APPLERA CORP
Form 10-Q
May 13, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number: **1-4389**

APPLERA CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

Yes No

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

Yes No

As of the close of business on May 7, 2004, there were 201,835,054 shares of Applera Corporation-Applied Biosystems Group Common Stock and 72,953,877 shares of Applera Corporation-Celera Genomics Group Common Stock outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2003	**2004**	2003	**2004**
Net Revenues	$ 431,006	**$ 455,180**	$ 1,321,356	**$ 1,345,552**
Cost of sales	206,123	**216,195**	631,343	**637,351**
Gross Margin	224,883	**238,985**	690,013	**708,201**
Selling, general and administrative	105,345	**124,569**	324,872	**355,192**
Research, development and engineering	96,963	**94,950**	303,539	**282,309**
Amortization of intangible assets	725	**725**	5,148	**2,175**
Other special charges		**6,287**	24,313	**5,672**
Operating Income	21,850	**12,454**	32,141	**62,853**
Gain (loss) on investments, net	(2,147)	**3,641**	(2,420)	**10,672**
Interest expense	(211)	**(79)**	(614)	**(381)**
Interest income	7,156	**5,580**	23,620	**17,802**
Other income (expense), net	(13,392)	**6,998**	(12,457)	**7,954**
Income before Income Taxes	13,256	**28,594**	40,270	**98,900**
Provision (benefit) for income taxes	(329)	**6,451**	1,196	**18,174**
Income from Continuing Operations	13,585	**22,143**	39,074	**80,726**
Loss from discontinued operations, net of income taxes			(16,400)	
Net Income	$ 13,585	**$ 22,143**	$ 22,674	**$ 80,726**
Applied Biosystems Group (see Note 2)				
Income from Continuing Operations	$ 40,123	**$ 46,022**	$ 103,532	**$ 131,817**
Basic per share	$ 0.19	**$ 0.23**	$ 0.50	**$ 0.64**
Diluted per share	$ 0.19	**$ 0.22**	$ 0.49	**$ 0.63**
Loss from Discontinued Operations	$	**$**	$ (16,400)	**$**
Basic and diluted per share	$	**$**	$ (0.08)	**$**
Net Income	$ 40,123	**$ 46,022**	$ 87,132	**$ 131,817**
Basic per share	$ 0.19	**$ 0.23**	$ 0.42	**$ 0.64**
Diluted per share	$ 0.19	**$ 0.22**	$ 0.41	**$ 0.63**
Dividends per share	$ 0.0850	**$ 0.0850**	$ 0.1700	**$ 0.1700**

Celera Genomics Group (see Note 2)				
Net Loss	$ (26,743)	**$ (21,858)**	$ (62,516)	**$ (51,700)**
Basic and diluted per share	$ (0.37)	**$ (0.30)**	$ (0.88)	**$ (0.71)**

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, 2003	**At March 31, 2004**
		(Unaudited)
Assets		
Current assets		
Cash and cash equivalents	$ 654,283	**$ 631,309**
Short-term investments	749,785	**692,360**
Accounts receivable, net	423,549	**372,519**
Inventories, net	152,060	**153,101**
Prepaid expenses and other current assets	93,706	**122,396**
Total current assets	2,073,383	**1,971,685**
Property, plant and equipment, net	526,591	**496,311**
Other long-term assets	657,518	**614,615**
Total Assets	$ 3,257,492	**$ 3,082,611**
Liabilities and Stockholders Equity		
Current liabilities		
Current portion of long-term debt	$	**$ 6,210**
Accounts payable	166,319	**130,433**
Accrued salaries and wages	79,623	**71,701**
Accrued taxes on income	85,943	**68,417**
Other accrued expenses	281,435	**301,882**
Total current liabilities	613,320	**578,643**
Long-term debt	17,101	
Other long-term liabilities	286,786	**247,286**
Total Liabilities	917,207	**825,929**
Stockholders Equity		
Capital stock		
Applera Corporation Applied Biosystems Group	2,128	**2,130**
Applera Corporation Celera Genomics Group	723	**729**
Capital in excess of par value	2,102,936	**2,109,020**
Retained earnings	355,252	**407,100**
Accumulated other comprehensive loss	(54,485)	**(20,194)**
Treasury stock, at cost	(66,269)	**(242,103)**
Total Stockholders Equity	2,340,285	**2,256,682**
Total Liabilities and Stockholders Equity	$ 3,257,492	**$ 3,082,611**

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

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

	Nine months ended March 31,	
	2003	**2004**
Operating Activities of Continuing Operations		
Income from continuing operations	$ 39,074	**$ 80,726**
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	105,639	**96,294**
Asset impairments	10,017	
Provisions for office closures and severance and related costs	23,744	**4,843**
Long-term compensation programs	4,524	**3,047**
(Gain) loss from investments and sale of assets, net	1,330	**(10,606)**
Deferred income taxes	(55,067)	**(24,047)**
Loss from equity method investees	19,171	**366**
Changes in operating assets and liabilities:		
Accounts receivable	28,717	**75,094**
Inventories	(10,725)	**(2,695)**
Prepaid expenses and other assets	(9,476)	**(2,232)**
Accounts payable and other liabilities	(43,994)	**(87,556)**
Net Cash Provided by Operating Activities of Continuing Operations	112,954	**133,234**
Investing Activities of Continuing Operations		
Additions to property, plant and equipment, net	(109,299)	**(51,339)**
Proceeds from short-term investments, net	86,725	**71,949**
Purchases of long-term investments	(16,834)	
Acquisitions and other investments, net	(105)	**(288)**
Proceeds from the sale of assets, net	6,579	**28,981**
Net Cash Provided (Used) by Investing Activities of Continuing Operations	(32,934)	**49,303**
Net Cash Used by Operating Activities of Discontinued Operations	(2,526)	**(195)**
Financing Activities		
Net change in loans payable	(290)	
Principal payments on debt		**(10,000)**
Dividends	(26,691)	**(35,107)**
Purchases of common stock for treasury	(19,779)	**(199,999)**
Proceeds from stock issued for stock plans	27,507	**22,423**
Net Cash Used by Financing Activities	(19,253)	**(222,683)**
Effect of Exchange Rate Changes on Cash	13,667	**17,367**

Net Change in Cash and Cash Equivalents	71,908	**(22,974)**
Cash and Cash Equivalents Beginning of Period	470,218	**654,283**
Cash and Cash Equivalents End of Period	$ 542,126	**$ 631,309**

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

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

We consistently applied the accounting policies described in our 2003 Annual Report to Stockholders in preparing these unaudited interim financial statements. We made all adjustments that are necessary, in our opinion, for a fair statement of the results for the interim periods. These adjustments are of a normal recurring nature. We condensed or omitted from these interim financial statements several notes and other information included in our 2003 Annual Report to Stockholders. You should read these unaudited interim condensed consolidated financial statements in conjunction with our consolidated financial statements presented in our 2003 Annual Report to Stockholders.

Note 2 Earnings (Loss) per Share, Including Pro Forma Effects of Stock-Based Compensation

The following tables present a reconciliation of basic and diluted earnings (loss) per share and illustrate what net income and earnings per share would have been if we had applied the fair value method of accounting for employee stock plans as required by Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation.

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

	Applera Corporation	
(Dollar amounts in millions)	2003	**2004**
Net income, as reported	$ 13.6	**$ 22.1**
Add: Stock-based employee compensation expense included in reported net income, net of tax	0.6	**0.6**
Deduct: Stock-based employee compensation expense determined under fair value based method, net of tax	34.3	**29.3**
Pro forma net loss	$ (20.1)	**$ (6.6)**

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Dollar amounts in millions, except per share amounts)	Applied Biosystems Group 2003	Applied Biosystems Group **2004**	Celera Genomics Group 2003	Celera Genomics Group **2004**
Net income (loss), as reported	$ 40.1	**$ 46.0**	$ (26.7)	**$ (21.9)**
Add: Stock-based employee compensation expense included in reported net income (loss), net of tax	0.4	**0.4**	0.2	**0.2**
Deduct: Stock-based employee compensation expense determined under fair value based method, net of tax	27.5	**23.7**	6.8	**5.6**
Pro forma net income (loss)	$ 13.0	**$ 22.7**	$ (33.3)	**$ (27.3)**
Weighted average number of common shares				
Basic	209.1	**204.0**	71.7	**72.6**
Common stock equivalents	1.3	**4.4**		
Diluted	210.4	**208.4**	71.7	**72.6**
Earnings (loss) per share				
Basic as reported	$ 0.19	**$ 0.23**	$ (0.37)	**$ (0.30)**
Basic pro forma	$ 0.06	**$ 0.11**	$ (0.46)	**$ (0.38)**
Diluted as reported	$ 0.19	**$ 0.22**	$ (0.37)	**$ (0.30)**
Diluted pro forma	$ 0.06	**$ 0.11**	$ (0.46)	**$ (0.38)**

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

(Dollar amounts in millions)	Applera Corporation 2003	Applera Corporation **2004**
Income from continuing operations, as reported	$ 39.1	**$ 80.7**
Add: Stock-based employee compensation expense included in reported income from continuing operations, net of tax	2.6	**1.8**
Deduct: Stock-based employee compensation expense determined under fair value based method, net of tax	110.0	**100.2**
Pro forma loss from continuing operations	$ (68.3)	**$ (17.7)**

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Dollar amounts in millions, except per share amounts)	Applied Biosystems Group 2003	Applied Biosystems Group **2004**	Celera Genomics Group 2003	Celera Genomics Group **2004**
Income (loss) from continuing operations, as reported	$ 103.5	**$ 131.8**	$ (62.5)	**$ (51.7)**
Add: Stock-based employee compensation expense included in reported income (loss) from continuing operations, net of tax	1.9	**1.2**	0.7	**0.6**
Deduct: Stock-based employee compensation expense determined under fair value based method, net of tax	87.0	**81.5**	23.0	**18.7**
Pro forma income (loss) from continuing operations	$ 18.4	**$ 51.5**	$ (84.8)	**$ (69.8)**
Weighted average number of common shares				
Basic	209.0	**206.4**	71.4	**72.4**
Common stock equivalents	1.3	**4.1**		
Diluted	210.3	**210.5**	71.4	**72.4**
Earnings (loss) per share from continuing operations				
Basic as reported	$ 0.50	**$ 0.64**	$ (0.88)	**$ (0.71)**
Basic pro forma	$ 0.09	**$ 0.25**	$ (1.19)	**$ (0.96)**
Diluted as reported	$ 0.49	**$ 0.63**	$ (0.88)	**$ (0.71)**
Diluted pro forma	$ 0.09	**$ 0.24**	$ (1.19)	**$ (0.96)**

Options to purchase stock at exercise prices greater than the average market prices of our common stocks were excluded from the computation of diluted earnings per share because the effect would have been antidilutive. Additionally, options and warrants to purchase shares of Applera Corporation-Celera Genomics Group Common Stock (Applera-Celera stock) were excluded from the computation of diluted loss per share because the effect was antidilutive. The following table presents the number of shares excluded from the diluted earnings and loss per share computations for the three and nine-month periods ended March 31:

(Shares in millions)	2003	**2004**
Applera Corporation Applied Biosystems Group Common Stock	27.3	**16.5**
Applera Celera stock	12.9	**11.8**

In determining the pro forma impact for employee stock plans under SFAS 123, we estimated the fair value of the options at the grant date using the Black-Scholes option-pricing model with the following weighted average assumptions for the three and nine month periods ended March 31:

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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	Three months ended March 31,		Nine months ended March 31,	
	2003	**2004**	2003	**2004**
Applied Biosystems Group				
Dividend yield	1.1%	**0.8%**	1.1%	**0.8%**
Volatility	72%	**71%**	72%	**71%**
Risk-free interest rate	3.0%	**3.2%**	3.0%	**3.2%**
Expected option life in years	5	**5**	5	**5**
Celera Genomics Group				
Volatility	97%	**78%**	97%	**88%**
Risk-free interest rate	3.0%	**3.2%**	3.0%	**3.2%**
Expected option life in years	4	**4**	4	**4**

Note 3 Special Charges

Fiscal 2003

During the second quarter of fiscal 2003, the Applied Biosystems group recorded pre-tax charges totaling $33.8 million associated with the termination of approximately 400 employees, mainly in the U.S. and Europe, impairment of assets, and office closures. The $33.8 million charge consisted of $24.3 million recorded in other special charges and $9.5 million for the impairment of assets recorded in cost of sales. Positions eliminated were primarily within the areas of research, manufacturing, sales, marketing and administration. The Applied Biosystems group recorded pre-tax benefits of $4.3 million in the fourth quarter of fiscal 2003 and $0.6 million in the second quarter of fiscal 2004 for reductions in anticipated employee-related costs associated with this program. The following table details the major components of the special charges:

(Dollar amounts in millions)	Employee-Related Charges	Asset Impairment	Office Closures	Total
Total charges	$ 22.9	$ 9.5	$ 1.4	$ 33.8
Cash payments	17.2		0.6	17.8
Non-cash charges		9.5	0.5	10.0
Reduction of expected costs	4.9			4.9
Balance at March 31, 2004	**$ 0.8**	**$**	**$ 0.3**	**$ 1.1**

The termination of the employees and the cash payments relating to the workforce reductions and office closures were substantially completed by December 31, 2003. These payments were funded primarily by cash provided by operating activities.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Fiscal 2004

During the third quarter of fiscal 2004, the Applied Biosystems group recorded pre-tax charges of $6.3 million in other special charges for the termination of approximately 110 employees, mainly in the U.S. The savings resulting from this action are expected to be used to support the businesses that are driving the group s revenue growth, including through the hiring of additional appropriately-skilled employees. As of March 31, 2004, the affected employees had been notified and the majority are expected to be terminated by the end of fiscal 2004. As of March 31, 2004, we had made $0.8 million of cash payments. The remaining cash expenditures are expected to be substantially completed by the end of fiscal 2004, and will be funded primarily by cash provided by operating activities.

Note 4 Comprehensive Gain

The components of comprehensive gain (loss) are reflected net of tax, except for foreign currency translation adjustments, which are generally not adjusted for income taxes as they relate to indefinite investments in non U.S. subsidiaries. Comprehensive gain (loss) for the three and nine month periods ended March 31 were as follows:

	Three months ended March 31,		Nine months ended March 31,	
(Dollar amounts in millions)	2003	**2004**	2003	**2004**
Net income	$ 13.6	**$ 22.1**	$ 22.7	**$ 80.7**
Other comprehensive gain (loss):				
Net unrealized gains (losses) on investments	(0.4)	**(1.1)**	(6.5)	**2.3**
Net unrealized (gains) losses on investments reclassified into earnings	0.9	**(2.4)**	0.8	**(8.1)**
Net unrealized losses on hedge contracts	(4.1)	**(3.6)**	(3.3)	**(27.9)**
Net unrealized losses on hedge contracts reclassified into earnings	9.1	**9.1**	17.3	**21.4**
Foreign currency translation adjustments	6.2	**5.9**	19.9	**46.6**
Total other comprehensive gain	11.7	**7.9**	28.2	**34.3**
Total comprehensive gain	$ 25.3	**$ 30.0**	$ 50.9	**$ 115.0**

Note 5 Inventories

Inventories included the following components:

(Dollar amounts in millions)	June 30, 2003	**March 31, 2004**
Raw materials and supplies	$ 54.4	**$ 56.1**
Work-in-process	9.8	**8.9**
Finished products	87.9	**88.1**
Total inventories, net	$ 152.1	**$ 153.1**

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APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Note 6 Assets Held for Sale

During the third quarter of fiscal 2004, the Applied Biosystems group decided to pursue the sale of certain nonstrategic assets. As a result of this decision, we have reclassified $19.5 million of assets into assets held for sale within prepaid expenses and other current assets. The reclassified assets consist of $16.6 million of property, plant, and equipment, net and $2.9 million of net inventory. The sale of these assets is expected to occur over the next twelve months.

Note 7 Goodwill and Intangible Assets

The following table presents our intangible assets subject to amortization:

		June 30, 2003		**March 31, 2004**	
(Dollar amounts in millions)	Weighted Average Life	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	7.5	$ 44.7	$ 21.2	**$ 44.8**	**$ 24.9**
Acquired technology	6.5	60.0	30.0	**63.7**	**35.4**
Favorable operating leases	4.0	11.6	4.7	**11.6**	**6.9**
Total		$ 116.3	$ 55.9	**$ 120.1**	**$ 67.2**

Aggregate amortization expense was as follows:

	Three months ended March 31,		Nine months ended March 31,	
(Dollar amounts in millions)	2003	**2004**	2003	**2004**
Applied Biosystems group	$ 2.4	**$ 2.5**	$ 7.1	**$ 7.5**
Celera Genomics group	0.7	**0.7**	5.2	**2.2**
Celera Diagnostics	0.6	**0.5**	1.6	**1.6**
Consolidated	$ 3.7	**$ 3.7**	$ 13.9	**$ 11.3**

The Applied Biosystems group records a substantial portion of amortization expense in cost of sales. The Celera Genomics group records amortization expense in amortization of intangible assets, and Celera Diagnostics records amortization expense in cost of sales. Amortization expense for the Celera Genomics group in fiscal 2003 included the amortization of some intangible assets acquired as part of the acquisition of Axys Pharmaceuticals, Inc. in fiscal 2002.

At March 31, 2004, we estimated annual amortization expense of our intangible assets for each of the next five fiscal years to be as shown in the following table. Future acquisitions or impairment events could cause these amounts to change.

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APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Dollar amounts in millions)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Consolidated
2004	**$ 10.1**	**$ 2.9**	**$ 2.1**	**$ 15.1**
2005	**9.8**	**2.9**	**2.2**	**14.9**
2006	**9.7**	**1.1**	**2.2**	**13.0**
2007	**8.7**		**2.0**	**10.7**
2008	**6.0**		**0.4**	**6.4**

The carrying amount of goodwill at June 30, 2003, and March 31, 2004, was $39.4 million, of which $36.7 million was allocated to the Applied Biosystems group and $2.7 million was allocated to the Celera Genomics group.

Note 8 Supplemental Cash Flow Information

Significant non-cash financing activities were as follows:

	Nine months ended March 31,	
(Dollar amounts in millions)	2003	**2004**
Tax benefit related to employee stock options	$ 1.1	**$ 2.1**
Dividends declared but not paid	$ 17.7	**$**
Issuances of restricted stock	$ 0.2	**$ 6.6**

Note 9 Guarantees

Leases

We provide lease-financing options to our customers through third party financing companies. For some leases, the financing companies have recourse to us for any unpaid principal balance upon default by the customer. The leases typically have terms of three years and are secured by the underlying instrument. In the event of default by a customer, we would repossess the underlying instrument. We record revenues from these transactions upon the shipment of products and maintain a reserve for estimated losses on all lease transactions with recourse provisions based on historical default rates and current economic conditions. At March 31, 2004, the financing companies outstanding balance of lease receivables with recourse to us was $8.8 million. We believe that we could recover the entire balance from the resale of the underlying instruments in the event of default by all customers.

