other accrued expenses | 11,982 | 17,520 |
| | ----- | ----- |
| Total current liabilities | 85,580 | 73,046 |
| Other long-term liabilities | 23,840 | 22,513 |
| | ----- | ----- |
| Total Liabilities | 109,420 | 95,559 |
| Allocated Net Worth | 1,110,716 | 1,086,142 |
| | ----- | ----- |
| Total Liabilities and Allocated Net Worth | \$1,220,136 | \$1,181,701 |
| | ===== | ===== |

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

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

| | Three months ended September 30, | |
|---|-------------------------------------|-------------|
| | 2000 | 2001 |
| | ----- | ----- |
| Operating Activities | | |
| Net loss | \$ (25,689) | \$ (15,562) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation and amortization | 15,961 | 7,353 |
| Long-term compensation programs | 332 | 483 |
| Deferred income taxes | (249) | 1,218 |
| Loss from joint venture | | 9,377 |
| Nonreimbursable utilization of tax benefits by the Applied Biosystems group | (2,908) | (7,934) |
| Changes in operating assets and liabilities: | | |
| Decrease in tax benefit receivable from the Applied Biosystems group | 10,224 | |
| (Increase) decrease in accounts receivable | 3,422 | (192) |
| (Increase) decrease in inventories | 530 | (175) |
| (Increase) decrease in prepaid expenses and other assets | 503 | (1,699) |
| Decrease in accounts payable and other liabilities | (9,318) | (13,879) |
| | ----- | ----- |
| Net Cash Used by Operating Activities | (7,192) | (21,010) |
| | ----- | ----- |
| Investing Activities | | |
| Additions to property, plant and equipment, net | (4,967) | (3,236) |
| Sales (purchases) of short-term investments, net | 622 | (9,594) |
| Investments | | (8,302) |
| | ----- | ----- |
| Net Cash Used by Investing Activities | (4,345) | (21,132) |
| | ----- | ----- |
| Financing Activities | | |
| Purchases of treasury stock | | (941) |

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| | | |
|---|------------|------------|
| Proceeds from stock issued for stock plans | 8,191 | 3,497 |
| | ----- | ----- |
| Net Cash Provided by Financing Activities | 8,191 | 2,556 |
| | ----- | ----- |
| Net Change in Cash and Cash Equivalents | (3,346) | (39,586) |
| Cash and Cash Equivalents Beginning of Period | 569,894 | (216,076) |
| | ----- | ----- |
| Cash and Cash Equivalents End of Period | \$ 566,548 | \$ 176,490 |
| | ===== | ===== |

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

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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 accounting for goodwill and other intangibles 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 \$15.6 million for the three months ended September 30, 2000 on a pro forma basis.

NOTE 3 - PENDING ACQUISITION AND OTHER

Axys Pharmaceuticals, Inc.

In June 2001, the Company signed a definitive merger agreement to acquire Axys

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Pharmaceuticals, Inc. ("Axys") in a stock-for-stock transaction. A special meeting of Axys' stockholders is scheduled for November 16, 2001 in order for the Axys stockholders to vote on the proposed merger. Subject to the approval of the Axys stockholders and the satisfaction of other closing conditions, the merger is expected to be completed on November 16, 2001, or shortly thereafter. The net assets and results of operations of Axys are not included in the Celera Genomics group's combined financial statements, but if the merger is consummated, such assets and results of operations will be allocated to the Celera Genomics group. The following selected unaudited pro forma information for the Celera Genomics group has been prepared assuming the merger had occurred at the beginning of fiscal 2001 and gives effect to purchase accounting

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CELERA GENOMICS GROUP NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS continued

adjustments, except for the write-off of between \$65 million and \$75 million relating to in-process research and development expected to be expensed upon consummation of the merger.

| (Dollar amounts in millions except per share amounts) | September 30, 2000 | September 30, 2001 |
|--|-----------------------|-----------------------|
| | ----- | ----- |
| Net revenues | \$ 20.9 | \$ 28.1 |
| Net loss | \$ (31.2) | \$ (30.5) |

During the three months ended September 30, 2001, Axys recorded a noncash pretax charge of \$10.8 million for the impairment of an investment.