Guarantee of pension benefits for divested business

As part of the divestiture of our Analytical Instruments business in fiscal 1999, the purchaser of the Analytical Instruments business is paying for the pension benefits for employees of a former German subsidiary. However, we guaranteed payment of these pension benefits should the purchaser fail to do so, as these benefits were not transferable to the buyer under German law. The guaranteed payment obligation, which approximated $52 million at March 31, 2004, is not expected to have a material adverse effect on our consolidated financial position.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Indemnifications

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

Product warranties

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

The following table provides an analysis of the warranty reserve:

(Dollar amounts in millions)

Balance at June 30, 2003	**$**	**15.1**
Accruals for warranties		**23.4**
Usage of reserve		**(22.3)**
Balance at March 31, 2004	**$**	**16.2**

Note 10 Pension and Other Postretirement Benefits

In December 2003, the FASB issued a revised SFAS No. 132, Employers Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106, and a revision of FASB Statement No. 132. SFAS No. 132 (revised 2003) requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. We adopted the interim provisions of this Statement in our fiscal 2004 third quarter. The remaining provisions of this Statement are effective for our fiscal 2004 fourth quarter.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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The components of net pension and postretirement benefit expenses for the three and nine month periods ended March 31 were as follows:

	Three months ended March 31,		Nine months ended March 31,	
(Dollar amounts in millions)	2003	**2004**	2003	**2004**
Pension				
Service cost	$ 2.4	**$ 2.7**	$ 7.1	**$ 8.1**
Interest cost	9.7	**9.2**	29.5	**27.1**
Expected return on plan assets	(10.0)	**(9.3)**	(29.1)	**(28.1)**
Amortization of prior service cost			(0.4)	
Amortization of losses	0.2	**1.0**	0.8	**3.1**
Net periodic expense	$ 2.3	**$ 3.6**	$ 7.9	**$ 10.2**
Postretirement Benefit				
Service cost	$ 0.1	**$ 0.1**	$ 0.2	**$ 0.2**
Interest cost	1.3	**1.1**	3.9	**3.6**
Amortization of losses			0.1	**0.1**
Net periodic expense	$ 1.4	**$ 1.2**	$ 4.2	**$ 3.9**

We contributed $28.9 million to the pension plan during the nine months ended March 31, 2004 and we expect to fund approximately $4.0 million during the remainder of fiscal 2004.

Note 11 Contingencies

Litigation

We are involved in various legal proceedings from time to time, including actions with respect to commercial, intellectual property, antitrust, environmental, securities, and employment matters. We believe that we have meritorious defenses against the claims currently asserted against us and intend to defend them vigorously. The following is a description of some claims we are currently defending.

Applera and some of its officers are defendants in a lawsuit purportedly brought on behalf of purchasers of Applera-Celera stock in our follow-on public offering of Applera-Celera stock completed on March 6, 2000. In the offering, we sold an aggregate of approximately 4.4 million shares of Applera-Celera stock at a public offering price of $225 per share. The lawsuit, which was commenced with the filing of several complaints in April and May 2000, is pending in the U.S. District Court for the District of Connecticut, and an amended consolidated complaint was filed on August 21, 2001. The consolidated complaint generally alleges that the prospectus used in connection with the offering was inaccurate or misleading because it failed to adequately disclose the alleged opposition of the Human Genome Project and two of its supporters, the governments of the U.S. and the U.K., to providing patent protection to our genomic-based products. Although the Celera Genomics group has never sought, or intended to seek, a patent on the basic human genome sequence data, the complaint also alleges that we did not adequately disclose the risk that the Celera Genomics group would not be able to patent this data. The consolidated complaint seeks monetary damages, rescission, costs and expenses, and other relief as the court deems proper.

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We are involved in several litigation matters with MJ Research, Inc., which commenced with our filing claims against MJ Research based on its alleged infringement of some polymerase chain reaction, or PCR, patents. In response to our claims, MJ Research filed counterclaims including, among others, allegations that we have licensed and enforced these patents through anticompetitive conduct in violation of federal and state antitrust laws, and MJ Research is seeking injunctive relief, monetary damages, costs and expenses, and other relief. A trial on these matters commenced in March 2004. The Court elected to hold the trial in two phases: a patent phase and an antitrust phase. In the patent phase, which has concluded, the jury found that MJ Research infringed U.S. patent Nos. 4,683,195, 4,683,202 and 4,965,188 (each relates to PCR process technology) and U.S. patent Nos. 5,656,493, 5,333,675 and 5,475,610 (each relates to thermal cycler instrument technology). The jury found the infringement of the 195, 202, 188 and 493 patents to be willful. In addition to direct infringement by MJ Research of the 610 and 675 patents, the jury found that MJ Research induced its customers to infringe all of the patents and contributed to infringement by its customers of the 610 and 675 patents. In April 2004, the jury awarded damages to us and Roche Molecular Systems, also a party to the litigation, in the amount of $19.8 million. We intend to seek, with Roche Molecular Systems, an enhancement of damages, including legal fees, since several infringements were found to be willful. Additionally, we intend to seek an injunction against MJ Research, which filed for bankruptcy court protection on March 29, 2004. The antitrust phase of the trial is scheduled to commence in July 2004.

Subsequent to the filing of our claims against MJ Research which are described in the preceding paragraph, on September 21, 2000, MJ Research filed an action against us in the U.S. District Court for the District of Columbia. This complaint is based on the allegation that the patents underlying our DNA sequencing instruments were improperly obtained because one of the alleged inventors, whose work was funded in part by the U.S. government, was knowingly omitted from the patent applications. Our patents at issue are U.S. Patent Nos. 5,171,534, entitled Automated DNA Sequencing Technique, 5,821,058, entitled Automated DNA Sequencing Technique, 6,200,748, entitled Tagged Extendable Primers and Extension Products, and 4,811,218, entitled Real Time Scanning Electrophoresis Apparatus for DNA Sequencing. The complaint asserts violations of the federal False Claims Act and the federal Bayh Dole Act, invalidity and unenforceability of the patents at issue, patent infringement, and various other civil claims against us. MJ Research is seeking monetary damages, costs and expenses, injunctive relief, transfer of ownership of the patents in dispute, and other relief as the court deems proper. MJ Research claims to be suing in the name of the U.S. government although the government has to date declined to participate in the suit. On October 9, 2003, the case against us was dismissed but MJ Research has filed an appeal.

Promega Corporation filed a patent infringement action against Lifecodes Corporation, Cellmark Diagnostics, Genomics International Corporation, and us in the U.S. District Court for the Western District of Wisconsin on April 24, 2001. The complaint alleges that the defendants are infringing Promega s U.S. Patent Nos. 6,221,598 and 5,843,660, both entitled Multiplex Amplification of Short Tandem Repeat Loci, due to the defendants sale of forensic identification and paternity testing kits. Promega is seeking monetary damages, costs and expenses, injunctive relief, and other relief as the court deems proper. The defendants answered the complaint on July 9, 2001, and we asserted counterclaims alleging that Promega is infringing our U.S. Patent No. 6,200,748, entitled Tagged Extendable Primers and Extension Products, due to Promega s sale of forensic identification and paternity testing kits. As a result of settlement negotiations, the case was dismissed without prejudice on October 29, 2002, but could be re-filed against us if settlement negotiations are not successful.

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Beckman Coulter, Inc. filed a patent infringement action against us in the U.S. District Court for the Central District of California on July 3, 2002. The complaint alleges that we are infringing Beckman Coulter s U.S. Patent Nos. RE 37,606 and 5,421,980, both entitled Capillary Electrophoresis Using Replaceable Gels, and U.S. Patent No. 5,552,580, entitled Heated Cover Device, although it does not identify the specific facts on which this allegation is based. Since Beckman Coulter filed this claim, U.S. Patent No. 5,421,980 has been reissued as U.S. Patent No. RE 37,941, entitled Capillary Electrophoresis Using Replaceable Gels. On January 13, 2003, the court permitted Beckman Coulter to make a corresponding amendment to its complaint. Beckman Coulter is seeking monetary damages, costs and expenses, injunctive relief, and other relief as the court deems proper. On February 10, 2003, we filed our answer to Beckman Coulter s allegations, and counterclaimed for declaratory relief that the Beckman Coulter patents underlying Beckman Coulter s claim are invalid, unenforceable, and not infringed. We are seeking dismissal of Beckman Coulter s complaint, costs and expenses, declaratory and injunctive relief, and other relief as the court deems proper.

Henry Huang (an individual) filed an action against us and the Applied Biosystems group and the other parties described below in the U.S. District Court for the Central District of California on February 19, 2003. Mr. Huang s complaint seeks to change inventorship of the patents described below, and claims breach of contract, fraud, conversion, and unjust enrichment. The complaint relates to U.S. Patent Nos. 5,171,534, entitled Automated DNA Sequencing Technique, 5,821,058, entitled Automated DNA Sequencing Technique, 6,200,748, entitled Tagged Extendable Primers and Extension Products, and 4,811,218, entitled Real Time Scanning Electrophoresis Apparatus for DNA Sequencing. U.S. Patent Nos. 5,171,534, 5,821,058, and 6,200,748 are assigned to the California Institute of Technology and licensed by the Applied Biosystems group. U.S. Patent No. 4,811,218 is assigned to the Applied Biosystems group. Also named in the complaint are the California Institute of Technology, Lloyd Smith, Leroy Hood, Michael Hunkapiller, Timothy Hunkapiller, Charles Connell, John Lytle, William Mordan, and John Bridgham. Lloyd Smith, Leroy Hood, Michael Hunkapiller, Timothy Hunkapiller, and Charles Connell are the inventors named on U.S. Patent Nos. 5,171,534, 5,821,058, and 6,200,748. Michael Hunkapiller, Charles Connell, John Lytle, William Mordan, and John Bridgham are the inventors named on U.S. Patent No. 4,811,218. The issues involved in this litigation are related to the issues in the MJ Research, Inc. litigation that was filed September 21, 2000, which is described above. Mr. Huang is alleging that he is the sole inventor on U.S. Patent Nos. 5,171,534, 5,821,058, 6,200,748, and 4,811,218. He is seeking to substitute himself for the named inventors on the relevant patents, and to have himself named as the sole assignee of the patents, and is also seeking monetary damages, costs, expenses, and other relief as the court deems proper. A trial was completed on December 22, 2003, and on February 18, 2004, the judge issued a decision in our favor finding that Mr. Huang was not an inventor of the patents at issue. Mr. Huang has appealed the decision.

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Genetic Technologies Limited filed a patent infringement action against us in the U.S. District Court for the Northern District of California on March 26, 2003. They filed an amended complaint against us on August 12, 2003. The amended complaint alleges that we are infringing U.S. Patent No. 5,612,179, entitled Intron Sequence Analysis Method for Detection of Adjacent and Remote Locus Alleles as Haplotypes, and U.S. Patent No. 5,851,762, entitled Genomic Mapping Method by Direct Haplotyping Using Intron Sequence Analysis. The allegedly infringing products are cystic fibrosis reagent kits, Assays-on-Demand™ products for non-coding regions, Assays-by-Design℠ services for non-coding regions, and the Celera Discovery System™ (CDS). The complaint also alleges that haplotyping analysis performed by our businesses infringes the patents identified above. Genetic Technologies Limited is seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper.

On-Line Technologies, Inc. (since acquired by MKS Instruments, Inc.) filed claims for patent infringement, trade secret misappropriation, fraud, breach of contract and unfair trade practices against PerkinElmer, Inc., Sick UPA, GmbH, and us in the U.S. District Court for the District of Connecticut on or about November 3, 1999. The complaint alleged that products called the Spectrum One and the MCS100E manufactured by former divisions of the Applied Biosystems group, which divisions were sold to the co-defendants in this case, were based on allegedly proprietary information belonging to On-Line Technologies and that the MCS100E infringed U.S. Patent No. 5,440,143. On-Line Technologies sought monetary damages, costs, expenses, injunctive relief, and other relief. On April 2, 2003, the U.S. District Court for the District of Connecticut granted our summary judgment motion and dismissed all claims brought by On-Line Technologies, Inc., though On-Line Technologies has filed an appeal with the U.S. Court of Appeals for the Federal Circuit seeking reinstatement of its claims.

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We filed claims against Roche Molecular Systems, Inc., Hoffmann-La Roche, Inc., Roche Probe, Inc., F. Hoffmann-La Roche Ltd., and other potential defendants affiliated with the named defendants (Roche) in California Superior Court on October 9, 2003. Our complaint asserts, among other things, breach of contract and other contract claims against the defendants arising from agreements relating to polymerase chain reaction, or PCR, technology rights entered into between us and the defendants. Our complaint also asserts various tort claims against the defendants, including breach of trust, breach of fiduciary duty, and unfair competition, relating to our PCR rights. The defendants acts and omissions that form the basis of the complaint include, among other things, the: (i) defendants failure to abide by contractual provisions intended to allow us to effectively compete with the defendants with respect to (a) sales of diagnostic PCR products and (b) conveyance of diagnostic PCR rights to third parties; (ii) defendants failure to pay us requisite royalties for sales by them of thermal cyclers and other products; (iii) defendants failure to negotiate in good faith new agreements directed at modifying the relationship between the parties in accordance with principles set forth in an existing letter agreement that states the intended framework for the negotiations (the Letter Agreement); (iv) defendants failure to provide us with diagnostic PCR rights on a nondiscriminatory basis as required by a European Union commission decree; (v) defendants failure to comply with their agreement to assign ownership to us of some PCR instrument patents and patent applications, and (vi) defendants mishandling of the prosecution of patent applications that the defendants were obligated to assign to us, in a manner that damaged us and precluded us from obtaining the full potential scope of patent protection for our instrument rights. Contemporaneously with our filing of this complaint, we also commenced arbitration proceedings with the American Arbitration Association against the defendants asserting, among other things, patent infringement claims (both direct infringement, contributory infringement and infringement by inducing third parties to infringe), breach of contract and other contract claims, and tort claims such as breach of fiduciary duty, breach of trust, and unfair competition. The arbitration is based on our allegation that the defendants (i) have infringed our exclusive rights to PCR patents in fields exclusively licensed to us pursuant to agreements with the defendants; and (ii) by their acts and omissions, have undermined the value of our exclusive PCR rights. In both the legal complaint and the arbitration, we are seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court or arbitrator deems proper. On December 15, 2003, Roche filed a motion in California Superior Court to compel arbitration of our state court complaint and to stay the litigation. Concurrently with the motion to compel arbitration, Roche also filed with the American Arbitration Association its response to our notice of arbitration in which Roche denied all of our claims against it. Roche s response included counterclaims asserting, among other things, that our exclusive patent rights under some PCR patents licensed from Roche under an existing distribution agreement were converted into nonexclusive rights by the Letter Agreement, which was entered into subsequent to the distribution agreement. Roche also alleges that (i) we breached our contractual obligation under the Letter Agreement, including our obligation to source certain enzymes exclusively from Roche; and (ii) we failed to pay Roche the full royalties required pursuant to the distribution agreement. In its counterclaim, Roche is seeking a request for declaratory judgment confirming its assertions, interest, costs, and other relief as the arbitrator deems proper. The claims and counterclaims described in this paragraph involve PCR rights used by the Applied Biosystems group and also rights that the Applied Biosystems group has contributed to Celera Diagnostics. On March 1, 2004 the Superior Court denied Roche s motion to compel arbitration, but Roche has appealed the decision and both the arbitration and the litigation have been stayed pending the outcome of the appeal.

Promega Corporation filed an action against us and some of our affiliates and Roche Molecular Systems, Inc. and Hoffmann-La Roche, Inc. in the U.S. District Court for the Eastern District of Virginia on April 10, 2000. The complaint asserts violations of the federal False Claims Act. On November 12, 2003, the court issued an order to have the complaint, which had previously been sealed, served on us and the other defendants. On February 9, 2004, we waived service of the complaint, which initiated our direct involvement in the case. The complaint alleges that we and Hoffmann-La Roche overcharged the U.S. government for thermal cyclers and PCR reagents. The overcharges are alleged to be the result of a licensing program based in part on U.S. Patent No. 4,889,818. Promega is asserting that U.S. Patent No. 4,889,818 was obtained fraudulently and that the licensing program run by us and Hoffmann-La Roche is the cause of the alleged overcharging. Promega is seeking monetary damages. Promega claims to be suing in the name of the U.S. government although the government has to date declined to participate in the suit.

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

Discontinued Operations

In October 2002, we received an adverse jury verdict in Federal District Court for the District of Delaware in connection with a patent lawsuit between TA Instruments, Inc., a subsidiary of Waters Corporation, and The Perkin-Elmer Corporation relating to thermal analysis products. The Applied Biosystems group is involved as the successor to The Perkin -Elmer Corporation, having sold the thermal instruments product line as part of the sale of its Analytical Instruments business to EG&G, Inc. (now named PerkinElmer, Inc.) in 1999. In fiscal 2003, the jury awarded TA Instruments $13.3 million based on lost sales, price erosion, and reasonable royalties, and also rejected claims we had made against TA Instruments alleging that their conduct infringed one of our patents. Subsequently, the District Court entered final judgment on a modified award of $17.3 million, after ruling on motions filed by us and TA Instruments which resulted in the Court s striking the price erosion element of the jury s damage award, but granting TA Instruments enhanced damages and attorneys fees on certain aspects of the verdict, and prejudgment interest. We recorded a charge of $16.4 million, net of income taxes, as part of discontinued operations in the first quarter of fiscal 2003. In June 2003, we appealed the judgment rejecting our infringement claims to the U.S. Court of Appeals for the Federal Circuit. On May 5, 2004, the U.S. Court of Appeals for the Federal Circuit affirmed the District Court s judgment denying our infringement claim, and we have elected not to pursue further appeals.

Note 12 Segment and Consolidating Information

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

During fiscal 2002, the Applied Biosystems group formed the Knowledge Business to develop and market products and services designed to meet the needs of life science researchers in performing specific biological analysis applications. The Knowledge Business was focused on generating value to life science customers through products and services with high information content that support improved experimental work-flows. Concurrently with the Applied Biosystems group s formation of the Knowledge Business, in April 2002, the Celera Genomics group and the Applied Biosystems group entered into a ten-year marketing and distribution agreement pursuant to which the Applied Biosystems group became the exclusive marketer of the Celera Genomics group s CDS and related human genetic and other biological and medical information. As a result of this arrangement, the Applied Biosystems group has integrated CDS and other genomic and biological information into its product offerings. During the second quarter of fiscal 2004, the Applied Biosystems group reorganized its internal operations and, among other things, integrated the operations of the former Knowledge Business into other business units of the Applied Biosystems group. However, the Applied Biosystems group and the Celera Genomics group continue to operate under the marketing and distribution agreement on the same terms and conditions as in effect prior to the reorganization.

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See Note 15 to our consolidated financial statements included in our 2003 Annual Report to Stockholders for a detailed description of the segments and the management and allocation policies applicable to the attribution of assets, liabilities, revenues and expenses to the segments (which information is incorporated in this quarterly report by reference).

The following table summarizes sales of products between segments:

	Three Months Ended March 31,		Nine Months Ended March 31,	
(Dollar amounts in millions)	2003	**2004**	2003	**2004**
Applied Biosystems Group				
Sales to the Celera Genomics group (1)	$ 1.0	**$ 1.0**	$ 2.6	**$ 2.0**
Sales to Celera Diagnostics (1)	1.3	**1.3**	3.3	**6.0**
Celera Genomics Group				
Royalties from the Applied Biosystems group (2)	$ 0.5	**$ 0.7**	$ 1.3	**$ 1.9**
Celera Diagnostics				
Sales to the Applied Biosystems group (3)	$ 0.1	**$** □	$ 3.2	**$** □

The following table summarizes supplemental cash flow activity between segments:

	Nine Months Ended March 31,	
(Dollar amounts in millions)	2003	**2004**
Applied Biosystems Group		
Nonreimbursable utilization of tax benefits (4)	$ 23.7	**$ 26.0**
Payments for reimbursable utilization of tax benefits (5)	15.2	**14.5**
Funding of Celera Diagnostics (6)	5.8	**5.1**
Celera Genomics Group		
Funding of Celera Diagnostics (7)	$ 37.5	**$ 32.8**

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

(2) The Celera Genomics group recorded net revenues primarily for royalties generated from sales by the Applied Biosystems group of products integrating CDS and some other genomic and biological information under a marketing and distribution agreement.

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

(4) The Applied Biosystems group used, without reimbursement, some of the tax benefits generated by the Celera Genomics group in accordance with our tax allocation policy.

(5) The Applied Biosystems group paid the Celera Genomics group for the use of existing tax benefits acquired by the Celera Genomics group in business combinations and other tax benefits, including those associated with Celera Diagnostics in accordance with our tax allocation policy.

(6) The Applied Biosystems group recorded its share of capital expenditures and working capital funding for Celera Diagnostics.

(7) The Celera Genomics group recorded operating losses and its share of capital expenditures and working capital funding for Celera Diagnostics.

For the three and nine month periods ended March 31, 2003 and 2004, the Celera Genomics group recorded 100% of the losses of Celera Diagnostics in its net loss as well as the tax benefit associated with those losses. In the following tables, the Eliminations column represents the elimination of intersegment activity and the losses of Celera Diagnostics, which are included both in the Celera Diagnostics column and net within the Celera Genomics group column as Loss from joint venture.

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Condensed Consolidating Statement of Operations for the Three Months Ended March 31, 2004

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Consolidated
Net revenues from external customers	$ 437,267	$ 10,453	$ 7,460	$	$ 455,180
Intersegment revenues	2,288	718		(3,006)	
Net Revenues	439,555	11,171	7,460	(3,006)	455,180
Cost of sales	210,693	1,964	5,464	(1,926)	216,195
Gross Margin	228,862	9,207	1,996	(1,080)	238,985
Selling, general and administrative	100,512	5,026	2,306	16,725	124,569
Corporate allocated expenses	13,707	2,098	920	(16,725)	
Research, development and engineering	57,088	28,262	10,682	(1,082)	94,950
Amortization of intangible assets		725			725
Other special charges	6,287				6,287
Operating Income (Loss)	51,268	(26,904)	(11,912)	2	12,454
Gain on investments, net	3,641				3,641
Interest income, net	2,998	2,503			5,501
Other income (expense), net	6,517	481			6,998
Loss from joint venture		(11,912)		11,912	
Income (Loss) before Income Taxes	64,424	(35,832)	(11,912)	11,914	28,594
Provision (benefit) for income taxes	18,402	(13,974)		2,023	6,451
Net Income (Loss)	$ 46,022	$ (21,858)	$ (11,912)	$ 9,891	$ 22,143

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Condensed Consolidating Statement of Operations for the Nine Months Ended March 31, 2004

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Consolidated
Net revenues from external customers	$ 1,272,704	$ 45,847	$ 27,001	$	$ 1,345,552
Intersegment revenues	7,925	1,899	28	(9,852)	
Net Revenues	1,280,629	47,746	27,029	(9,852)	1,345,552
Cost of sales	619,371	8,366	15,447	(5,833)	637,351
Gross Margin	661,258	39,380	11,582	(4,019)	708,201
Selling, general and administrative	288,228	17,484	8,959	40,521	355,192
Corporate allocated expenses	33,229	5,083	2,209	(40,521)	
Research, development and engineering	177,426	75,241	33,731	(4,089)	282,309
Amortization of intangible assets		2,175			2,175
Other special charges	5,672				5,672
Operating Income (Loss)	156,703	(60,603)	(33,317)	70	62,853
Gain (loss) on investments, net	11,180	(508)			10,672
Interest income, net	9,144	8,277			17,421
Other income (expense), net	6,557	1,397			7,954
Loss from joint venture		(33,317)		33,317	
Income (Loss) before Income Taxes	183,584	(84,754)	(33,317)	33,387	98,900
Provision (benefit) for income taxes	51,767	(33,054)		(539)	18,174
Net Income (Loss)	$ 131,817	$ (51,700)	$ (33,317)	$ 33,926	$ 80,726

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Condensed Consolidating Statement of Financial Position at March 31, 2004

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 584,929	$ 46,380	$	$	$ 631,309
Short-term investments		692,360			692,360
Accounts receivable, net	364,126	2,838	7,535	(1,980)	372,519
Inventories, net	140,412	2,077	10,749	(137)	153,101
Prepaid expenses and other current assets	112,135	10,401	2,462	(2,602)	122,396
Total current assets	1,201,602	754,056	20,746	(4,719)	1,971,685
Property, plant and equipment, net	393,337	93,123	10,104	(253)	496,311
Other long-term assets	469,667	163,237	7,357	(25,646)	614,615
Total Assets	$ 2,064,606	$ 1,010,416	$ 38,207	$ (30,618)	$ 3,082,611
Liabilities and Stockholders Equity					
Current liabilities					
Current portion of long-term debt	$	$ 6,210	$	$	$ 6,210
Accounts payable	122,818	7,830	3,874	(4,089)	130,433
Accrued salaries and wages	57,665	10,020	4,016		71,701
Accrued taxes on income	52,093	16,324			68,417
Other accrued expenses	267,568	31,527	3,250	(463)	301,882
Total current liabilities	500,144	71,911	11,140	(4,552)	578,643
Other long-term liabilities	237,097	9,683	506		247,286
Total Liabilities	737,241	81,594	11,646	(4,552)	825,929
Total Stockholders Equity	1,327,365	928,822	26,561	(26,066)	2,256,682
Total Liabilities and Stockholders Equity	$ 2,064,606	$ 1,010,416	$ 38,207	$ (30,618)	$ 3,082,611

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Condensed Consolidating Statement of Cash Flows for the Nine Months Ended March 31, 2004

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Consolidated
Operating Activities					
Net income (loss)	$ 131,817	$ (51,700)	$ (33,317)	$ 33,926	$ 80,726
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	74,262	16,458	5,672	(98)	96,294
Provisions for severance and related costs	4,843				4,843
Long-term compensation programs	2,348	699			3,047
(Gain) loss from investments and sale of assets, net	(11,356)	750			(10,606)
Deferred income taxes	(25,606)	2,492		(933)	(24,047)
Loss from joint venture and equity method investees		33,683		(33,317)	366
Nonreimbursable utilization of intergroup tax benefits	25,990	(25,990)			
Changes in operating assets and liabilities:					
Accounts receivable	64,866	13,870	(2,432)	(1,210)	75,094
Inventories	(1,281)	497	(1,909)	(2)	(2,695)
Prepaid expenses and other assets	(1,695)	770	(2,026)	719	(2,232)
Accounts payable and other liabilities	(57,786)	(28,433)	(2,252)	915	(87,556)
Net Cash Provided (Used) by Operating Activities	206,402	(36,904)	(36,264)	□	133,234
Investing Activities					
Additions to property, plant and equipment, net	(46,184)	(3,839)	(1,610)	294	(51,339)
Proceeds from short-term investments, net		71,949			71,949
Investments in joint venture and other, net	(5,403)	(32,760)		37,875	(288)
Proceeds from the sale of assets, net	28,417	859		(295)	28,981
Net Cash Provided (Used) by Investing Activities	(23,170)	36,209	(1,610)	37,874	49,303
Net Cash Used by Operating Activities of Discontinued Operations	(195)				(195)
Financing Activities					
Principal payments on debt		(10,000)			(10,000)
Dividends	(35,107)				(35,107)
Net cash funding from groups			37,874	(37,874)	
Purchases of common stock for treasury	(199,999)				(199,999)
Proceeds from stock issued for stock plans	17,965	4,458			22,423
Net Cash Provided (Used) by Financing Activities	(217,141)	(5,542)	37,874	(37,874)	(222,683)

Effect of Exchange Rate Changes on Cash	17,367				17,367
Net Change in Cash and Cash Equivalents	(16,737)	(6,237)			(22,974)
Cash and Cash Equivalents Beginning of Period	601,666	52,617			654,283
Cash and Cash Equivalents End of Period	$ 584,929	$ 46,380	$	$	$ 631,309

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APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

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

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Consolidated
Net revenues from external customers	$ 407,107	$ 19,744	$ 4,155	$	$ 431,006
Intersegment revenues	2,330	509	138	(2,977)	
Net Revenues	409,437	20,253	4,293	(2,977)	431,006
Cost of sales	202,340	2,950	2,315	(1,482)	206,123
Gross Margin	207,097	17,303	1,978	(1,495)	224,883
Selling, general and administrative	84,702	6,389	2,287	11,967	105,345
Corporate allocated expenses	9,807	1,563	597	(11,967)	
Research, development and engineering	59,973	26,923	11,708	(1,641)	96,963
Amortization of intangible assets		725			725
Operating Income (Loss)	52,615	(18,297)	(12,614)	146	21,850
Loss on investments, net	(2,086)	(61)			(2,147)
Interest income, net	3,111	3,834			6,945
Other income (expense), net	1,323	(14,715)			(13,392)
Loss from joint venture		(12,614)		12,614	
Income (Loss) before Income Taxes	54,963	(41,853)	(12,614)	12,760	13,256
Provision (benefit) for income taxes	14,840	(15,110)		(59)	(329)
Net Income (Loss)	$ 40,123	$ (26,743)	$ (12,614)	$ 12,819	$ 13,585

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APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

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

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Consolidated
Net revenues from external customers	$ 1,244,060	$ 65,415	$ 11,881	$	$ 1,321,356
Intersegment revenues	5,960	1,339	3,236	(10,535)	
Net Revenues	1,250,020	66,754	15,117	(10,535)	1,321,356
Cost of sales	621,376	10,075	6,901	(7,009)	631,343
Gross Margin	628,644	56,679	8,216	(3,526)	690,013
Selling, general and administrative	263,157	16,784	6,774	38,157	324,872
Corporate allocated expenses	31,172	5,162	1,823	(38,157)	
Research, development and engineering	180,178	92,357	35,461	(4,457)	303,539
Amortization of intangible assets		5,148			5,148
Other special charges	24,313				24,313
Operating Income (Loss)	129,824	(62,772)	(35,842)	931	32,141
Loss on investments, net	(2,086)	(334)			(2,420)
Interest income, net	9,259	13,747			23,006
Other income (expense), net	4,828	(17,285)			(12,457)
Loss from joint venture		(35,842)		35,842	
Income (Loss) before Income Taxes	141,825	(102,486)	(35,842)	36,773	40,270
Provision (benefit) for income taxes	38,293	(39,970)		2,873	1,196
Income (Loss) from Continuing Operations	103,532	(62,516)	(35,842)	33,900	39,074
Loss from discontinued operations, net of income taxes	(16,400)				(16,400)
Net Income (Loss)	$ 87,132	$ (62,516)	$ (35,842)	$ 33,900	$ 22,674

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APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Condensed Consolidating Statement of Financial Position at June 30, 2003

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 601,666	$ 52,617	$	$	$ 654,283
Short-term investments		749,785			749,785
Accounts receivable, net	404,928	16,708	5,103	(3,190)	423,549
Inventories, net	140,833	2,526	8,840	(139)	152,060
Prepaid expenses and other current assets	84,393	10,510	686	(1,883)	93,706
Total current assets	1,231,820	832,146	14,629	(5,212)	2,073,383
Property, plant and equipment, net	409,626	104,742	12,574	(351)	526,591
Other long-term assets	485,269	185,178	8,699	(21,628)	657,518
Total Assets	$ 2,126,715	$ 1,122,066	$ 35,902	$ (27,191)	$ 3,257,492
Liabilities and Stockholders Equity					
Current liabilities					
Accounts payable	$ 153,124	$ 10,241	$ 7,651	$ (4,697)	$ 166,319
Accrued salaries and wages	63,859	11,886	3,878		79,623
Accrued taxes on income	73,611	12,332			85,943
Other accrued expenses	232,674	46,907	2,230	(376)	281,435
Total current liabilities	523,268	81,366	13,759	(5,073)	613,320
Long-term debt		17,101			17,101
Other long-term liabilities	265,274	21,373	139		286,786
Total Liabilities	788,542	119,840	13,898	(5,073)	917,207
Total Stockholders Equity	1,338,173	1,002,226	22,004	(22,118)	2,340,285
Total Liabilities and Stockholders Equity	$ 2,126,715	$ 1,122,066	$ 35,902	$ (27,191)	$ 3,257,492

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APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

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

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Consolidated
Operating Activities of Continuing Operations					
Income (loss) from continuing operations	$ 103,532	$ (62,516)	$ (35,842)	$ 33,900	$ 39,074
Adjustments to reconcile income (loss) from continuing operations to net cash provided (used) by operating activities:					
Depreciation and amortization	74,247	28,171	4,145	(924)	105,639
Asset impairments	10,017				10,017
Provisions for office closures and severance costs	23,744				23,744
Long-term compensation programs	3,179	1,345			4,524
Loss on sale of assets	996	334			1,330
Deferred income taxes	(52,239)	(5,367)		2,539	(55,067)
Loss from joint venture and equity method investees		55,013		(35,842)	19,171
Nonreimbursable utilization of intergroup tax benefits	23,655	(23,655)			
Changes in operating assets and liabilities:					
Accounts receivable	20,284	10,704	(3,233)	962	28,717
Inventories	(5,255)	(678)	(4,785)	(7)	(10,725)
Prepaid expenses and other assets	(9,473)	(1,694)	(1,469)	3,160	(9,476)
Accounts payable and other liabilities	(19,235)	(25,258)	4,287	(3,788)	(43,994)
Net Cash Provided (Used) by Operating Activities of Continuing Operations	173,452	(23,601)	(36,897)		112,954
Investing Activities of Continuing Operations					
Additions to property, plant and equipment, net	(99,292)	(4,694)	(6,431)	1,118	(109,299)
Proceeds from short-term investments, net	29,646	57,079			86,725
Purchases of long-term investments		(16,834)			(16,834)
Investments in joint venture and other, net	(5,921)	(37,513)		43,329	(105)
Proceeds from the sale of assets, net	5,463	2,235		(1,119)	6,579
Net Cash Provided (Used) by Investing Activities of Continuing Operations	(70,104)	273	(6,431)	43,328	(32,934)
Net Cash Used by Operating Activities of Discontinued Operations	(2,526)				(2,526)
Financing Activities					
Net change in loans payable	(290)				(290)
Dividends	(26,691)				(26,691)
Net cash funding from groups			43,328	(43,328)	

Purchases of common stock for treasury	(19,779)				(19,779)
Proceeds from stock issued for stock plans	12,216	15,291			27,507
Net Cash Provided (Used) by Financing Activities	(34,544)	15,291	43,328	(43,328)	(19,253)
Effect of Exchange Rate Changes on Cash	13,667				13,667
Net Change in Cash and Cash Equivalents	79,945	(8,037)			71,908
Cash and Cash Equivalents Beginning of Period	441,328	28,890			470,218
Cash and Cash Equivalents End of Period	$ 521,273	$ 20,853	$	$	$ 542,126

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

APPLERA CORPORATION

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

The purpose of the following management s discussion and analysis is to provide an overview of the business of Applera Corporation to help facilitate an understanding of significant factors influencing our historical operating results, financial condition, and cash flows and also to convey our expectations of the potential impact of known trends, events, or uncertainties that may impact our future results. You should read this discussion in conjunction with our consolidated financial statements and related notes included in this report and in our 2003 Annual Report to Stockholders. Historical results and percentage relationships are not necessarily indicative of operating results for future periods. When used in the management discussion and analysis, the terms Applera, Company, we, us, or our mean Applera Corporation and its subsidiaries.

Overview

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

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

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

Celera Diagnostics, a 50/50 joint venture between the Applied Biosystems group and the Celera Genomics group, is focused on the discovery, development, and commercialization of novel diagnostic products.

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

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

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

Holders of Applera-Applied Biosystems stock and Applera-Celera stock are stockholders of Applera. The Applied Biosystems group and the Celera Genomics group are not separate legal entities, and holders of these stocks are stockholders of a single company, Applera. As a result, holders of these stocks are subject to all of the risks associated with an investment in Applera and all of its businesses, assets, and liabilities. The Applied Biosystems group and the Celera Genomics group do not have separate boards of directors. Applera has one board of directors, which will make any decision in accordance with its good faith business judgment that the decision is in the best interests of Applera and all of its stockholders as a whole.

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

Our fiscal year ends on June 30. The financial information for each segment is presented in Note 12 to our condensed consolidated financial statements, Segment and Consolidating Information. Management s discussion and analysis addresses the consolidated financial results followed by the discussions of our three segments.

The following business developments have occurred since the beginning of fiscal 2004:

Applied Biosystems Group

In September 2003, Catherine M. Burzik joined the Applied Biosystems group as Executive Vice President, responsible for global commercial activities, and became a member of the Applera Executive Committee.

Also in September 2003, the Applied Biosystems group announced the introduction of the 8500 Affinity Chip Analyzer, which rapidly identifies and characterizes antibody diagnostic and therapeutic candidates.

In January 2004, the Applied Biosystems group announced the commercial availability of the SNPlex Genotyping System, a reagent and software product designed to allow researchers to conduct ultra high throughput genotyping studies for the characterization of complex diseases using the Applied Biosystems group s 3730*xl* and 3730 DNA Analyzers.

In February 2004, the Applied Biosystems group announced the availability of two new real-time PCR systems for the detection and quantification of nucleic acid sequences.

Also in February 2004, the Applied Biosystems group announced the commercial availability of the VariantSEQr Resequencing System, the first complete, cost-effective solution for the discovery of DNA variants.

In March 2004, the Applied Biosystems group announced the latest version of its laboratory information management system (LIMS) software, SQL*LIMS version 5.0, which includes an enhanced user interface delivered via a Web services application.

During the third quarter, the Applied Biosystems group and MDS Inc., through the Applied Biosystems/MDS Sciex Instruments joint venture, and Waters Technologies Corporation settled patent infringement claims and entered into royalty-bearing license agreements cross licensing certain technology. Please refer to the Events Impacting Comparability section for more information.

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

In April 2004, the Applied Biosystems group announced the commercial availability of the Applied Biosystems Expression Array System. The product combines highly sensitive gene detection capabilities with easy integration to the Applied Biosystems group s complementary gene expression products. Together, these systems provide a comprehensive and streamlined solution for studies of human gene expression.

On April 19, 2004, the Applied Biosystems group announced a favorable decision in a patent infringement lawsuit brought by Applera Corporation and Roche Molecular Systems, Inc. against MJ Research, Inc. and its principals. Damages were awarded in the amount of $19.8 million to the Applied Biosystems group and Roche Molecular Systems. The Applied Biosystems group intends to seek, with Roche Molecular Systems, an enhancement of damages, and an injunction against MJ Research. MJ Research filed for bankruptcy court protection in March 2004. Please refer to Note 11 to our condensed consolidated financial statements for more information.

Celera Genomics Group

The Celera Genomics group s scientists have advanced several small molecule therapeutic programs, including its histone deacetylaste (HDAC) program for cancer and its Factor VIIa anticoagulation program. Compounds for further preclinical evaluation have been identified.

The Celera Genomics group s scientists are completing validation studies involving 14 potential pancreatic cancer targets. They have selected over 30 additional differentially expressed proteins for validation, including their first potential targets related to lung and colon cancer.

In March 2004, Paulette A. Dillon joined the Celera Genomics group as Chief Business Officer, responsible for leading strategic business and portfolio planning for the Company, as well as business development activities.

Celera Diagnostics

In September 2003, Celera Diagnostics announced the discovery of several novel genetic markers associated with an increased risk for myocardial infarction, or heart attack. In March 2004, Celera Diagnostics reported the discovery of novel markers in four genes associated with risk for myocardial infarction, none of which were in a previously recognized disease pathway associated with myocardial infarction risk.

In October 2003, Celera Diagnostics announced a research collaboration with Merck & Co. to identify and validate genetic markers useful in the development of prognostic tests and therapeutics for selected cancers.

During the second quarter of fiscal 2004, Celera Diagnostics and its collaborators presented selected results from three genomic studies, including findings regarding risk of distant metastasis in breast cancer, interferon responsiveness in hepatitis C patients, and Alzheimer s disease.

In February 2004, Celera Diagnostics announced that it obtained special 510(k) clearance from the U.S. Food and Drug Administration for expanded claims related to its ViroSeq HIV-1 Genotyping System, a molecular diagnostic test designed to detect mutations associated with drug resistance in HIV-1, the virus that causes AIDS.

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

Critical Accounting Policies

Please refer to the discussion of our critical accounting policies contained in the management s discussion and analysis section of our 2003 Annual Report to Stockholders (which discussion is incorporated in this quarterly report by reference).

Events Impacting Comparability

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

Other Special Charges

Fiscal 2004

During the third quarter of fiscal 2004, the Applied Biosystems group recorded pre-tax charges of $6.3 million in other special charges for the termination of approximately 110 employees, mainly in the U.S. The savings resulting from this action are expected to be used to support the businesses that are driving the group s revenue growth, including through the hiring of additional appropriately-skilled employees. As of March 31, 2004, the affected employees had been notified and the majority are expected to be terminated by the end of fiscal 2004. As of March 31, 2004, we had made $0.8 million of cash payments. The remaining cash expenditures are expected to be substantially completed by the end of fiscal 2004, and will be funded primarily by cash provided by operating activities.