See Note 2 to the Celera Genomics group's combined financial statements in the Company's 2001 Annual Report to Stockholders for a further discussion of this acquisition.

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 4 - COMPREHENSIVE LOSS

Accumulated other comprehensive income (loss) included in allocated net worth on 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 months ended September 30, 2000 and 2001 is presented in the following table:

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| (Dollar amounts in millions) | Three months ended September 30, | |
|---|-------------------------------------|-----------|
| | 2000 | 2001 |
| Net loss | \$ (25.7) | \$ (15.6) |
| Other comprehensive income: | | |
| Foreign currency translation adjustment | | .1 |
| Unrealized gain on investments, net of tax | .3 | 1.8 |
| Other comprehensive income | .3 | 1.9 |
| Comprehensive loss | \$ (25.4) | \$ (13.7) |

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CELERA GENOMICS GROUP
NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS
continued

NOTE 5 - 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 | September 30, 2001 |
|------------------------------|------------------|-----------------------|
| Raw materials and supplies | \$ 4.9 | \$ 5.0 |
| Work-in-process | .6 | 1.0 |
| Finished products | .7 | .4 |
| Total inventories | \$ 6.2 | \$ 6.4 |

NOTE 6 - SUPPLEMENTAL CASH FLOW INFORMATION

Significant non-cash financing activities were as follows:

| (Dollar amounts in millions) | Three months ended September 30, | |
|--|-------------------------------------|--------|
| | 2000 | 2001 |
| Nonreimbursable utilization of tax benefits by the Applied Biosystems group | \$ 2.9 | \$ 7.9 |
| Tax benefit related to employee stock options | \$ 5.7 | \$ 2.1 |
| Transfer of business unit to the Applied Biosystems group (Note 3) | | \$ 8.1 |

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NOTE 8 - RELATED PARTY TRANSACTIONS

Sales of Products and Services Between Groups. For the three months ended September 30, 2000, research and development expenses included \$13.2 million for lease payments on instruments, the purchase of consumables and project materials, and services contracted from the Applied Biosystems group. For the three months ended September 30, 2001, research and development expenses included \$6.1 million for lease payments on instruments, the purchase of consumables, and services contracted from the Applied Biosystems group.

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CELERA GENOMICS GROUP
NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS
continued

NOTE 9 - CONTINGENCIES

Amersham

On November 18, 1997, Amersham Pharmacia Biotech, Inc. ("Amersham") filed a patent infringement action against the Company in the United States District Court for the Northern District of California. The complaint alleges that the Company is directly, contributorily, or by inducement infringing U.S. Patent No. 5,688,648 ("the '648 patent"). Amersham asserts that the Company's use and sale of DNA analysis reagents and systems that incorporate "BigDye" fluorescence detection technology infringe the '648 patent, and seeks injunctive and monetary relief. The Company answered the complaint, alleging that the '648 patent is invalid and unenforceable, and that the Company has not infringed the '648 patent. In December 2000, the court granted Amersham's motion for summary judgment in part, finding that certain of the Company's activities infringe the claims of the '648 patent, but denied Amersham's motion for summary judgment that the Company induced its customers to infringe the claims of the '648 patent. On April 6, 2001, the court granted the Company's motion for summary judgment finding that the Company's recently introduced BigDye Version 3.0 dye technology does not infringe the '648 patent.