Fiscal 2003

During the second quarter of fiscal 2003, the Applied Biosystems group recorded pre-tax charges totaling $33.8 million associated with the termination of approximately 400 employees, mainly in the U.S. and Europe, impairment of assets, and office closures. The $33.8 million charge consisted of $24.3 million recorded in other special charges and $9.5 million for the impairment of assets recorded in cost of sales. Positions eliminated were primarily within the areas of research, manufacturing, sales, marketing and administration. The Applied Biosystems group recorded pre-tax benefits of $4.3 million in the fourth quarter of fiscal 2003 and $0.6 million in the second quarter of fiscal 2004 for reductions in anticipated employee-related costs associated with this program. The following table details the major components of the special charges:

(Dollar amounts in millions)	Employee-Related Charges	Asset Impairment	Office Closures	Total
Total charges	$ 22.9	$ 9.5	$ 1.4	$ 33.8
Cash payments	17.2		0.6	17.8
Non-cash charges		9.5	0.5	10.0
Reduction of expected costs	4.9			4.9
Balance at March 31, 2004	**$ 0.8**	**$**	**$ 0.3**	**$ 1.1**

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

The termination of the employees and the cash payments relating to the workforce reductions and office closures were substantially completed by December 31, 2003. These payments were funded primarily by cash provided by operating activities.

Investments

Fiscal 2004

The Applied Biosystems group recorded before tax gains of $3.6 million in the third quarter of fiscal 2004 and $11.2 million in the first nine months of fiscal 2004 related primarily to the sales of minority equity investments. These investment sales resulted from management s decision to liquidate non-strategic investments.

Fiscal 2003

In the third quarter of fiscal 2003, the Celera Genomics group recognized a non-cash charge of $15.1 million in other income (expense), net representing its share of an impairment charge recorded by Discovery Partners International, Inc. (DPI). Our investment in DPI common stock, which resulted from our fiscal 2002 acquisition of Axys Pharmaceuticals, Inc., is accounted for under the equity method of accounting. Based on the decline in its market capitalization, DPI re-assessed the value of its goodwill and other long-lived assets and recorded an impairment charge as a result of this evaluation.

Other Events Impacting Comparability

In March 2004, the Applied Biosystems group and MDS Inc., through the Applied Biosystems/MDS Sciex Instruments joint venture, received a payment of $18.1 million from Waters Technologies Corporation in connection with the resolution of patent infringement claims between the parties. The Applied Biosystems group recorded a net gain of $6.7 million in other income (expense), net, from legal settlements, including the settlement between the Applied Biosystems/MDS Sciex Instruments joint venture and Waters Technologies Corporation.

Acquired In-Process Research and Development

During fiscal 2002, we acquired Axys and recorded a charge to write off the value of acquired in-process research and development (IPR&D). The following is an update on the status of the acquired projects.

Proprietary projects

During the third quarter of fiscal 2004, we continued to pursue all acquired projects that were active as of June 30, 2003, and we expect to move our programs forward as appropriate toward clinical trials.

Partnered projects

The Celera Genomics group has previously stated that a partnered compound could enter clinical trials during fiscal 2004. While existing partnered programs could lead to clinical trials in the future, the initiation of such trials now appears unlikely during fiscal 2004. The Celera Genomics group s partners will make clinical development decisions with respect to partnered compounds.

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

Please refer to the events impacting comparability section contained in the management s discussion and analysis and Note 2 to our consolidated financial statements in our 2003 Annual Report to Stockholders for more information on the IPR&D.

Discussion of Consolidated Operations

(Dollar amounts in millions)	Three Months Ended March 31, 2003	**2004**	**% Increase/ (Decrease)**	Nine Months Ended March 31, 2003	**2004**	**% Increase/ (Decrease)**
Net revenues	$ 431.0	**$ 455.2**	**5.6%**	$ 1,321.4	**$ 1,345.5**	**1.8%**
Cost of sales	206.1	**216.2**	**4.9%**	631.3	**637.3**	**1.0%**
Gross margin	224.9	**239.0**	**6.3%**	690.1	**708.2**	**2.6%**
SG&A expenses	105.3	**124.5**	**18.2%**	324.9	**355.3**	**9.4%**
R&D	97.0	**95.0**	**(2.1%)**	303.5	**282.2**	**(7.0%)**
Amortization of intangible assets	0.7	**0.7**	**%**	5.2	**2.2**	**(57.7%)**
Other special charges		**6.3**		24.3	**5.7**	**(76.5%)**
Operating income	21.9	**12.5**	**(42.9%)**	32.2	**62.8**	**95.0%**
Gain (loss) on investments, net	(2.2)	**3.6**	**(263.6%)**	(2.4)	**10.7**	**(545.8%)**
Interest income, net	6.9	**5.5**	**(20.3%)**	23.0	**17.4**	**(24.3%)**
Other income (expense), net	(13.3)	**7.0**	**(152.6%)**	(12.5)	**8.0**	**(164.0%)**
Income before income taxes	13.3	**28.6**	**115.0%**	40.3	**98.9**	**145.4%**
Provision (benefit) for income taxes	(0.3)	**6.5**		1.2	**18.2**	
Income from continuing operations	$ 13.6	**$ 22.1**	**62.5%**	$ 39.1	**$ 80.7**	**106.4%**
Percentage of net revenues:						
Gross margin	52.2%	**52.5%**		52.2%	**52.6%**	
SG&A expenses	24.4%	**27.4%**		24.6%	**26.4%**	
R&D	22.5%	**20.9%**		23.0%	**21.0%**	
Operating income	5.1%	**2.7%**		2.4%	**4.7%**	
Effective income tax (benefit) rate	(2%)	**23%**		3%	**18%**	

As previously described in events impacting comparability, fiscal 2004 and 2003 results were impacted by the following items:

- $15.1 million pre-tax charge included in the loss from the Celera Genomics group s equity interest in DPI in the third quarter of fiscal 2003. This amount was recorded in other income (expense), net;
- $33.8 million charge, including $9.5 million recorded in cost of sales, at the Applied Biosystems group for cost reductions including severance, asset impairments, and other special charges in the second quarter of fiscal 2003;
- $6.3 million charge at the Applied Biosystems group for severance and related costs in the third quarter of fiscal 2004;
-

$6.7 million net gain from legal settlements, including the settlement between the Applied Biosystems/MDS Sciex Instruments joint venture and Waters Technologies Corporation, in the third quarter of fiscal 2004;

- $0.6 million reduction in the second quarter of fiscal 2004 of severance costs at the Applied Biosystems group previously recorded in the second quarter of fiscal 2003; and
- $3.6 million for the third quarter and $11.2 million for the first nine months of fiscal 2004 of gains relating to investments at the Applied Biosystems group.

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

The total tax benefit recorded on the fiscal 2003 charges was $16.8 million. The total tax expense recorded was $1.3 million on the third quarter fiscal 2004 net gain and $4.2 million on the nine-month fiscal 2004 net gain.

The net effect of foreign currency on income from continuing operations was a benefit of approximately $3 million during the third quarter of fiscal 2004 and a benefit of approximately $7 million during the first nine months of fiscal 2004. Please refer to the discussion on pages 37 to 47 of this quarterly report for further information on the financial results of our segments.

The favorable effects of foreign currency increased net revenues by approximately 3% during the third quarter of fiscal 2004. Revenues increased at the Applied Biosystems group, driven by strength in both the Sequence Detection Systems (SDS)/Other Applied Genomics and Mass Spectrometry product categories, partially offset by lower revenues in the DNA Sequencing and Other Product Lines product categories. The increase in revenues in the SDS/Other Applied Genomics product category was driven by the strength of TaqMan® consumables sales and to a lesser degree, instrument sales. Sales of the Applied Biosystems group s products for human identification in the applied markets were strong and have become a significant contributor to the overall growth of the SDS/Other Applied Genomics product category. In Mass Spectrometry, the revenue increase was primarily driven by the strength of sales of the 4000 Q TRAP® LC/MS/MS System. Sales of DNA Sequencing instruments declined, primarily as a result of more modest sales of the Applied Biosystems 3730*xl* DNA Analyzer to large-scale genome centers, more than offsetting an increase in sales of DNA Sequencing consumables. Net revenues decreased at the Celera Genomics group, primarily as a result of the continuing expiration of Online/Information Business customer agreements.

The favorable effects of foreign currency increased net revenues by approximately 2% during the first nine months of fiscal 2004. As a result, net revenues for the first nine months of fiscal 2004 were relatively flat compared with the prior year period. Revenues increased slightly at the Applied Biosystems group, due primarily to strength in the SDS/Other Applied Genomics and Mass Spectrometry product categories, partially offset by lower sequencing-related revenues. Net revenues decreased at the Celera Genomics group, primarily as a result of the continuing expiration of Online/Information Business customer agreements.

The higher gross margin percentage for both the third quarter and first nine months of fiscal 2004 compared to fiscal 2003 was due primarily to a shift in product mix, operational efficiencies, and the favorable effects of foreign currency at the Applied Biosystems group. In addition, for the nine months of fiscal 2003, gross margin was lower due to the asset impairment charges recorded in the second quarter of fiscal 2003 at the Applied Biosystems group. This increase was partially offset by lower revenues in fiscal 2004 at the Celera Genomics group.

SG&A expenses, as a percentage of net revenues, increased in both the third quarter and the nine-month periods of fiscal 2004 primarily due to: higher litigation-related legal fees; the unfavorable effects of foreign currency; increased spending on the development of, and enhancements to, the Applied Biosystems myScience[SM] virtual research community and e-commerce website (collectively known as the Applied Biosystems Portal); and increased insurance and pension costs. In addition, the increase in the nine-month period was partially offset by the reduction in personnel at the Applied Biosystems group announced in December 2002.

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

R&D expenses decreased for both the third quarter and nine-month periods of fiscal 2004 compared to the same periods last year primarily due to the completion of the funding for the Applera Genomics Initiative, the costs of which were shared among our three businesses, reduction in personnel at the Applied Biosystems group in fiscal 2003, cost reductions in the Online/Information Business, and the elimination of non-strategic activities at the Celera Genomics group. This decrease was partially offset by support for new product introductions at the Applied Biosystems group, increased expenditures to support preclinical development activities and the hiring of additional therapeutic R&D personnel at the Celera Genomics group, and increased spending for discovery programs and product development at Celera Diagnostics.

Interest income, net decreased during the third quarter and first nine months of fiscal 2004 compared to the prior year periods primarily due to lower average interest rates, partially offset by slightly higher average cash and cash equivalents and short-term investments.

Other income (expense), net changed for both the third quarter and nine-month periods in comparison to the prior year periods primarily due to the net gain of $6.7 million recorded in fiscal 2004 from legal settlements, including the settlement between the Applied Biosystems/MDS Sciex Instruments joint venture and Waters Technologies Corporation, and the loss for the DPI equity method investment recorded in fiscal 2003, which included our share of the impairment charge previously described.

The change in the effective tax rate for both the third quarter and nine-month periods of 2004 was primarily due to the previously discussed special charges recorded in fiscal 2003 and 2004, as well as changes in forecasted R&D credits.

Applera Corporation
Discussion of Condensed Consolidated Financial Resources and Liquidity

We had cash and cash equivalents and short-term investments of $1.3 billion at March 31, 2004 and $1.4 billion at June 30, 2003. We maintain a $50 million revolving credit agreement with three banks that expires on April 20, 2005, under which there were no borrowings outstanding at March 31, 2004. Cash provided by operating activities has been our primary source of funds over the last fiscal year.

We believe that existing funds, cash generated from operations, and existing sources of debt financing are more than adequate to satisfy our normal operating cash flow needs, planned capital expenditures, dividends, and authorized share repurchases for the next twelve months and for the foreseeable future. However, if the Celera Genomics group is successful in its preclinical programs it may require additional funds to advance these programs through the regulatory process.

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

(Dollar amounts in millions)	June 30, 2003	**March 31, 2004**
Cash and cash equivalents	$ 654.3	**$ 631.3**
Short-term investments	749.8	**692.4**
Total cash and cash equivalents and short-term investments	$ 1,404.1	**$ 1,323.7**
Total debt	17.1	**6.2**
Working capital	1,460.1	**1,393.0**
Debt to total capitalization	0.7%	**0.3%**

Cash and cash equivalents decreased during the first nine months of fiscal 2004 from June 30, 2003 as the amount expended on the purchase of capital and other assets, repayment of debt, payment of dividends, and the repurchase of 8.9 million shares of Applera-Applied Biosystems stock for $200.0 million exceeded the cash generated from operating activities, proceeds from the sales and maturities of short-term investments, sales of assets and proceeds from stock issuances, and the favorable impact of the exchange rate valuation on our cash and cash equivalents. Net cash flows of continuing operations for the nine months ended March 31 were as follows:

(Dollar amounts in millions)	2003	**2004**
Net cash from operating activities	$ 113.0	**$ 133.2**
Net cash from investing activities	(32.9)	**49.3**
Net cash from financing activities	(19.3)	**(222.7)**
Effect of exchange rate changes on cash	13.7	**17.4**

Operating activities:

The increase in net cash from operating activities of continuing operations for the first nine months of fiscal 2004 compared to the first nine months of fiscal 2003 resulted primarily from: strong working capital management, including improved accounts receivable collections in fiscal 2004; the timing of the receipt of dividends and distributions from investments in unconsolidated subsidiaries at the Applied Biosystems group; and lower tax and severance and related benefits payments at the Applied Biosystems group in fiscal 2004. This increase was partially offset by the funding of our U.S. pension plan of approximately $28 million in fiscal 2004, the timing of royalty and vendor payments at the Applied Biosystems group, and lower cash receipts in fiscal 2004 due to the continuing expiration of Online/Information Business customer agreements at the Celera Genomics group.

Investing activities:

Capital expenditures, net of disposals, were $58.0 million less than in the prior fiscal year period primarily due to lower expenditures for the Applied Biosystems group s Pleasanton, California facility. During the first nine months of fiscal 2004, proceeds generated from sales and maturities of short-term investments were $14.8 million lower than in the prior year period. Proceeds from the sale of assets, which consisted primarily of minority equity investments, were $22.4 million higher in fiscal 2004. Fiscal 2003 investing activities also included the purchase of long-term investments to secure the 8% senior secured convertible notes assumed in connection with the Axys acquisition in fiscal 2002.

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

Financing activities:

During the first nine months of fiscal 2004, we repurchased $10.0 million in principal amount of the outstanding 8% senior secured convertible notes assumed in connection with the Axys acquisition, that were scheduled to mature in October 2004. During the first nine months of fiscal 2004, we repurchased 8.9 million shares of Applera-Applied Biosystems stock for $200.0 million. During the first nine months of fiscal 2003, we repurchased 1.1 million shares of Applera-Applied Biosystems stock for $19.8 million. Proceeds received from employee stock option exercises during the first nine months of fiscal 2004 were $5.1 million less than in the prior fiscal year period.

Discussion of Segments Operations, Financial Resources and Liquidity

Applied Biosystems Group

	Three Months Ended March 31,			Nine Months Ended March 31,		
(Dollar amounts in millions)	2003	**2004**	**% Increase/ (Decrease)**	2003	**2004**	**% Increase/ (Decrease)**
Net revenues	$ 409.4	**$ 439.6**	**7.4%**	$ 1,250.0	**$ 1,280.6**	**2.4%**
Cost of sales	202.3	**210.7**	**4.2%**	621.4	**619.3**	**(0.3%)**
Gross margin	207.1	**228.9**	**10.5%**	628.6	**661.3**	**5.2%**
SG&A expenses	94.5	**114.2**	**20.8%**	294.3	**321.5**	**9.2%**
R&D	60.0	**57.1**	**(4.8%)**	180.2	**177.4**	**(1.6%)**
Other special charges		**6.3**		24.3	**5.7**	**(76.5%)**
Operating income	52.6	**51.3**	**(2.5%)**	129.8	**156.7**	**20.7%**
Gain (loss) on investments, net	(2.1)	**3.6**	**(271.4%)**	(2.1)	**11.2**	**(633.3%)**
Interest income, net	3.1	**3.0**	**(3.2%)**	9.3	**9.1**	**(2.2%)**
Other income (expense), net	1.3	**6.5**	**400.0%**	4.8	**6.6**	**37.5%**
Income before income taxes	54.9	**64.4**	**17.3%**	141.8	**183.6**	**29.5%**
Provision for income taxes	14.8	**18.4**	**24.3%**	38.3	**51.8**	**35.2%**
Income from continuing operations	$ 40.1	**$ 46.0**	**14.7%**	$ 103.5	**$ 131.8**	**27.3%**
Percentage of net revenues:						
Gross margin	50.6%	**52.1%**		50.3%	**51.6%**	
SG&A expenses	23.1%	**26.0%**		23.5%	**25.1%**	
R&D	14.7%	**13.0%**		14.4%	**13.9%**	
Operating income	12.8%	**11.7%**		10.4%	**12.2%**	
Effective income tax rate	27%	**29%**		27%	**28%**	

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

As previously described in events impacting comparability, fiscal 2004 and 2003 results were impacted by the following items:

- $33.8 million charge, including $9.5 million recorded in cost of sales, for cost reductions including severance, asset impairments, and other special charges in the second quarter of fiscal 2003;
- $6.3 million charge for severance and related costs in the third quarter of fiscal 2004;
- $6.7 million net gain from legal settlements, including the settlement between the Applied Biosystems/MDS Sciex Instruments joint venture and Waters Technologies Corporation, in the third quarter of fiscal 2004;
- $0.6 million reduction in the second quarter of fiscal 2004 of severance costs previously recorded in the second quarter of fiscal 2003; and
- $3.6 million for the third quarter and $11.2 million for the first nine months of fiscal 2004 of gains relating to investments.

The total tax benefit recorded on the fiscal 2003 charges was $10.9 million. The total tax expense recorded was $1.3 million on the third quarter fiscal 2004 net gain and $4.2 million on the nine-month fiscal 2004 net gain.

The net effect of foreign currency on income from continuing operations was a benefit of approximately $3 million during the third quarter of fiscal 2004 and a benefit of approximately $7 million during the first nine months of fiscal 2004.

Revenues overall summary

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

	Three Months Ended March 31,			Nine Months Ended March 31,		
(Dollar amounts in millions)	2003	**2004**	**% Increase/ (Decrease)**	2003	**2004**	**% Increase/ (Decrease)**
DNA Sequencing	$ 143.6	**$ 137.5**	**(4%)**	$ 467.5	**$ 432.7**	**(7%)**
% of total revenues	*35%*	***31%***		*37%*	***34%***	
SDS/Other Applied Genomics [(a)]	86.8	**111.6**	**29%**	255.7	**310.1**	**21%**
% of total revenues	*21%*	***25%***		*21%*	***24%***	
Mass Spectrometry [(b)]	93.3	**109.4**	**17%**	270.2	**295.3**	**9%**
% of total revenues	*23%*	***25%***		*22%*	***23%***	
Core DNA Synthesis and PCR	50.7	**50.2**	**(1%)**	151.6	**152.5**	**1%**
% of total revenues	*12%*	***12%***		*12%*	***12%***	
Other Product Lines [(a) (b)]	35.0	**30.9**	**(12%)**	105.0	**90.0**	**(14%)**
% of total revenues	*9%*	***7%***		*8%*	***7%***	
Total	$ 409.4	**$ 439.6**	**7%**	$ 1,250.0	**$ 1,280.6**	**2%**

(a) A reclassification of $0.2 million for the quarter ended March 31, 2003, and $0.4 million for the nine months ended March 31, 2003, was made from Other Product Lines to SDS/Other Applied Genomics.

(b) A reclassification of $1.8 million for the quarter ended March 31, 2003, and $3.7 million for the nine months ended March 31, 2003, was made from Other Product Lines to Mass Spectrometry.

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

The favorable effects of foreign currency increased net revenues by approximately 3% during the third quarter of fiscal 2004. Revenue growth in the quarter was driven by strength in both the SDS/Other Applied Genomics and Mass Spectrometry product categories. Revenues in the SDS/Other Applied Genomics product category increased, driven by the strength of TaqMan® consumables sales and, to a lesser degree, instrument sales. Sales of our products for human identification in the applied markets were strong and have become a significant contributor to the overall growth of the SDS/Other Applied Genomics product category. In Mass Spectrometry, the revenue increase was driven by the strength of sales of the 4000 Q TRAP® LC/MS/MS System. The Applied Biosystems/MDS Sciex Instruments joint venture ramped-up manufacturing capacity for the 4000 Q TRAP System during the third quarter of fiscal 2004. As a result, the Applied Biosystems group was able to reduce the second quarter of fiscal 2004 backlog of orders for the system, fill a substantial number of new orders during the third quarter of fiscal 2004, and finish the third quarter with substantial backlog in place. DNA Sequencing revenues declined as compared to the prior year quarter. Sales of DNA Sequencing instruments declined, primarily as a result of more modest sales of the Applied Biosystems 3730*xl* DNA Analyzer to large-scale genome centers, more than offsetting an increase in sales of DNA Sequencing consumables.

The favorable effects of foreign currency increased net revenues by approximately 2% during the first nine months of fiscal 2004. As a result, for the nine-month period, net revenues were relatively flat with the prior year period. Growth in the SDS/Other Applied Genomics and Mass Spectrometry product categories and higher service and support revenues were offset by a decline in sales of the Applied Biosystems 3730 *xl* DNA Analyzer to large-scale genome centers and lower technology license fees.

The decrease in revenues from Other Product Lines for both the third quarter and first nine months of fiscal 2004 resulted primarily from lower software sales, consulting revenues, and instrument sales compared with the prior year periods.

Revenues by geographic area

The following table sets forth the Applied Biosystems group s revenues by geographic area for the third quarter and nine months ended March 31:

	Three Months Ended March 31,			Nine Months Ended March 31,		
(Dollar amounts in millions)	2003	**2004**	**% Increase/ (Decrease)**	2003	**2004**	**% Increase/ (Decrease)**
United States	$ 187.0	**$ 191.6**	**2.5%**	$ 606.3	**$ 597.3**	**(1.5%)**
Europe	113.4	**145.4**	**28.2%**	352.6	**386.9**	**9.7%**
Asia Pacific	95.4	**85.1**	**(10.8%)**	253.8	**254.2**	**0.2%**
Latin America and other markets	13.6	**17.5**	**28.7%**	37.3	**42.2**	**13.1%**
Total	$ 409.4	**$ 439.6**	**7.4%**	$ 1,250.0	**$ 1,280.6**	**2.4%**

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

The effects of foreign currency increased revenues by approximately 7% in Europe and 2% in Asia Pacific during the third quarter of fiscal 2004. Revenues in the U.S. increased during the third quarter, as capital equipment spending by customers that are funded by the National Institutes of Health (NIH) improved late in the third quarter of fiscal 2004. Revenues also increased in Europe, driven by sales of the 4000 Q TRAP and SDS instruments and consumables. During the third quarter of fiscal 2004, revenues from Japan declined 14% compared to the prior year quarter, net of a positive impact from foreign currency of approximately 2%. This decline primarily resulted from a disruption in customer purchasing patterns due to the transition of our university customers to Independent Administrative Agency status. Elsewhere in the Asia Pacific area, political uncertainties in Taiwan and South Korea began to negatively impact the Applied Biosystems group s business. In Hong Kong, a resolution to reduce university funding led to some reduction in the Applied Biosystems group s customers life science spending.

The effects of foreign currency increased revenues by approximately 6% in Europe and 2% in Asia Pacific during the first nine months of fiscal 2004. European revenues increased due primarily to sales of the 4000 Q TRAP and SDS instruments and consumables. European revenues were also impacted by an order from a large-scale genome center for a substantial number of 3730*xl* instrument systems in fiscal 2003 that was not repeated in fiscal 2004.

Revenue by sources

	Three Months Ended March 31,			Nine Months Ended March 31,		
(Dollar amounts in millions)	2003	**2004**	**% Increase/ (Decrease)**	2003	**2004**	**% Increase/ (Decrease)**
Instruments	$ 199.0	**$ 202.5**	**1.8%**	$ 613.9	**$ 609.8**	**(0.7%)**
Consumables	143.8	**167.2**	**16.3%**	426.2	**456.2**	**7.0%**
Other sources	66.6	**69.9**	**5.0%**	209.9	**214.6**	**2.2%**
Total	$ 409.4	**$ 439.6**	**7.4%**	$ 1,250.0	**$ 1,280.6**	**2.4%**

Instruments

For the third quarter of fiscal 2004, instrument revenues increased in both the Mass Spectrometry product category and the SDS/Other Applied Genomics product category, which more than offset the decline in both the DNA Sequencing and the Other Product Lines product categories. Sales growth in Mass Spectrometry was driven by the strength of sales of the 4000 Q TRAP® LC/MS/MS System. During the third quarter of fiscal 2004, the SDS/Other Applied Genomics product line included sales of the new 7300 and 7500 Real-Time PCR Systems. The decrease in sales in DNA Sequencing resulted from a decline in sales of the Applied Biosystems 3730*xl* DNA Analyzer to large-scale genome centers.

For the first nine months of fiscal 2004, revenues from instrument sales decreased as sales of the Applied Biosystems 3730*xl* DNA Analyzer to large-scale genome centers declined, which more than offset growth in instrument sales in the Mass Spectrometry and SDS/Other Applied Genomics product categories.

Consumables

For the third quarter and first nine months of fiscal 2004, consumables sales increased primarily due to growth in sales of SDS/Other Applied Genomics consumables. Also, for the third quarter of fiscal 2004, consumables sales increased due to growth in DNA sequencing consumables. Sales growth in SDS/Other Applied Genomics consumables was due in part to the increasing adoption of the Applied Biosystems Assays-on-Demand™ and Assays-by-Design℠ products for gene expression and genotyping experiments in both basic research and drug discovery and development, as well as growth in sales of other SDS consumables, and human identification products used in forensics.

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

Other sources

Revenues from other sources, which included service and support, royalties, licenses, and contract research, increased for the third quarter of fiscal 2004 primarily due to an increase in service and support revenues. Revenues from other sources increased for the fiscal year to date period primarily from higher service and support revenues, partially offset by lower technology licensing fees.

Gross margin, as a percentage of net revenues, increased for both the third quarter and nine-month periods over the prior year periods due primarily to a shift in product mix, operational efficiencies, and the favorable effects of foreign currency. In addition, for the nine months of fiscal 2003, gross margin was lower due to the asset impairment charges recorded in the second quarter of fiscal 2003.

SG&A expenses, as a percentage of net revenues, increased over the third quarter of fiscal 2003 due primarily to: increased litigation-related legal fees of $9.1 million; the unfavorable effects of foreign currency of approximately $4 million; increased spending on the development of, and enhancements to the Applied Biosystems Portal; and increased insurance and pension costs. SG&A expenses, as a percentage of net revenues, increased over the first nine months of fiscal 2003 due primarily to: increased litigation-related legal fees of $17.6 million; the unfavorable effects of foreign currency of approximately $12 million; increased spending on the development of, and enhancements to the Applied Biosystems Portal; and increased insurance and pension costs. The increase in the first nine months of fiscal 2004 was partially offset by the reduction in personnel announced in December 2002. A significant portion of the Applied Biosystems group s increased legal fees related to defending the Applied Biosystems group s intellectual property assets.

R&D expenses decreased for both the third quarter and nine-month periods of fiscal 2004 from the prior year periods. The decrease for the third quarter resulted primarily from a reduction in personnel in fiscal 2003. The decrease for the nine-month period resulted primarily from the completion of funding for the Applera Genomics Initiative and a reduction in personnel in fiscal 2003.

Other income (expense), net increased for both the third quarter and nine-month periods in comparison to the prior year periods primarily due to the net gain of $6.7 million from legal settlements, including the settlement between the Applied Biosystems/MDS Sciex Instruments joint venture and Waters Technologies Corporation. Also impacting the nine-month period of fiscal 2004 were lower benefits associated with our foreign currency risk management program.

The increase in the effective tax rate for both the third quarter and nine-month periods of fiscal 2004 was primarily due to the previously discussed special charges recorded in fiscal 2003 and 2004.

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

Applied Biosystems Group
Discussion of Financial Resources and Liquidity

The Applied Biosystems group had cash and cash equivalents of $584.9 million at March 31, 2004 and $601.7 million at June 30, 2003. We maintain a $50 million revolving credit agreement with three banks that expires on April 20, 2005, under which there were no borrowings outstanding at March 31, 2004. Cash provided by operating activities has been the Applied Biosystems group s primary source of funds.

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

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

(Dollar amounts in millions)	June 30, 2003	**March 31, 2004**
Cash and cash equivalents	$ 601.7	**$ 584.9**
Short-term investments		
Total cash and cash equivalents and short-term investments	$ 601.7	**$ 584.9**
Working capital	708.6	**701.5**

Cash and cash equivalents for the nine months ended March 31, 2004 decreased from June 30, 2003 as expenditures for capital and other assets, the funding of the Celera Diagnostics joint venture, the payment of dividends, and the repurchase of 8.9 million shares of Applera-Applied Biosystems stock for $200.0 million exceeded the cash generated from operating activities, proceeds from stock issuances and the sale of assets, and the favorable impact of the exchange rate valuation on cash and cash equivalents. Net cash flows of continuing operations for the nine months ended March 31 were as follows:

(Dollar amounts in millions)	2003	**2004**
Net cash from operating activities	$ 173.5	**$ 206.4**
Net cash from investing activities	(70.1)	**(23.2)**
Net cash from financing activities	(34.5)	**(217.1)**
Effect of exchange rate changes on cash	13.7	**17.4**

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

Operating activities:

Net cash from operating activities of continuing operations for the first nine months of fiscal 2004 was $32.9 million higher than in the first nine months of fiscal 2003. This increase resulted primarily from higher income related cash flows, improved accounts receivable collections in fiscal 2004, the timing of the receipt of dividends and distributions from investments in unconsolidated subsidiaries, and lower tax and severance and related benefits payments in fiscal 2004. This increase was partially offset by the funding of our U.S. pension plan of approximately $28 million in fiscal 2004 and the timing of royalty and vendor payments. The Applied Biosystems group s days sales outstanding was 66 days at March 31, 2004, 75 days at June 30, 2003, and 73 days at March 31, 2003. Inventory on hand was 3.1 months at March 31, 2004 compared to 3.3 months at June 30, 2003.

Investing activities:

Capital expenditures for the first nine months of fiscal 2004, net of disposals, were $53.1 million less than in the prior fiscal year period primarily due to lower expenditures for the Pleasanton, California facility. The first nine months of fiscal 2004 included $28.4 million of proceeds primarily from the sale of minority equity investments. The first nine months of fiscal 2003 also included $29.6 million of proceeds from the maturity of a short-term investment.

Financing activities:

During the first nine months of fiscal 2004, we repurchased 8.9 million shares of Applera-Applied Biosystems stock for $200.0 million. During the first nine months of fiscal 2003, we repurchased 1.1 million shares of Applera-Applied Biosystems stock for $19.8 million.

Celera Genomics Group

	Three Months Ended March 31,			Nine Months Ended March 31,		
(Dollar amounts in millions)	2003	**2004**	**% Increase/ (Decrease)**	2003	**2004**	**% Increase/ (Decrease)**
Net revenues	$ 20.3	**$ 11.2**	**(44.8%)**	$ 66.8	**$ 47.7**	**(28.6%)**
Cost of sales	3.0	**2.0**	**(33.3%)**	10.1	**8.3**	**(17.8%)**
R&D	27.0	**28.3**	**4.8%**	92.3	**75.2**	**(18.5%)**
SG&A expenses	7.9	**7.1**	**(10.1%)**	22.0	**22.6**	**2.7%**
Amortization of intangible assets	0.7	**0.7**	**%**	5.2	**2.2**	**(57.7%)**
Operating loss	(18.3)	**(26.9)**	**47.0%**	(62.8)	**(60.6)**	**(3.5%)**
Loss on investments, net	(0.1)		**100.0%**	(0.3)	**(0.5)**	**66.7%**
Interest income, net	3.8	**2.5**	**(34.2%)**	13.7	**8.3**	**(39.4%)**
Other income (expense), net	(14.6)	**0.5**	**(103.4%)**	(17.3)	**1.4**	**(108.1%)**
Loss from joint venture	(12.6)	**(11.9)**	**(5.6%)**	(35.8)	**(33.3)**	**(7.0%)**
Loss before income taxes	(41.8)	**(35.8)**	**(14.4%)**	(102.5)	**(84.7)**	**(17.4%)**
Benefit for income taxes	15.1	**13.9**	**(7.9%)**	40.0	**33.0**	**(17.5%)**
Net loss	$ (26.7)	**$ (21.9)**	**(18.0%)**	$ (62.5)	**$ (51.7)**	**(17.3%)**
Effective income tax benefit rate	36%	**39%**		39%	**39%**	

As previously described in events impacting comparability, fiscal 2003 results were impacted by the $15.1 million pre-tax charge included in the loss from the Celera Genomics group s equity interest in DPI in the third quarter of fiscal 2003. This amount was recorded in other income (expense), net. The tax benefit recorded on this charge was $5.9 million.

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

The lower net loss in the third quarter of fiscal 2004 in comparison to fiscal 2003 primarily resulted from the DPI charge recorded in fiscal 2003, partially offset by lower revenues and net interest income and higher R&D expenses. The lower net loss in the first nine months of fiscal 2004 in comparison to fiscal 2003 primarily resulted from lower R&D expenses, lower amortization of intangible assets, and the DPI charge recorded in fiscal 2003, partially offset by lower revenues and net interest income. Revenues decreased for both the third quarter and first nine months of fiscal 2004 primarily as a result of the continuing expiration of Online/Information Business customer agreements. Under the terms of the marketing and distribution agreement between the Celera Genomics group and the Applied Biosystems group, the Celera Genomics group has not sought any new customers for its Celera Discovery System and related information products and services since June 2002, and therefore its revenues from these products and services have continued to decline as expected.

R&D expenses increased in the third quarter of fiscal 2004 in comparison to the same quarter last year primarily due to increased expenditures to support preclinical development activities and the hiring of additional therapeutic R&D personnel. R&D expenses decreased for the first nine months of fiscal 2004 compared to the same period last year due primarily to the completion of the Applera Genomics Initiative and cost reductions in the Online/Information Business. These reductions were partially offset by higher therapeutic R&D expenditures.

SG&A expenses decreased in the third quarter of fiscal 2004 compared to the prior year quarter primarily due to lower employee-related costs. SG&A expenses increased in the first nine months of fiscal 2004 compared to the prior year period primarily due to higher employee-related costs, including severance.

Amortization expense of intangible assets decreased in the first nine months of fiscal 2004 due to the completion of the amortization of some intangible assets acquired as part of the acquisition of Axys in fiscal 2002.

Interest income, net decreased during both the third quarter and first nine months of fiscal 2004 compared to the prior year periods primarily due to lower average interest rates and, to a lesser extent, lower average cash and cash equivalents and short-term investments.

The decrease in other income (expense), net for both the third quarter and nine-month periods in comparison to the prior year periods resulted primarily from the loss for the DPI equity method investment, which included our share of the impairment charge previously described. In addition, for the first nine months of fiscal 2004, other income (expense), net included a non-recurring receipt of $2.0 million related to the March 2002 sale of the Celera Genomics group s animal genomics and genotyping business.

The increase in the effective income tax benefit rate for the third quarter of fiscal 2004 was primarily attributable to the impact of the DPI charge recorded in fiscal 2003, partially offset by changes in forecasted R&D credits.

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

Celera Genomics Group
Discussion of Financial Resources and Liquidity

The Celera Genomics group had cash and cash equivalents and short-term investments of $738.8 million at March 31, 2004 and $802.4 million at June 30, 2003. We maintain a $50 million revolving credit agreement with three banks that expires on April 20, 2005, under which there were no borrowings outstanding at March 31, 2004.

We believe that existing funds and existing sources of debt financing are more than adequate to satisfy the Celera Genomics group s normal operating cash flow needs, planned capital expenditures, and its share of funding of the Celera Diagnostics joint venture for the next twelve months and for the foreseeable future. However, if the Celera Genomics group is successful in its preclinical programs it may require additional funds to advance these programs through the regulatory process.

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

(Dollar amounts in millions)	June 30, 2003	**March 31, 2004**
Cash and cash equivalents	$ 52.6	**$ 46.4**
Short-term investments	749.8	**692.4**
Total cash and cash equivalents and short-term investments	$ 802.4	**$ 738.8**
Total debt	17.1	**6.2**
Working capital	750.8	**682.1**
Debt to total capitalization	1.7%	**0.7%**

Cash and cash equivalents for the first nine months of fiscal 2004 decreased from June 30, 2003 as the amount expended on operations, the funding of the Celera Diagnostics joint venture, the purchase of capital assets, and the repayment of debt exceeded the proceeds from the sales and maturities of short-term investments, sales of assets, and stock issuances. Net cash flows for the nine months ended March 31 were as follows:

(Dollar amounts in millions)	2003	**2004**
Net cash from operating activities	$ (23.6)	**$ (36.9)**
Net cash from investing activities	0.3	**36.2**
Net cash from financing activities	15.3	**(5.5)**

Operating activities:

Net cash used by operating activities for the first nine months of fiscal 2004 was $13.3 million higher than in the first nine months of fiscal 2003. The higher use of cash resulted primarily from higher net cash operating losses and lower cash receipts in fiscal 2004 due to the continuing expiration of Online/Information Business customer agreements.

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Investing activities:

Net cash from investing activities for the first nine months of fiscal 2004 increased from the first nine months of fiscal 2003 due to higher proceeds received from the sales and maturities of short-term investments in fiscal 2004 and the purchase of long-term investments in fiscal 2003 to secure the 8% senior secured convertible notes assumed in connection with the Axys acquisition in fiscal 2002.

Financing activities:

Net cash from financing activities for the first nine months of fiscal 2004 decreased from the first nine months of fiscal 2003. During the first nine months of fiscal 2004, we repurchased $10.0 million in principal amount of the outstanding 8% senior secured convertible notes assumed in connection with the Axys acquisition that were scheduled to mature in October 2004. In addition, we received lower proceeds received from employee stock option exercises in the first nine months of fiscal 2004 compared to the first nine months of fiscal 2003.

Celera Diagnostics

(Dollar amounts in millions)	Three Months Ended March 31, 2003	**2004**	**% Increase/ (Decrease)**	Nine Months Ended March 31, 2003	**2004**	**% Increase/ (Decrease)**
Net revenues	$ 4.3	**$ 7.5**	**74.4%**	$ 15.1	**$ 27.0**	**78.8%**
Cost of sales	2.3	**5.5**	**139.1%**	6.9	**15.4**	**123.2%**
R&D	11.7	**10.7**	**(8.5%)**	35.4	**33.7**	**(4.8%)**
SG&A expenses	2.9	**3.2**	**10.3%**	8.6	**11.2**	**30.2%**
Operating loss	$ (12.6)	**$ (11.9)**	**(5.6%)**	$ (35.8)	**$ (33.3)**	**(7.0%)**
Equalization payments	$ 2.6	**$ 4.5**		$ 7.7	**$ 18.7**	
End-user sales of products manufactured by Celera Diagnostics, marketed primarily through Abbott Laboratories	$ 5.8	**$ 9.8**		$ 14.7	**$ 29.3**	
End-user alliance sales for all products sold primarily through Abbott Laboratories	$ 6.3	**$ 12.7**		$ 15.4	**$ 33.7**	

In June 2002, Celera Diagnostics and Abbott Laboratories announced a long-term strategic alliance to develop, manufacture and market a broad range of *in vitro* molecular diagnostic products, including third party products brought into the alliance. On October 1, 2002, sales responsibilities for products manufactured by Celera Diagnostics were largely transferred to Abbott.