On March 13, 1998, the Company filed a patent infringement action against Amersham and Molecular Dynamics, Inc. in the United States District Court for the Northern District of California. The Company asserts that one of its patents (U.S. Patent No. 4,811,218) is infringed by reason of Molecular Dynamics' and Amersham's sale of certain DNA analysis systems (e.g., the MegaBACE 1000 System). In response, Amersham has asserted various affirmative defenses and several counterclaims, including that the Company is infringing two patents, U.S. Patent No. 5,091,652 ("the '652 patent") and U.S. Patent No. 5,459,325, each owned by or licensed to Molecular Dynamics, by selling certain ABI PRISM(TM) DNA sequencing systems. In December 2000, the court granted the Company's motion for summary judgment of non-infringement of the '652 patent. The trial date previously scheduled for August 6, 2001 was vacated in July 2001.

On May 21, 1998, Amersham filed a patent infringement action against the Company in the United States District Court for the Southern District of New York. The complaint alleges that the Company is infringing, contributing to the infringement of, and inducing the infringement of U.S. Patent No. 4,707,235 ("the '235 patent") by reason of the Company's sale of certain ABI PRISM(TM) DNA sequencing systems. The complaint seeks injunctive and monetary relief. The Company answered the complaint, alleging that the '235 patent is invalid and that the Company does not infringe the '235 patent. The matters described in this paragraph and the immediately preceding paragraph have been consolidated into a single case to be heard in the United States District Court for the

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Northern District of California. In December 2000, the court granted the Company's motion for summary judgment of non-infringement of the '235 patent. However, on December 18, 2000, Amersham filed a new complaint alleging that the Company is infringing the '235 patent by reason of the Company's sale of certain DNA sequencing systems, which allegations were not in the previous suit under the '235 patent. This action is in the early stages of discovery.

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CELERA GENOMICS GROUP NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS continued

On May 30, 2000, the Company filed a patent infringement action against Amersham in the United States District Court for the Northern District of California. The Company asserts that one of its patents (U.S. Patent No. 5,945,526) is infringed by reason of Amersham's sale of DNA analysis reagents and systems that incorporate ET Terminator fluorescence detection technology. The claims construction hearing previously scheduled for June 7, 2001 has been postponed.

On July 10, 2001, United States Judge Charles R. Breyer stayed all cases in the litigation described above for the purpose of facilitating court ordered settlement mediation. The stay is scheduled to expire on March 11, 2002.

The Company believes that the claims asserted by Amersham and Molecular Dynamics in the foregoing cases are without merit and intends to defend the cases vigorously. However, the outcome of this or any other litigation is inherently uncertain, and the Company cannot be sure that it will prevail in any of these matters. An adverse determination in any of the actions brought by Amersham could have a material adverse effect on the financial statements of the Company.

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 financial statements of the Celera Genomics group or the Company.

The holders of Applera Corporation - Celera Genomics Group Common Stock are stockholders of the Company and will continue to be 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 following discussion should be read in conjunction with the Applera Corporation (the "Company") condensed consolidated financial statements and related notes included in this report, the Applied Biosystems group's combined financial statements and related notes included in this report, and the Celera Genomics group's combined financial statements and related notes included in

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this report and "Management's Discussion and Analysis" appearing on pages 13 - 25 of the Company's 2001 Annual Report to Stockholders. Historical results and percentage relationships are not necessarily indicative of operating results for any future periods.

Celera Diagnostics was established as a joint venture between the Applied Biosystems group and the Celera Genomics group during the fourth quarter of fiscal 2001. This new venture is focused on discovery, development and commercialization of novel diagnostic tests.

Events Impacting Comparability

Gain on Investments. The first quarter of fiscal 2001 included a before-tax gain of \$12.0 million related to the sale of a minority equity investment.