The majority of reported net revenues consisted of equalization payments from Abbott resulting from the profit-sharing arrangement between Abbott and Celera Diagnostics. The increase in equalization payments primarily accounted for the increase in net revenues. Fluctuation in these equalization payments can lead to fluctuation in both reported revenues and gross margins from period to period due to differences in end-user sales of alliance products and operating expenses between the alliance partners. End-user alliance sales for all products sold primarily through Abbott increased, for both the quarter and nine-month periods, primarily due to continued growth in sales of cystic fibrosis analyte specific reagents (ASRs). Also impacting the results for the third quarter fiscal 2004 was growth in products sourced from third parties and products for infectious disease testing. The results for the first nine months of fiscal 2003 included $3.9 million of end-user sales of products manufactured by Celera Diagnostics and sold by the Applied Biosystems group during the first fiscal quarter 2003.

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R&D expenses decreased in both the third quarter and first nine months of fiscal 2004 as a result of the completion of the Applera Genomics Initiative, partially offset by increased spending for discovery programs and product development.

SG&A expenses for the first nine months of fiscal 2004 included a $1.1 million charge related to a facility lease agreement.

Market Risks

Our foreign currency risk management strategy uses derivative instruments to hedge certain foreign currency forecasted revenues and to offset the impact of changes in foreign currency exchange rates on certain foreign currency-denominated assets and liabilities. The principal objective of this strategy is to minimize the risks and/or costs associated with our global financial and operating activities. We use foreign exchange forward, option, and range forward contracts to manage our foreign currency exposures. At March 31, 2004, we recorded in our condensed consolidated financial statements a net liability of $14.5 million related to these currency forwards and option contracts, compared with a net liability of $2.3 million at June 30, 2003. This increase was primarily attributed to the fluctuations in foreign currency rates. We do not use derivative financial instruments for trading or speculative purposes, nor are we a party to leveraged derivatives ..

We performed a sensitivity analysis as of March 31, 2004. Assuming a hypothetical adverse change of 10% in foreign exchange rates in relation to the U.S. dollar as of March 31, 2004, we calculated a hypothetical after-tax loss of $43.6 million, as compared to a hypothetical after-tax loss of $36.8 million at June 30, 2003. Our analysis included the change in value of the derivative financial instruments, along with the impact of translation on foreign currency-denominated assets and liabilities. Our analysis excluded the impact of translation of foreign currency-denominated forecasted sales. If foreign currency exchange rates actually change in a manner similar to the assumed change in the foregoing calculation, the hypothetical loss calculated would be more than offset by the recognition of higher U.S. dollar equivalent foreign revenues. Actual gains and losses in the future could, however, differ materially from this analysis, based on changes in the timing and amount of foreign currency exchange rate movements and actual exposures and hedges.

For more information on our market risks, please refer to the market risk section of the management s discussion and analysis included on pages 34 and 35 of our 2003 Annual Report to Stockholders (which section is incorporated in this quarterly report by reference).

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Recently Issued Accounting Standards

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) introduced a prescription drug benefit under Medicare, as well as a federal subsidy to sponsors of retiree health care benefit plans. In January 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 106-1, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. This FSP permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to retirees to make a one-time election to defer accounting for the effects of the Act if there is insufficient data, time or guidance available to ensure appropriate accounting. The guidance in this FSP is effective for interim or annual financial statements of fiscal years ending after December 7, 2003. We have elected to defer accounting for any effects of the Act while evaluating the Act further and pending the issuance of authoritative guidance on the accounting for the Act and its effect, if any, on our results of operations, financial position and financial statement disclosures. Therefore, the amounts included in the accompanying condensed consolidated financial statements related to our postretirement benefit plans do not reflect the effects of the Act, the impact of which is not expected to materially affect our consolidated financial statements.

In December 2003, the FASB issued a revised Statement of Financial Accounting Standards (SFAS) No. 132, Employers Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106, and a revision of FASB Statement No. 132. SFAS No. 132 (revised 2003) requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. We have adopted the interim provisions of this Statement in our fiscal 2004 third quarter. The remaining provisions of this Statement are effective for our fiscal 2004 fourth quarter.

Also in December 2003, the FASB issued a revised FASB Interpretation No. 46 (FIN 46R) Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. The FASB published the revision to clarify and amend some of the original provisions of FIN 46, which was issued in January 2003, and to exempt certain entities from its requirements. A variable interest entity (VIE) refers to an entity subject to consolidation according to the provisions of this Interpretation. FIN 46R applies to entities whose equity investment at risk is insufficient to finance that entity s activities without receiving additional subordinated financial support provided by any parties, including equity holders, or where the equity investors (if any) do not have a controlling financial interest. FIN 46R provides that if an entity is the primary beneficiary of a VIE, the assets, liabilities, and results of operations of the VIE should be consolidated in the entity s financial statements. In addition, FIN 46R requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE provide additional disclosures. The adoption of FIN 46R in our fiscal 2004 third quarter did not impact our consolidated financial statements.

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Outlook

Applied Biosystems Group

The Applied Biosystems group believes demand from commercial customers will remain healthy during the remainder of fiscal 2004. The Applied Biosystems group continues to believe there are a number of issues relating to government funding for life science research in Japan, as well as new political uncertainties in South Korea and Taiwan, that have the potential to negatively impact fiscal 2004 fourth quarter financial results. Additionally, in the U.S., the Applied Biosystems group believes there is a possibility that customer concern about the timing and level of future NIH funding could lead to more conservative purchase behavior by laboratories operated or funded by the NIH.

The Applied Biosystems group forecasts single-digit annual revenue growth for fiscal 2004. The Applied Biosystems group expects this growth to be driven by sales increases in both the SDS/Other Applied Genomics and the Mass Spectrometry product categories, partially offset by declines in the DNA Sequencing product category. The Applied Biosystems group expects fiscal 2004 annual earnings per share growth at a rate equal to or slightly above annual revenue growth.

The Applied Biosystems group estimates that the fiscal 2004 annual gross margin will be slightly above that of fiscal 2003. The Applied Biosystems group expects annual SG&A expenses to increase as a percent of total revenues during fiscal 2004 due to a number of factors, including: increased litigation-related legal fees associated with Applera s patent litigation with MJ Research, Inc.; the unfavorable effects of foreign currency; costs associated with the development of, and enhancements to, the new Applied Biosystems Portal; and increased insurance and pension costs. The Applied Biosystems group expects that the fiscal 2004 annual operating margin, excluding special items, as a percent of total revenues will be slightly below that of fiscal 2003.

The Applied Biosystems group expects the effective tax rate for fiscal 2004 to be approximately 28 percent. Future tax legislation may repeal or replace the existing U.S. export tax regime, as well as significantly change other international tax provisions of the Internal Revenue Code. Such changes may result in a change in the effective tax rate for the Applied Biosystems group.

Capital spending in fiscal 2004 is anticipated to be within the range of $60-70 million.

On April 5, 2004, the Applied Biosystems group announced that the Applera Board of Directors authorized the repurchase of up to $100 million in additional shares of Applera-Applied Biosystems stock. This authorization supplements the Applied Biosystems group s existing authority to repurchase shares issued under its employee stock benefit plans.

The Applied Biosystems group derives some rights to PCR technology under a series of agreements with Hoffmann-La Roche, Inc. and its affiliates which own some of the patents covering the PCR process. The Applied Biosystems group receives royalties from third-party sales of products incorporating this technology through a series of licensing programs. The first of these patents expires in March 2005 in the U.S., and in March 2006 in Europe and some other jurisdictions. The expiration of these patents may result in reduced royalty payments to the Applied Biosystems group. However, the Applied Biosystems group expects that a possible reduction in PCR royalties would be offset to a substantial degree by income from real-time PCR and other PCR-related technologies. In addition, the Applied Biosystems group has rights to multiple other PCR-related patents that should support a PCR-related royalty stream beyond fiscal 2005 and 2006. Taken together, the Applied Biosystems group believes these factors should mitigate the effects of the patent expirations. The PCR agreements are the subject of legal proceedings described in Note 11 to our condensed consolidated financial statements included in this report. The outcome of legal proceedings is inherently uncertain, and an adverse outcome in these proceedings could negatively affect the value of our PCR rights.

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The Applied Biosystems group has engaged a leading strategy consulting firm to assist management in an in-depth review of the entire product portfolio. The purpose of this review is to identify opportunities for growth, increased profitability, and shareholder value creation. The first phase of the project, which has been completed, was a rigorous fact-based analysis of the Applied Biosystems group s current product portfolio. In the second phase, the Applied Biosystems group is evaluating its R&D investments in an attempt to achieve optimum alignment with future growth opportunities. In this phase, the Applied Biosystems group is also examining its business processes with a goal to improving operational efficiency and productivity. As part of this business review, the Applied Biosystems group will also be evaluating portfolio decisions that could change our product and business mix. Financial statement implications, if any, as a result of this review will be addressed when appropriate.

Celera Genomics Group

The Celera Genomics group expects to continue to advance its ongoing proteomic oncology programs and its unpartnered small molecule programs. The Celera Genomics group plans to establish relationships to develop therapeutic antibodies against targets it discovers from proteomics studies. Consistent with the Celera Genomics group s Targeted Medicine strategy, it intends to establish one or more strategic relationships that advance its therapeutic pipeline and/or take advantage of its combination of genomic, proteomic, and bioinformatic capabilities.

Previously, the Celera Genomics group stated that a partnered compound could enter clinical trials during fiscal 2004. While existing partnered programs could lead to clinical trials in the future, the initiation of such trials now appears unlikely during fiscal 2004. Clinical development decisions with respect to partnered compounds will be made by the partner. The Celera Genomics group does not have any current intention to predict the future development progress of these partnered programs.

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

- The Celera Genomics group s net cash use for fiscal 2004 is expected to be between $85 and $90 million, including an anticipated $25 to $30 million for the Celera Genomics group s portion of the funding for the Celera Diagnostics joint venture. The impact of lower Online/Information Business revenues and operating profit should be partially offset by lower losses and cash demands related to Celera Diagnostics and the first quarter of fiscal 2004 conversion of approximately $16 million of long-term treasury securities to short-term investments. This outlook excludes approximately $10 million of cash used to repurchase convertible notes, and net proceeds that the Celera Genomics group received from the sale of its Discovery Partners International, Inc. investment. On May 11, 2004, the Celera Genomics group completed the sale of its investment in DPI from which it expects to receive net proceeds of approximately $32 million.

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- The Celera Genomics group anticipates R&D expenses for fiscal 2004 to be in the range of $101 to $106 million. Actual R&D expenses will depend on the rate of progress in discovery and development programs. Pre-tax losses related to the Celera Diagnostics joint venture for fiscal 2004 are expected to be in the range of $38 to $44 million.

- The Celera Genomics group anticipates revenues for fiscal 2004 will continue to trend downward to a range of $55 to $60 million. Additional Online/Information Business agreements are expected to expire through fiscal 2006.

Celera Diagnostics

For fiscal 2004, total end user sales for the alliance between Celera Diagnostics and Abbott Laboratories are anticipated to be in range of $46 to $50 million. End-user sales of products manufactured by Celera Diagnostics and marketed primarily through the alliance with Abbott are expected to be in a range of $39 to $41 million. Celera Diagnostics anticipates fiscal 2004 pre-tax losses to be in a range of $38 to $44 million, and fiscal 2004 net cash use to be in a range of $46 to $52 million, including capital spending of approximately $3 million. This outlook assumes continued demand growth for current products, such as ASRs for cystic fibrosis and products for infectious disease testing.

Celera Diagnostics is preparing for the transfer of its first prototype assays based on its association studies to one or more laboratory partners this summer.

Forward-Looking Statements

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

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The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, we note that a variety of factors could cause actual results and experience to differ materially from anticipated results or other expectations expressed in forward-looking statements. We also note that achievement of anticipated results or expectations in forward-looking statements is subject to the possibility that assumptions underlying forward-looking statements will prove to be inaccurate. Investors should bear this in mind as they consider forward-looking statements. The risks and uncertainties that may affect the operations , performance, development, and results of our business include, but are not limited to, those described below under the headings Factors Relating to the Applied Biosystems Group, Factors Relating to the Celera Genomics Group, and Factors Relating to Celera Diagnostics, a 50/50 Joint Venture between the Applied Biosystems Group and Celera Genomics Group.

Factors Relating to the Applied Biosystems Group

Rapidly changing technology in life sciences could make the Applied Biosystems group's product line obsolete unless it continues to develop and manufacture new and improved products, and pursue new market opportunities. A significant portion of the net revenues for the Applied Biosystems group each year is derived from products that did not exist in the prior year. The Applied Biosystems group's products are based on complex technology which is subject to rapid change as new technologies are developed and introduced in the marketplace. The Applied Biosystems group's future success depends on its ability to continually improve its current products, develop and introduce, on a timely and cost-effective basis, new products that address the evolving needs of its customers, and pursue new market opportunities that develop as a result of technological and scientific advances in life sciences. These new market opportunities may be outside the scope of the group's proven expertise or in areas which have unproven market demand. For example, the Applied Biosystems group has committed significant resources to researching, developing, marketing, and distributing new products and services designed to integrate laboratory experimentation with relevant scientific information, and to new Internet web sites devoted to promoting the group's products and supporting customer research and development activities. These are emerging business areas for the Applied Biosystems group, and there can be no assurance that there will be market acceptance of the utility and value of these products and services. The inability to gain market acceptance of new products and services could adversely affect the group's future operating results. The group's future success also depends on its ability to manufacture these improved and new products to meet customer demand in a timely and cost-effective manner, including its ability to resolve in a timely manner manufacturing issues that may arise from time to time as the group commences production of these complex products. Unanticipated difficulties or delays in replacing existing products with new products or in manufacturing improved or new products in sufficient quantities to meet customer demand could adversely affect future demand for the group's products and its future operating results.

The Applied Biosystems group relies on third parties for the manufacture of some of its products and also for the supply of some components of the products it manufactures on its own. Although the Applied Biosystems group has contracts with most of these manufacturers and suppliers, there can be no assurance that their operations will not be disrupted. The Applied Biosystems group does not currently have alternative third party manufacturing or supply arrangements for some of the key products and key components manufactured or supplied by third parties. Although the Applied Biosystems group has its own manufacturing facilities, and believes it might be able to manufacture some of the products and components currently sourced from third parties, it also believes that it would take considerable time and resources to establish the capability to do so. Accordingly, if third party manufacturers or suppliers are unable or fail to fulfill their obligations to the Applied Biosystems group, the Applied Biosystems group might not be able to satisfy customer demand in a timely manner, and its business could be adversely affected.

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A significant portion of sales depends on customers' capital spending policies that may be subject to significant and unexpected decreases. A significant portion of the Applied Biosystems group's instrument product sales are capital purchases by its customers. The Applied Biosystems group's customers include pharmaceutical, environmental, research, biotechnology, and chemical companies, and the capital spending policies of these companies can have a significant effect on the demand for the Applied Biosystems group's products. These policies are based on a wide variety of factors, including the resources available to make purchases, the spending priorities among various types of research equipment, and policies regarding capital expenditures during recessionary periods. Any decrease in capital spending or change in spending policies of these companies could significantly reduce the demand for the Applied Biosystems group's products.

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

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

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

- In response to claims by us against MJ Research, Inc., MJ Research filed counterclaims against us including, among others, allegations that we have licensed and enforced some polymerase chain reaction, or PCR, patents through anticompetitive conduct in violation of federal and state antitrust laws. Subsequently, MJ Research filed a lawsuit against us based on the allegation that four patents underlying the Applied Biosystems group's DNA sequencing instruments were invalidly obtained because an alleged inventor, whose work was funded in part by the U.S. government, was knowingly omitted from the patent applications. MJ Research claims to be suing in the name of the U.S. government although the government has to date declined to participate in the lawsuit. Henry Huang has filed a lawsuit against us alleging that he is the sole inventor of the four patents referred to above, and the issues involved in his claims are related to the issues in the MJ Research claims. The MJ Research case has been dismissed but the decision has been appealed by MJ Research. A trial was held on the claims made by Henry Huang, and the judge issued a decision in our favor finding that Mr. Huang was not an inventor of the patents at issue. Mr. Huang has appealed the decision.
- Promega Corporation has filed a lawsuit against us alleging that the Applied Biosystems group, along with some other named defendants, is infringing two Promega patents due to the sale of forensic identification and paternity testing kits.
- Beckman Coulter, Inc. has filed a lawsuit against us alleging that the Applied Biosystems group is infringing three Beckman Coulter patents, although it has not identified the specific facts on which the allegation is based.
- Genetic Technologies Limited has filed a lawsuit against us alleging that we are infringing two of its patents due to the sale of cystic fibrosis reagent kits, some of our Assays-on-Demand™ products and Assays-by-Design℠ services, and the Celera Discovery System. Genetic Technologies Limited has also alleged that haplotyping analysis performed by our businesses infringes these patents.
- In response to an arbitration claim filed by us against Roche Molecular Systems, Inc., Hoffmann-La Roche, Inc., Roche Probe, Inc., F. Hoffmann-La Roche Ltd., and other potential defendants affiliated with those defendants, they have asserted counterclaims against us in the arbitration that could affect our exclusive rights to some PCR patents licensed from them.

The cost of litigation and the amount of management time associated with these cases is expected to be significant. There can be no assurance that these matters will be resolved favorably; that we will not be enjoined from selling the products in question or other products as a result; or that any monetary or other damages assessed against us will not have a material adverse effect on the financial condition of our company, the Applied Biosystems group, or the Celera Genomics group.

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Since the Applied Biosystems group's business is dependent on foreign sales, fluctuating currencies will make revenues and operating results more volatile. Approximately 50% of the Applied Biosystems group's net revenues for the nine months ended of our 2004 fiscal year were derived from sales to customers outside of the U.S. The majority of these sales were based on the relevant customer's local currency. A significant portion of the related costs for the Applied Biosystems group are based on the U.S. dollar. As a result, the Applied Biosystems group's reported and anticipated operating results and cash flows are subject to fluctuations due to material changes in foreign currency exchange rates that are beyond the Applied Biosystems group's control.

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

The Applied Biosystems group's businesses, particularly those focused on developing and marketing information-based products and services, depend on the continuous, effective, reliable, and secure operation of its computer hardware, software, and Internet applications and related tools and functions. Because the Applied Biosystems group's business requires manipulating and analyzing large amounts of data, and communicating the results of the analysis to its internal research personnel and to its customers via the Internet, the Applied Biosystems group depends on the continuous, effective, reliable, and secure operation of its computer hardware, software, networks, Internet servers, and related infrastructure. To the extent that the Applied Biosystems group's hardware or software malfunctions or access to the Applied Biosystems group's data by internal research personnel or customers through the Internet is interrupted, the Applied Biosystems group's business could suffer.

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

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

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

- conditions and publicity regarding the genomics, biotechnology, pharmaceutical, or life sciences industries generally;
- price and volume fluctuations in the stock market at large which do not relate to the Applied Biosystems group's operating performance; and
- comments by securities analysts or government officials, including with regard to the viability or profitability of the biotechnology sector generally or with regard to intellectual property rights of life science companies, or the Applied Biosystems group's ability to meet market expectations

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

Factors Relating to the Celera Genomics Group

The Celera Genomics group has incurred net losses to date and may not achieve profitability. The Celera Genomics group has accumulated net losses of approximately $711 million as of March 31, 2004, and expects that it will continue to incur net losses for the foreseeable future. These cumulative losses are expected to increase as the Celera Genomics group continues to make investments in new technology and product development, including its investments in the discovery and development of therapeutic products, as well as investments in diagnostics through Celera Diagnostics, its joint venture with the Applied Biosystems group. The Celera Genomics group will record all initial cash operating losses of Celera Diagnostics up to a maximum of $300 million, after which any additional operating losses would be shared equally by the Celera Genomics group and the Applied Biosystems group. However, the Applied Biosystems group reimburses the Celera Genomics group for all tax benefits generated by Celera Diagnostics to the extent such tax benefits are used by the Applied Biosystems group, and the effect of recording Celera Diagnostics' operating losses on the Celera Genomics group's net losses will be partially offset by this reimbursement. Celera Diagnostics has accumulated cash operating losses of approximately $119 million as of March 31, 2004. As an early stage business, the Celera Genomics group faces significant challenges in expanding its business operations into the discovery and development of therapeutic products. As a result, there is a high degree of uncertainty that the Celera Genomics group will be able to achieve profitable operations.

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The marketing and distribution agreement with the Applied Biosystems group may not generate significant royalty payments. Effective April 2002, the Applied Biosystems group became the exclusive distributor of the Celera Discovery System and the Celera Genomics group's related human genomic and other biological and medical information under the terms of a ten-year marketing and distribution agreement. Under the terms of that agreement, the Applied Biosystems group is obligated to pay a royalty to the Celera Genomics group based on sales of some products sold by the Applied Biosystems group after July 1, 2002. This royalty rate and the corresponding payments to be made to the Celera Genomics group were based on the sales of these products that the groups anticipated at the time of the execution of the agreement. The Applied Biosystems group has not guaranteed any minimum royalty payments to the Celera Genomics group, and the actual amount of royalty payments to be paid to the Celera Genomics group depends on the Applied Biosystems group's ability to successfully commercialize the products subject to the royalty. The Applied Biosystems group has not proven its ability to successfully commercialize these products. The Celera Genomics group believes that in order for the Applied Biosystems group's sales of these products to meet original expectations, the Applied Biosystems group will have to continue devoting a significant amount of its resources to researching, developing, marketing, and distributing them. However, the Celera Genomics group has no control over the amount and timing of the Applied Biosystems group's use of its resources, including for products subject to the royalty. In addition, the market for these products is intensely competitive, and there can be no assurance that there will be market acceptance of the utility and value of these product offerings.

The Celera Genomics group has not sought any new customers for its Celera Discovery System and related information products and services since June 30, 2002, and therefore its future revenues from its sale of these products and services will be limited. Under the terms of the marketing and distribution agreement between the Celera Genomics group and the Applied Biosystems group described in the preceding paragraph, the Celera Genomics group will receive all revenues under, and be responsible for all costs and expenses associated with, the Celera Discovery System and related information contracts that were entered into on or prior to June 30, 2002. However, the Applied Biosystems group took full responsibility for marketing and contracting for the Celera Discovery System and related products and services after that date. Accordingly, the Celera Genomics group does not expect any revenues from the Celera Discovery System and related products and services other than under contracts existing on June 30, 2002, so long as they remain in effect, and from potential royalty payments from the Applied Biosystems group under the marketing and distribution agreement. The Applied Biosystems group has agreed to reimburse the Celera Genomics group for any shortfall in earnings before interest, taxes, depreciation, and amortization from these contracts below a total of $62.5 million during the four fiscal years ending with the 2006 fiscal year, if the shortfall is due to the actions of the Applied Biosystems group including changes in marketing strategy for the Celera Discovery System. However, this commitment is also subject to the Celera Genomics group otherwise continuing to perform under these contracts and does not protect the Celera Genomics group from lost revenue due to other circumstances such as a customer bankruptcy. Although under some contracts with existing Celera Discovery System customers the Celera Genomics group is entitled to milestone payments or future royalties based on products developed by its customers, the Celera Genomics group believes these arrangements are unlikely to produce any significant revenue for the group.

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Because of the close working relationship between the Celera Genomics group and the Applied Biosystems group under the marketing and distribution agreement, it may be difficult to ascertain responsibility for claims, liabilities, or other issues that may arise under Celera Discovery System contracts or the marketing and distribution agreement. Under the marketing and distribution agreement described above, the two groups have agreed to cooperation guidelines to enable the Celera Genomics group to perform its obligations under existing Celera Discovery System agreements and to facilitate the development of the Applied Biosystems group's products covered by the agreement. These guidelines provide for the application of relevant resources and expertise of the groups to the relationship, and have led to a close working relationship among personnel within the two groups. Because of this working relationship, if any customers assert any claims under Celera Discovery System contracts, it may be difficult to determine which group was responsible for the actions that gave rise to the claim. In addition, the Applied Biosystems group may from time to time take good faith actions in pursuit of its marketing strategy that affect Celera Discovery System contracts that were in existence on June 30, 2002. Because of the working relationship between the two groups, it may be difficult to determine whether the actions of the Applied Biosystems group are within the scope of the reimbursement obligation described above.

The Celera Genomics group's ability to develop and commercialize proprietary therapeutic products is unproven. As the Celera Genomics group expands its business operations in the area of therapeutic product discovery and development, it faces the difficulties inherent in developing and commercializing these products. It is possible that the Celera Genomics group's discovery and development efforts will not result in any commercial products. In particular, the Celera Genomics group and its collaborators are seeking to develop new therapeutic products based on information derived from the study of the genetic material of organisms, or genomics, and the study of proteins, or proteomics. Also, pursuant to its current business and scientific plan, the Celera Genomics group is seeking to capitalize on its relationship with Celera Diagnostics through the evaluation of the therapeutic relevance of targets that Celera Diagnostics may identify in the disease association studies it is performing on its own behalf as well as additional disease association studies it has agreed to perform specifically for the Celera Genomics group. To our knowledge, no one to date has developed or commercialized any therapeutic products based on the Celera Genomics group's genomics or proteomics technologies or Celera Diagnostics' disease association studies, and therefore the benefit of these technologies and studies to the development of therapeutics is unproven. In addition, while Celera Diagnostics has agreed to perform some studies specifically for the Celera Genomics group, Celera Diagnostics is not obligated to continue the disease association studies that it performs on its own behalf. If Celera Diagnostics discontinues in whole or in part its disease association study program, or if this program or the studies performed specifically for the Celera Genomics group do not result in any targets with therapeutic relevance, the Celera Genomics group's business and scientific plan could be adversely affected.

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Therapeutic product candidates may never result in a commercialized product. All of the Celera Genomics group's therapeutic product candidates are in various stages of research and development and will require significant additional research and development efforts by the Celera Genomics group or its collaborators before they can be marketed. These efforts include extensive preclinical and clinical testing and lengthy regulatory review and clearance or approval by the FDA and comparable agencies in other countries. The Celera Genomics group's development of therapeutic products is highly uncertain and subject to a number of significant risks. To date, the Celera Genomics group has not commercialized a therapeutic product and the Celera Genomics group does not expect any of its therapeutic product candidates to be commercially available for a number of years, if ever. Therapeutic product candidates that appear to be promising at early stages of development may not be developed into commercial products, or may not be successfully marketed, for a number of reasons, including:

- the Celera Genomics group or its collaborators may not successfully complete any research and development efforts;
- the Celera Genomics group or its collaborators may not successfully build the necessary preclinical and clinical development organizations;
- any therapeutic product candidates that the Celera Genomics group or its collaborators develop may be found during preclinical testing or clinical trials to be ineffective or to cause harmful side effects;
- the Celera Genomics group or its collaborators may fail to obtain required regulatory approvals for products they develop;
- the Celera Genomics group or its collaborators may be unable to manufacture enough of any potential products at an acceptable cost and with appropriate quality;
- the Celera Genomics group or its collaborators may fail to build necessary distribution channels;
- the Celera Genomics group's or its collaborators' products may not be competitive with other existing or future products;
- adequate reimbursement for the Celera Genomics group's or its collaborators' products may not be available to healthcare providers and patients from the government or insurance companies; and
- the Celera Genomics group or its collaborators may be unable to obtain necessary intellectual property protection, or third parties may own proprietary rights that prevent the Celera Genomics group or its collaborators from commercializing their products.

If the Celera Genomics group fails to maintain its existing collaborative relationships and enter into new collaborative relationships, or if collaborators do not perform under collaboration agreements, development of its therapeutic product candidates could be delayed. The Celera Genomics group's strategy for the discovery, development, clinical testing, manufacturing and commercialization of most of its therapeutic product candidates includes entering into collaborations with partners. Although the Celera Genomics group has expended, and continues to expend, time and money on internal research and development programs, it may be unsuccessful in creating therapeutic product candidates that would enable it to form additional collaborations and receive milestone and/or royalty payments from collaborators.

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

If the Celera Genomics group fails to satisfy regulatory requirements for any therapeutic product candidate, the Celera Genomics group will be unable to complete the development and commercialization of that product. The Celera Genomics group is currently developing its internal capability to move potential products through clinical testing, manufacturing and the approval processes of the FDA and comparable agencies in other countries. In the U.S., either the Celera Genomics group or its collaborators must show through pre-clinical studies and clinical trials that each of the Celera Genomics group's therapeutic product candidates is safe and effective in humans for each indication before obtaining regulatory clearance from the FDA for the commercial sale of that product. Outside of the U.S., the regulatory requirements vary from country to country. If the Celera Genomics group or its collaborator fails to adequately show the safety and effectiveness of a therapeutic product, regulatory clearance or approval could be delayed or denied. The results from pre-clinical studies may be different from the results that are obtained in clinical trials. The Celera Genomics group cannot be certain that it will show sufficient safety and effectiveness in its clinical trials to allow it to obtain the needed regulatory clearance or approval for any therapeutic product candidate. The regulatory review and approval process can take many years and require substantial expense and may not be successful. Many companies in the therapeutic industry, including biotechnology companies, have suffered significant setbacks in advanced clinical trials, even after promising results in earlier studies.

Even if the Celera Genomics group obtains regulatory clearance or approval for a particular therapeutic product, it will be subject to risks and uncertainties relating to regulatory compliance, including post-approval clinical studies and inability to meet the compliance requirements of the FDA's Good Manufacturing Practices regulations. In addition, identification of some adverse side effects after a therapeutic product is on the market or the occurrence of manufacturing problems could cause subsequent suspension of product manufacture or withdrawal of approval, or could require reformulation of a therapeutic product, additional testing, or changes in labeling of the product. This could delay or prevent the Celera Genomics group from generating revenues from the sale of that therapeutic product.

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For some of the Celera Genomics group's research and product development programs, particularly its proteomics efforts, the Celera Genomics group needs access to human and other tissue samples from diseased and healthy individuals, other biological materials, and related clinical and other information, which may be in limited supply. The Celera Genomics group may not be able to obtain or maintain access to these materials and information on acceptable terms, or may not be able to obtain needed consents from individuals providing tissue or other samples. In addition, government regulation in the U.S. and foreign countries could result in restricted access to, or use of, human and other tissue samples. If the Celera Genomics group loses access to sufficient numbers or sources of tissue samples or other required biological materials, or if tighter restrictions are imposed on the use of related clinical or other information or information generated from tissue samples or other biological materials, these research and development programs and the Celera Genomics group's business could be adversely affected.

The pharmaceutical industry is intensely competitive and evolving. There is intense competition among pharmaceutical and biotechnology companies attempting to discover candidates for potential new therapeutic products. These companies may:

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

Introduction of new products may expose the Celera Genomics group to product liability claims. New products developed by the Celera Genomics group or its collaborators could expose the Celera Genomics group to potential product liability risks that are inherent in the testing, manufacturing, marketing and sale of human therapeutic products. Product liability claims or product recalls, regardless of the ultimate outcome, could require the Celera Genomics group to spend significant time and money in litigation and to pay significant damages. Although the Celera Genomics group expects to seek and maintain product liability insurance to cover claims relating to the testing and use of therapeutic products, there can be no assurance that such insurance will be available on commercially reasonable terms, if at all, or that the amount of coverage obtained will be adequate to cover losses from any particular claim.

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

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

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

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

The Celera Genomics group's competitive position depends on maintaining its intellectual property protection and obtaining licenses to intellectual property it may need from others. The Celera Genomics group's ability to compete and to achieve and maintain profitability depends on its ability to protect its proprietary discoveries and technologies, in large part, through obtaining and enforcing patent rights, obtaining copyright protection, maintaining its trade secrets, and operating without infringing the intellectual property rights of others. The Celera Genomics group's ability to obtain patent protection for the inventions it makes is uncertain. The patentability of biotechnology and pharmaceutical inventions involves complex factual and legal questions. As a result, it is difficult to predict whether patents will issue or the breadth of claims that will be allowed in biotechnology and pharmaceutical patents. This may be particularly true with regard to the patenting of gene sequences, gene functions, and genetic variations. In this regard, the U.S. Patent and Trademark Office has adopted guidelines for use in the review of the utility of inventions, particularly biotechnology inventions. These guidelines increased the amount of evidence required to demonstrate utility in order to obtain a patent in the biotechnology field, making patent protection more difficult to obtain. Although others have been successful in obtaining patents to biotechnology inventions, since the adoption of these guidelines, these patents have been issued with increasingly less frequency. As a result, patents may not issue from patent applications that the Celera Genomics group may own or license if the applicant is unable to satisfy the new guidelines.

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

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

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

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

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

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

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

There has been substantial litigation regarding patents and other intellectual property rights in the biotechnology and pharmaceutical industries. The Celera Genomics group may become a party to patent litigation or proceedings at the U.S. Patent and Trademark Office to determine its patent rights with respect to third parties. Interference proceedings may be necessary to establish which party was the first to make the invention sought to be patented. The Celera Genomics group may become involved in patent litigation against third parties to enforce its patent rights, to invalidate patents held by the third parties, or to defend against these claims. The cost to the Celera Genomics group of any patent litigation or similar proceeding could be substantial, and it may absorb significant management time. If infringement litigation against the Celera Genomics group is resolved unfavorably to the Celera Genomics group, the Celera Genomics group may be enjoined from manufacturing or selling its products or services without a license from a third party. The Celera Genomics group may not be able to obtain a license on commercially acceptable terms, or at all.

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

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

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

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

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

Earthquakes could disrupt operations in California. The Celera Genomics group has research and development facilities in South San Francisco, California. South San Francisco is located near major California earthquake faults. The ultimate impact of earthquakes on the Celera Genomics group, its significant suppliers, and the general infrastructure is unknown, but operating results could be materially affected in the event of a major earthquake.

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

- conditions and publicity regarding the genomics, biotechnology, pharmaceutical, or life sciences industries generally;
- price and volume fluctuations in the stock market at large which do not relate to the Celera Genomics group's operating performance; and
- comments by securities analysts or government officials, including with regard to the viability or profitability of the biotechnology sector generally or with regard to intellectual property rights of life science companies, or the Celera Genomics group's ability to meet market expectations.

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

Our company is subject to a purported class action lawsuit relating to its 2000 offering of shares of Applera-Celera stock that may be expensive and time consuming. Our company and some of our officers are defendants in a lawsuit purportedly brought on behalf of purchasers of Applera-Celera stock in our follow-on public offering of Applera-Celera stock completed on March 6, 2000. In the offering, we sold an aggregate of approximately 4.4 million shares of Applera-Celera stock at a public offering price of $225 per share. The lawsuit was commenced with the filing of several complaints in 2000, which have been consolidated into a single case. The consolidated complaint generally alleges that the prospectus used in connection with the offering was inaccurate or misleading because it failed to adequately disclose the alleged opposition of the Human Genome Project and two of its supporters, the governments of the U.S. and the U.K., to providing patent protection to our genomic-based products. Although the Celera Genomics group has never sought, or intended to seek, a patent on the basic human genome sequence data, the complaint also alleges that we did not adequately disclose the risk that the Celera Genomics group would not be able to patent this data. The consolidated complaint seeks unspecified monetary damages, rescission, costs and expenses, and other relief as the court deems proper. Although we believe the asserted claims are without merit and intend to defend the case vigorously, the outcome of this or any other litigation is inherently uncertain. The defense of this case will require management attention and resources.

Factors Relating to Celera Diagnostics, a 50/50 Joint Venture between the Applied Biosystems Group and the Celera Genomics Group

Celera Diagnostics' ability to develop and commercialize proprietary diagnostic products is unproven. Celera Diagnostics faces the difficulties inherent in developing and commercializing diagnostic products. It is possible that Celera Diagnostics' discovery and development efforts will not result in any new commercial products or services. In particular, Celera Diagnostics and its collaborators are seeking to develop new diagnostic products based on information derived from the study of the genetic material of organisms, or genomics. This method carries inherent risks, as only a limited number of diagnostic products based on genomic discoveries have been developed and commercialized to date.

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Diagnostic product candidates may never result in a commercialized product. Most of Celera Diagnostics potential diagnostic products are in various stages of research and development and will require significant additional research and development efforts by Celera Diagnostics or its collaborators before they can be marketed. These efforts include extensive clinical testing and may require lengthy regulatory review and clearance or approval by the FDA and comparable agencies in other countries. Celera Diagnostics development of new diagnostic products is highly uncertain and subject to a number of significant risks. Diagnostic product candidates that appear to be promising at early stages of development may not be developed into commercial products, or may not be successfully marketed, for a number of reasons, including:

- Celera Diagnostics or its collaborators may not successfully complete any research and development efforts;
- any diagnostic products that Celera Diagnostics or its collaborators develop may be found during clinical trials to have limited medical value;
- Celera Diagnostics or its collaborators may fail to obtain required regulatory clearances or approvals for products they develop;
- Celera Diagnostics or its collaborators may be unable to manufacture enough of any potential products at an acceptable cost and with appropriate quality;
- any diagnostic products Celera Diagnostics or its collaborators develop may not be competitive with other existing or future products;
- adequate reimbursement for Celera Diagnostics and its collaborators products may not be available to physicians or patients from the government or insurance companies; and
- Celera Diagnostics may be unable to obtain necessary intellectual property protection, or third parties may own proprietary rights that prevent Celera Diagnostics or its collaborators from commercializing their products.

If Celera Diagnostics fails to satisfy regulatory requirements for any diagnostic product candidate, it may be unable to complete the development and commercialization of that product. Celera Diagnostics is currently developing its capability to move potential products through clinical testing, manufacturing, and the approval processes of the FDA and comparable agencies in other countries. In the U.S., either Celera Diagnostics or its collaborators must show through pre-clinical studies and clinical trials that each of Celera Diagnostics diagnostic product candidates is safe and effective for each indication before obtaining regulatory clearance or approval from the FDA for the commercial sale of that product as an *in-vitro* diagnostic product with clinical claims. Outside of the U.S., the regulatory requirements vary from country to country. If Celera Diagnostics or its collaborator fails to adequately show the safety and effectiveness of a diagnostic product, regulatory clearance or approval could be delayed or denied. The results from pre-clinical studies may be different from the results that are obtained in clinical trials. Celera Diagnostics cannot be certain that it will show sufficient safety and effectiveness in its clinical trials to allow it to obtain the needed regulatory clearance or approval. The regulatory review and approval process can take many years and require substantial expense and may not be successful. A number of companies in the diagnostics industry, including biotechnology companies, have suffered significant setbacks in advanced clinical trials, even after promising results in earlier studies.

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Even if Celera Diagnostics obtains regulatory clearance or approval, it will be subject to risks and uncertainties relating to regulatory compliance, including post-clearance or approval clinical studies and inability to meet the compliance requirements of the FDA s Quality System Regulations. In addition, the occurrence of manufacturing problems could cause subsequent suspension of product manufacture or withdrawal of clearance or approval, or could require reformulation of a diagnostic product, additional testing, or changes in labeling of the product. This could delay or prevent Celera Diagnostics from generating revenues from the sale of that diagnostic product.

Celera Diagnostics products may not be fully accepted by physicians and laboratories. Celera Diagnostics growth and success will depend on market acceptance by physicians and laboratories of its products as clinically useful and cost-effective. Celera Diagnostics expects that most of its products will use genotyping and gene expression information to predict predisposition to diseases, disease progression or severity, or responsiveness to treatment. Market acceptance will depend on the widespread acceptance and use by doctors and clinicians of genetic testing for these purposes. The use of genotyping and gene expression information by doctors and clinicians for these purposes is relatively new. Celera Diagnostics cannot be certain that doctors and clinicians will want to use its products designed for these purposes.

Even if genetic testing is accepted as a method to manage health care, Celera Diagnostics cannot be certain that its products will be accepted in the clinical diagnostic market. If genetic testing becomes widely accepted in the clinical diagnostic market, Celera Diagnostics cannot predict the extent to which doctors and clinicians may be willing to utilize Celera Diagnostics products in providing patient care. Doctors and clinicians may prefer competing technologies and products that can be used for the same purposes as Celera Diagnostics products.