Discussion of Consolidated Operations

Results of Operations--The Three Months Ended September 30, 2001 Compared With The Three Months Ended September 30, 2000

The Company reported net income of \$17.0 million for the first quarter of fiscal 2002 compared with \$24.5 million for the first quarter of fiscal 2001. Net income for the Company, on a comparable basis excluding the gain on investments from fiscal 2001 previously described, increased 1.8% from \$16.7 million for the first quarter of fiscal 2001. The increase in net income reflected increased net revenues and lower amortization of goodwill and other intangibles, which were substantially offset by lower interest income and higher R&D and SG&A expenses. On a segment basis, the Applied Biosystems group reported net income of \$32.2 million for the first quarter of fiscal 2002 compared with \$41.3 million for fiscal 2001 excluding the gain on investments, and the Celera Genomics group reported a net loss of \$15.6 million for the first quarter of fiscal 2002 compared with a net loss of \$25.7 million for the first quarter of fiscal 2001.

Net revenues for the Company were \$387.9 million for the first quarter of fiscal 2002 compared with \$367.4 million for the first quarter of fiscal 2001, an increase of 5.6%. On a segment basis, net revenues for the Applied Biosystems group were \$366.6 million for the first quarter of fiscal 2002 compared with \$363.6 million for the first quarter of fiscal 2001. The Celera Genomics group reported net revenues of \$27.3 million for the first quarter of fiscal 2002 compared with \$18.3 million for the first quarter of fiscal 2001.

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

Gross margin as a percentage of net revenues for the Company was 51.9% for the first quarter of fiscal 2002 compared with 53.9% for the first quarter of fiscal 2001. The lower gross margin percentage in fiscal 2002 was due primarily to lower license fee income and product mix within the Applied Biosystems group's product revenue.

SG&A expenses for the Company were \$107.1 million for the first quarter of fiscal 2002 compared with \$103.0 million for the first quarter of fiscal 2001. As a percentage of net revenues, SG&A expenses decreased to 27.6% for the first quarter of fiscal 2002 compared with 28.0% for the first quarter of fiscal 2001 primarily due to lower discretionary spending and reduced spending on travel in the latter part of the first quarter of fiscal 2002. On a segment basis, SG&A expenses for the Applied Biosystems group were \$91.8 million and \$90.0 million

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for the first quarter of fiscal 2002 and 2001, respectively. SG&A expenses for the Celera Genomics group were \$12.6 million and \$13.0 million for the first quarter of fiscal 2002 and 2001, respectively.

R&D expenses increased \$6.6 million for the first quarter of fiscal 2002 to \$84.5 million from \$77.9 million for the first quarter of fiscal 2001 primarily due to spending on diagnostics programs associated with the Celera Diagnostics business and spending on the Company's comprehensive genomics program for commercializing products from information obtained through analysis of the human genome, which is a collaboration among the Company's businesses. This increase was partially offset by lower R&D expenses associated with whole genome sequencing. On a segment basis, R&D expenses for the Applied Biosystems group were \$52.3 million and \$46.1 million for the first quarter of fiscal 2002 and 2001, respectively. R&D expenses for the Celera Genomics group were \$27.7 million and \$41.0 million for the first quarter of fiscal 2002 and 2001, respectively.

The Company recorded non-cash amortization expenses of \$.5 million in the first quarter of fiscal 2002 compared to \$11.1 million in the first quarter of fiscal 2001 relating to the amortization of goodwill and other intangibles. Effective July 1, 2001, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," and as a result, the Company no longer amortizes goodwill.

Operating income for the Company was \$9.3 million for the first quarter of fiscal 2002 compared with \$6.1 million for the first quarter of fiscal 2001. On a segment basis, operating income for the Applied Biosystems group decreased to \$43.1 million for the first quarter of fiscal 2002 from \$57.9 million for the first quarter of fiscal 2001. This decrease in operating income was caused primarily by lower gross margin as a percentage of net revenues, resulting from lower license fee income and product mix, and higher R&D expense primarily due to diagnostics programs and the Company's comprehensive genomics program. Operating income as a percentage of net revenues for the Applied Biosystems group was 11.8% in the first quarter of fiscal 2002 compared with 15.9% in the first quarter of fiscal 2001.

The operating loss for the Celera Genomics group was \$25.5 million for the first quarter of fiscal 2002 compared with \$52.6 million for first quarter of fiscal 2001. The decrease in the Celera

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

Genomics group's operating loss reflected lower R&D expenses, lower amortization of goodwill and other intangibles, and higher net revenues.

Interest expense was \$.2 million for the first quarter of fiscal 2002 compared with \$1.1 million for first quarter of fiscal 2001. The higher interest expense for fiscal 2001 reflected the financing of the purchase of the Celera Genomics group's Rockville, Maryland facilities. This financing was repaid in the second quarter of fiscal 2001. Interest income was \$14.3 million for first quarter of fiscal 2002 compared with \$22.6 million for first quarter of fiscal 2001. This decrease was primarily attributable to lower average interest rates in the first quarter of fiscal 2002 as compared to the first quarter of fiscal 2001.

Other expense, net was \$1.7 million for the first quarter of fiscal 2002 compared with \$2.9 million for the first quarter of fiscal 2001. The amount in both years was primarily related to costs associated with the Company's foreign

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currency management program.

The Company's effective income tax rate was 21% for the first quarter of fiscal 2002 compared with 33% for the first quarter of fiscal 2001. The higher effective income tax rate during fiscal 2001 was primarily due to amortization of nondeductible goodwill, which is no longer being amortized, in fiscal 2002 due to the adoption of SFAS No. 142 as previously discussed.

Discussion of Segment Operations

Applied Biosystems Group

Results of Operations--The Three Months Ended September 30, 2001 Compared With The Three Months Ended September 30, 2000

The Applied Biosystems group reported net income of \$32.2 million for the first quarter of fiscal 2002 compared with \$49.1 million for the first quarter of fiscal 2001. On a comparable basis excluding the special item from fiscal 2001, net income decreased 22.1% during the first quarter of fiscal 2002 compared with \$41.3 million for the first quarter of fiscal 2001. This decrease was primarily attributable to lower gross margins as a percentage of net revenues and higher R&D expenses. The negative effects of foreign currency reduced net income by approximately \$2 million, or 5%, as compared with the first quarter of fiscal 2001 excluding the special item.

Net revenues were \$366.6 million for the first quarter of fiscal 2002 compared with \$363.6 million for the first quarter of fiscal 2001, an increase of .8%. Net revenues from the Celera Genomics group, primarily from leased instruments and consumables shipments, were \$6.1 million for the first quarter of fiscal 2002, or 1.7% of the Applied Biosystems group's net revenues, and \$14.4 million for the first quarter of fiscal 2001, or 4.0%.

Geographically, net revenues decreased .7% in the United States and 2.5% in Europe, and increased 10.5% in Asia Pacific and 1.4% in Latin America and other markets, compared with the prior fiscal

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

year. Excluding the effects of foreign currency, revenues grew approximately 15% in Asia Pacific and decreased approximately 1% in Europe.

For the first quarter of fiscal year 2002, revenues from instrument sales were \$162.3 million, a decrease of 12.3% from \$185.0 million in 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 quarter in fiscal 2001 resulting from numerous placements of the ABI PRISM(R) 3700 DNA Analyzer. These factors, which contributed to the decrease in instrument sales, were partially offset by increased sales of the ABI PRISM(R) 3100 Genetic Analyzer, which increased approximately 75%. Additionally, revenues from the API 3000 and API 4000 high-performance triple-quadrupole mass spectrometer systems increased approximately 56% in the first quarter of fiscal 2002 compared to revenues from the API 3000 system in the first quarter of fiscal 2001. Shipments of the API 4000 began in the fourth quarter of fiscal 2001. Consumables sales grew to \$149.2 million in the first quarter of fiscal 2002 from \$124.5 million in the first quarter of fiscal 2001, a 19.8% increase, reflecting continued demand for sequencing and sequence detection reagents. Revenues from other

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sources, which included service contracts, royalties, licenses, and contract research, increased 1.8% to \$55.1 million in the first quarter of fiscal 2002 from \$54.1 million in the first quarter of fiscal 2001.

Gross margin as a percentage of net revenues declined to 51.1% for the first quarter of fiscal 2002 from 53.3% for the first quarter of fiscal 2001 due primarily to lower license fee income in the first quarter of fiscal 2002 as compared to the prior year and product mix, specifically the decrease in shipments of the ABI PRISM(R) 3700 DNA Analyzer discussed previously.

SG&A expenses were \$91.8 million for the first quarter of fiscal 2002 compared with \$90.0 million for the first quarter of fiscal 2001, an increase of 2.0%. This increase was restrained due to lower discretionary spending in response to the lower sales growth rates and reduced spending on travel in the latter part of the first quarter of fiscal 2002.

R&D expenses were \$52.3 million for first quarter of fiscal 2002 compared with \$46.1 million for the first quarter of fiscal 2001, an increase of 13.5%. As a percentage of net revenues, R&D expenses were 14.3% for the first quarter of fiscal 2002 compared with 12.7% for the first quarter of fiscal 2001. The increase in R&D expenses was primarily a result of the Applied Biosystems group's participation in the collaborative genomics program among the Company's businesses and continued development of other new products and technologies such as novel, high-throughput instruments for gene and protein studies and related consumable products.

The first quarter of fiscal 2001 included a before-tax gain of \$12.0 million related to the sale of a minority equity investment.

Interest income was \$3.5 million for the first quarter of fiscal 2002 compared with \$4.4 million for the first quarter of fiscal 2001. The decrease was primarily due to lower average interest rates

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

partially offset by larger average cash balances for the first quarter of fiscal 2002 compared with the first quarter of fiscal 2001.

Other expense, net was \$1.0 million for the first quarter of fiscal 2002 compared with \$2.9 million for the first quarter of fiscal 2001. The amounts for both periods were primarily related to the Company's foreign currency management program.

The effective income tax rate was 29% for the first quarter of fiscal 2002 compared with 31% for the first quarter of fiscal 2001. Excluding the sale of the minority equity investment during the first quarter of fiscal 2001, the effective income tax rate was 30% in the first 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.

Celera Genomics Group

Results of Operations--The Three Months Ended September 30, 2001 Compared With
The Three Months Ended September 30, 2000

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The Celera Genomics group reported a net loss of \$15.6 million for the first quarter of fiscal 2002 compared with a net loss of \$25.7 million for the first quarter of fiscal 2001. The decrease in the net loss primarily resulted from lower R&D activities, decreased amortization of goodwill and other intangibles, and higher net revenues. These decreases to the net loss were partially offset by lower interest income and the loss recognized from the Celera Genomics group's interest in the Celera Diagnostics joint venture with the Applied Biosystems group.

Net revenues for the Celera Genomics group were \$27.3 million for the first quarter of fiscal 2002 compared with \$18.3 million for the first quarter of fiscal 2001. The increased revenues resulted primarily from increased database subscription agreements with commercial and academic customers, as well as revenues from genomic services and collaborations.

Cost of sales increased \$6.1 million to \$11.9 million for the first quarter of fiscal 2002 from \$5.8 million in the first quarter of fiscal 2001. This increase was primarily due to the increased use of sequencing capacity for revenue generating activities.

R&D expenses decreased \$13.3 million to \$27.7 million for the first quarter of fiscal 2002 from \$41.0 million in the first quarter of fiscal 2001. R&D expenses associated with therapeutic discovery programs, such as proteomics and discovery informatics, increased in comparison to the same quarter last year. R&D spending also increased for the Celera Genomics group's participation in the collaborative genomics program among the Company's businesses. These increases were more than offset by lower R&D expenses for whole genome sequencing