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

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If insurance companies and other third-party payors do not reimburse doctors and patients for Celera Diagnostics tests, its ability to sell its products to the clinical diagnostics market will be impaired. Sales of Celera Diagnostics products will depend, in large part, on the availability of adequate reimbursement to users of those products from government insurance plans, including Medicare and Medicaid in the U.S., managed care organizations, and private insurance plans. Physicians recommendations to use diagnostic tests, as well as decisions by patients to pursue those tests, are likely to be influenced by the availability of reimbursement by insurance companies and other third party payors. Third-party payors are increasingly attempting to contain health care costs by limiting both the extent of coverage and the reimbursement rate for testing and treatment products and services. In particular, products and services that are determined to be investigational in nature or that are not considered reasonably necessary for diagnosis or treatment may be denied reimbursement coverage. In addition, third-party payors are increasingly limiting reimbursement coverage for medical diagnostic products and, in many instances, are exerting pressure on medical suppliers to reduce their prices. Thus, third-party reimbursement may not be consistently available or financially adequate to cover the cost of Celera Diagnostics products. This could limit the ability of Celera Diagnostics to sell its products, cause Celera Diagnostics to reduce the prices of its products, or otherwise adversely affect Celera Diagnostics operating results.

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

If Celera Diagnostics fails to maintain its existing collaborative relationships and enter into new collaborative relationships, or if collaborators do not perform under collaboration agreements, development of its diagnostic products could be delayed. Celera Diagnostics strategy for the discovery, development, clinical testing, manufacturing and commercialization of most of its diagnostic product candidates includes entering into collaborations with partners. Although Celera Diagnostics has expended, and continues to expend, time and money on internal research and development programs, it may be unsuccessful in creating diagnostic product candidates that would enable it to form additional collaborations.

Celera Diagnostics has entered into a strategic alliance agreement with Abbott Laboratories for the joint discovery, development, manufacturing, and commercialization of nucleic acid-based diagnostic products. The Abbott Laboratories agreement may be terminated by the non-breaching party in the event of a material breach and, under some circumstances, by either party in the event of a change in control of the other party. In addition, the amount and timing of resources to be devoted to research, development, eventual clinical trials and commercialization activities by Abbott are not within Celera Diagnostics control. Future collaborations with other third parties are likely to be subject to similar terms and conditions. Celera Diagnostics cannot ensure that its collaborators will perform their obligations as expected. If any of Celera Diagnostics collaborators terminate or elect to cancel their agreements or otherwise fail to conduct their collaborative activities in a timely manner, the development or commercialization of diagnostics products may be delayed or otherwise adversely affected. If in some cases Celera Diagnostics assumes responsibilities for continuing programs on its own after termination of a collaboration, Celera Diagnostics may be required to devote additional resources to product development and commercialization or Celera Diagnostics may need to cancel some development programs.

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Celera Diagnostics does not have a sales and service capability in the clinical diagnostic market. Celera Diagnostics currently does not have a sales and service organization. Accordingly, its ability to successfully sell its products will depend on its ability to either develop a sales and service organization or work with Abbott Laboratories under their current agreement, or a combination of both. In jurisdictions where Celera Diagnostics uses third party distributors, its success will depend to a great extent on the efforts of the distributors.

Celera Diagnostics has limited manufacturing capability and may encounter difficulties expanding Celera Diagnostics operations. Celera Diagnostics has limited commercial manufacturing experience and capabilities. If product sales increase, Celera Diagnostics will have to increase the capacity of its manufacturing processes and facilities or rely on its collaborators, if any. Celera Diagnostics may encounter difficulties in scaling-up manufacturing processes and may be unsuccessful in overcoming such difficulties. In such circumstances, Celera Diagnostics ability to meet product demand may be impaired or delayed.

Celera Diagnostics facilities are subject, on an ongoing basis, to the FDA s Quality System Regulations, international quality standards and other regulatory requirements, including requirements for good manufacturing practices and the State of California Department of Health Services Food and Drug Branch requirements. Celera Diagnostics may encounter difficulties expanding Celera Diagnostics manufacturing operations in accordance with these regulations and standards, which could result in a delay or termination of manufacturing or an inability to meet product demand.

Celera Diagnostics has relocated most of its manufacturing operations to a new facility in Alameda, California, though it has maintained a limited but key component of its manufacturing operations at an Applied Biosystems group facility. Celera Diagnostics expects to operate its manufacturing out of these facilities for the foreseeable future, and it does not have alternative production plans in place or alternative facilities available should its existing manufacturing facilities cease to function. Accordingly, Celera Diagnostics business could be adversely affected by unexpected interruptions in manufacturing caused by events such as labor problems, equipment failures, or other factors, and the resulting inability to meet customer orders on a timely basis.

Celera Diagnostics research and product development depends on access to tissue and blood samples from diseased and healthy individuals, other biological materials, and related clinical and other information, which may be in limited supply. Celera Diagnostics may not be able to obtain or maintain access to these materials and information on acceptable terms, or may not be able to obtain needed consents from individuals providing tissue or blood samples. In addition, government regulation in the U.S. and foreign countries could result in restricted access to, or use of, human tissue or blood samples. If Celera Diagnostics loses access to sufficient numbers or sources of tissue or blood samples, or if tighter restrictions are imposed on its use of the information generated from tissue or blood samples, its business may be harmed.

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

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

Celera Diagnostics competitive position depends on maintaining its intellectual property protection and obtaining licenses to intellectual property it may need from others. Celera Diagnostics ability to compete and to achieve and maintain profitability depends on its ability to protect its proprietary discoveries and technologies, in large part, through obtaining and enforcing patent rights, maintaining its trade secrets, and operating without infringing the intellectual property rights of others. Celera Diagnostics ability to obtain patent protection for the inventions it makes is uncertain. The patentability of biotechnology inventions involves complex factual and legal questions. As a result, it is difficult to predict whether patents will issue or the breadth of claims that will be allowed in biotechnology and pharmaceutical patents. This may be particularly true with regard to the patenting of gene sequences, gene functions, and genetic variations. In this regard, the U.S. Patent and Trademark Office has adopted guidelines for use in the review of the utility of inventions, particularly biotechnology inventions. These guidelines increased the amount of evidence required to demonstrate utility in order to obtain a patent in the biotechnology field, making patent protection more difficult to obtain. Although others have been successful in obtaining patents to biotechnology inventions, since the adoption of these guidelines, these patents have been issued with increasingly less frequency. As a result, patents may not issue from patent applications that Celera Diagnostics may own or license if the applicant is unable to satisfy the new guidelines.

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

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

Celera Diagnostics also relies on trade secret protection for its confidential and proprietary information and procedures. Celera Diagnostics protects its trade secrets through recognized practices, including access control, confidentiality and nonuse agreements with employees, consultants, collaborators and customers, and other security measures. These confidentiality and nonuse agreements may be breached, however, and Celera Diagnostics may not have adequate remedies for a breach. In addition, Celera Diagnostics trade secrets may otherwise become known or be independently developed by competitors. Accordingly, it is uncertain whether Celera Diagnostics reliance on trade secret protection will be adequate to safeguard its confidential and proprietary information and procedures.

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

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

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There has been substantial litigation regarding patents and other intellectual property rights in the biotechnology and pharmaceutical industries. Celera Diagnostics may become a party to patent litigation or proceedings at the U.S. Patent and Trademark Office to determine its patent rights with respect to third parties. For example, Genetic Technologies Limited has filed a lawsuit against us alleging that we are infringing two of its patents due to the sale of cystic fibrosis reagent kits. In addition, interference proceedings may be necessary to establish which party was the first to make the invention sought to be patented. Also, Celera Diagnostics may become involved in patent litigation against third parties to enforce its patent rights, to invalidate patents held by the third parties, or to defend against these claims. The cost to Celera Diagnostics of any patent litigation or similar proceeding could be substantial, and it may absorb significant management time. If infringement litigation against Celera Diagnostics is resolved unfavorably to Celera Diagnostics, Celera Diagnostics may be enjoined from manufacturing or selling its products or services without a license from a third party. Celera Diagnostics may not be able to obtain a license on commercially acceptable terms, or at all. Similarly, contractual disputes related to existing license rights under third party patents may affect Celera Diagnostics ability to develop, manufacture, and sell its products. For example, existing legal proceedings between Applera Corporation and Roche Molecular Systems, Inc., Hoffmann-La Roche, Inc., Roche Probe, Inc., and F. Hoffmann-La Roche, Ltd. may adversely affect the PCR patent rights that the Applied Biosystems group has contributed to Celera Diagnostics.

Introduction of new products may expose Celera Diagnostics to product liability claims. New products developed by Celera Diagnostics or its collaborators could expose Celera Diagnostics to potential product liability risks that are inherent in the testing, manufacturing, marketing, and sale of human diagnostic products. In addition, clinicians, patients, third-party payors, and others may at times seek damages based on testing or analysis errors based on a technician s misreading of results, mishandling of the patient samples, or similar claims. Product liability claims or product recalls, regardless of the ultimate outcome, could require Celera Diagnostics to spend significant time and money in litigation and to pay significant damages. Although Celera Diagnostics expects to seek and maintain product liability insurance to cover claims relating to the testing and use of diagnostic products, there can be no assurance that such insurance will be available on commercially reasonable terms, if at all, or that the amount of coverage obtained will be adequate to cover losses from any particular claim.

The diagnostics industry is intensely competitive and evolving. There is intense competition among health care, biotechnology, and diagnostic companies attempting to discover candidates for potential new diagnostic products. These companies may:

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

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

Also, a substantial portion of all sales of diagnostic products are made to a small number of clinical reference laboratories, including those identified above, and therefore Celera Diagnostics expects to rely on these laboratories for a substantial portion of its sales. Celera Diagnostics inability to establish or maintain one or more of these laboratories as a customer could adversely affect its business, financial condition, and operating results.

Earthquakes could disrupt operations in California. The headquarters and principal operations of Celera Diagnostics are located in Alameda, California, and Celera Diagnostics has manufacturing facilities in Foster City, California. Alameda and Foster City are located near major California earthquake faults. The ultimate impact of earthquakes on Celera Diagnostics, its significant suppliers, and the general infrastructure is unknown, but operating results could be materially affected in the event of a major earthquake.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.
We are exposed to potential loss from exposure to market risks represented principally by changes in foreign exchange rates, interest rates, and equity prices. Please refer to the market risk section of the management s discussion and analysis included on page 47 of this report. Additional information can also be found in the market risk section of the management s discussion and analysis included on pages 34 and 35 of our 2003 Annual Report to Stockholders (which section is incorporated in this report by reference).

Item 4. Controls and Procedures.
We maintain disclosure controls and procedures designed to ensure that the information required to be disclosed in the reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of these disclosure controls and procedures as of the end of the third quarter of our 2004 fiscal year, the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to achieve their stated purpose. However, there is no assurance that our disclosure controls and procedures will operate effectively under all circumstances. No changes were made to our internal control over financial reporting during the third quarter of our 2004 fiscal year that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved in various legal proceedings from time to time, including actions with respect to commercial, intellectual property, antitrust, environmental, securities, and employment matters. The following paragraphs contain a description of some of the legal proceedings that we are currently a party to. We are describing these proceedings because there have been recent developments.

We believe that we have meritorious defenses against the claims currently asserted against us, including the claims described below, and we intend to defend them vigorously. However, the outcome of litigation is inherently uncertain, and we cannot be sure that we will prevail in the cases described below or in our other current litigation. An adverse determination in the cases we are currently defending, particularly the claims against us described below and the other claims we are defending that are described elsewhere in this report, could have a material adverse effect on us, the Applied Biosystems group, or the Celera Genomics group. See Note 11 Contingencies to our unaudited Condensed Consolidated Financial Statements in this report for a description of additional litigation that we are currently a party to.

We are involved in several litigation matters with MJ Research, Inc., which commenced with our filing claims against MJ Research based on its alleged infringement of some polymerase chain reaction, or PCR, patents. In response to our claims, MJ Research filed counterclaims including, among others, allegations that we have licensed and enforced these patents through anticompetitive conduct in violation of federal and state antitrust laws, and MJ Research is seeking injunctive relief, monetary damages, costs and expenses, and other relief. A trial on these matters commenced in March 2004. The Court elected to hold the trial in two phases: a patent phase and an antitrust phase. In the patent phase, which has concluded, the jury found that MJ Research infringed U.S. patent Nos. 4,683,195, 4,683,202 and 4,965,188 (each relates to PCR process technology) and U.S. patent Nos. 5,656,493, 5,333,675 and 5,475,610 (each relates to thermal cycler instrument technology). The jury found the infringement of the '195, '202, '188 and '493 patents to be willful. In addition to direct infringement by MJ Research of the '610 and '675 patents, the jury found that MJ Research induced its customers to infringe all of the patents and contributed to infringement by its customers of the 610 and '675 patents. In April 2004, the jury awarded damages to us and Roche Molecular Systems, also a party to the litigation, in the amount of $19.8 million. We intend to seek, with Roche Molecular Systems, an enhancement of damages, including legal fees, since several infringements were found to be willful. Additionally, we intend to seek an injunction against MJ Research, which filed for bankruptcy court protection on March 29, 2004. The antitrust phase of the trial is scheduled to commence in July 2004.

Subsequent to the filing of our claims against MJ Research which are described in the preceding paragraph, on September 21, 2000, MJ Research filed an action against us in the U.S. District Court for the District of Columbia. This complaint is based on the allegation that the patents underlying our DNA sequencing instruments were improperly obtained because one of the alleged inventors, whose work was funded in part by the U.S. government, was knowingly omitted from the patent applications. Our patents at issue are U.S. Patent Nos. 5,171,534, entitled Automated DNA Sequencing Technique, 5,821,058, entitled Automated DNA Sequencing Technique, 6,200,748, entitled Tagged Extendable Primers and Extension Products, and 4,811,218, entitled Real Time Scanning Electrophoresis Apparatus for DNA Sequencing. The complaint asserts violations of the federal False Claims Act and the federal Bayh Dole Act, invalidity and unenforceability of the patents at issue, patent infringement, and various other civil claims against us. MJ Research is seeking monetary damages, costs and expenses, injunctive relief, transfer of ownership of the patents in dispute, and other relief as the court deems proper. MJ Research claims to be suing in the name of the U.S. government although the government has to date declined to participate in the suit. On October 9, 2003, the case against us was dismissed but MJ Research has filed an appeal.

Henry Huang (an individual) filed an action against us and the Applied Biosystems group and the other parties described below in the U.S. District Court for the Central District of California on February 19, 2003. Mr. Huang's complaint seeks to change inventorship of the patents described below, and claims breach of contract, fraud, conversion, and unjust enrichment. The complaint relates to U.S. Patent Nos. 5,171,534, entitled "Automated DNA Sequencing Technique," 5,821,058, entitled "Automated DNA Sequencing Technique," 6,200,748, entitled "Tagged Extendable Primers and Extension Products," and 4,811,218, entitled "Real Time Scanning Electrophoresis Apparatus for DNA Sequencing." U.S. Patent Nos. 5,171,534, 5,821,058, and 6,200,748 are assigned to the California Institute of Technology and licensed by the Applied Biosystems group. U.S. Patent No. 4,811,218 is assigned to the Applied Biosystems group. Also named in the complaint are the California Institute of Technology, Lloyd Smith, Leroy Hood, Michael Hunkapiller, Timothy Hunkapiller, Charles Connell, John Lytle, William Mordan, and John Bridgham. Lloyd Smith, Leroy Hood, Michael Hunkapiller, Timothy Hunkapiller, and Charles Connell are the inventors named on U.S. Patent Nos. 5,171,534, 5,821,058, and 6,200,748. Michael Hunkapiller, Charles Connell, John Lytle, William Mordan, and John Bridgham are the inventors named on U.S. Patent No. 4,811,218. The issues involved in this litigation are related to the issues in the MJ Research, Inc. litigation that was filed September 21, 2000, which is described above. Mr. Huang is alleging that he is the sole inventor on U.S. Patent Nos. 5,171,534, 5,821,058, 6,200,748, and 4,811,218. He is seeking to substitute himself for the named inventors on the relevant patents, and to have himself named as the sole assignee of the patents, and is also seeking monetary damages, costs, expenses, and other relief as the court deems proper. A trial was completed on December 22, 2003, and on February 18, 2004, the judge issued a decision in our favor finding that Mr. Huang was not an inventor of the patents at issue. Mr. Huang has appealed the decision.

We filed claims against Roche Molecular Systems, Inc., Hoffmann-La Roche, Inc., Roche Probe, Inc., F. Hoffmann-La Roche Ltd., and other potential defendants affiliated with the named defendants ("Roche") in California Superior Court on October 9, 2003. Our complaint asserts, among other things, breach of contract and other contract claims against the defendants arising from agreements relating to polymerase chain reaction, or PCR, technology rights entered into between us and the defendants. Our complaint also asserts various tort claims against the defendants, including breach of trust, breach of fiduciary duty, and unfair competition, relating to our PCR rights. The defendants' acts and omissions that form the basis of the complaint include, among other things, the: (i) defendants' failure to abide by contractual provisions intended to allow us to effectively compete with the defendants with respect to (a) sales of diagnostic PCR products and (b) conveyance of diagnostic PCR rights to third parties; (ii) defendants' failure to pay us requisite royalties for sales by them of thermal cyclers and other products; (iii) defendants' failure to negotiate in good faith new agreements directed at modifying the relationship between the parties in accordance with principles set forth in an existing letter agreement that states the intended framework for the negotiations (the "Letter Agreement"); (iv) defendants' failure to provide us with diagnostic PCR rights on a nondiscriminatory basis as required by a European Union commission decree; (v) defendants' failure to comply with their agreement to assign ownership to us of some PCR instrument patents and patent applications, and (vi) defendants' mishandling of the prosecution of patent applications that the defendants were obligated to assign to us, in a manner that damaged us and precluded us from obtaining the full potential scope of patent protection for our instrument rights. Contemporaneously with our filing of this complaint, we also commenced arbitration proceedings with the American Arbitration Association against the defendants asserting, among other things, patent infringement claims (both direct infringement, contributory infringement and infringement by inducing third parties to infringe), breach of contract and other contract claims, and tort claims such as breach of fiduciary duty, breach of trust, and unfair competition. The arbitration is based on our allegation that the defendants (i) have infringed our exclusive rights to PCR patents in fields exclusively licensed to us pursuant to agreements with the defendants; and (ii) by their acts and omissions, have undermined the value of our exclusive PCR rights. In both the legal complaint and the arbitration, we are seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court or arbitrator deems proper. On December 15, 2003, Roche filed a motion in California Superior Court to compel arbitration of our state court complaint and to stay the litigation. Concurrently with the motion to compel arbitration, Roche also filed with the American Arbitration Association its response to our notice of arbitration in which Roche denied all of our claims against it. Roche's response included counterclaims asserting, among other things, that our exclusive patent rights under some PCR patents licensed from Roche under an existing distribution agreement were converted into nonexclusive rights by the Letter Agreement, which was entered into subsequent to the distribution agreement. Roche also alleges that (i) we breached our contractual obligation under the Letter Agreement, including our obligation to source certain enzymes exclusively from Roche; and (ii) we failed to pay Roche the full royalties required pursuant to the distribution agreement. In its counterclaim, Roche is seeking a request for declaratory judgment confirming its assertions, interest, costs, and other relief as the arbitrator deems proper. The claims and counterclaims described in this paragraph involve PCR rights used by the Applied Biosystems group and also rights that the Applied Biosystems group has contributed to Celera Diagnostics. On March 1, 2004 the Superior Court denied Roche's motion to compel arbitration, but Roche has appealed the decision and both the arbitration and the litigation have been stayed pending the outcome of the appeal.

We have made disclosures regarding our litigation in Item 1 of Part II of our prior quarterly reports for this fiscal year. Refer to those reports for additional information about developments in our litigation during this fiscal year.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities.

This table provides information regarding our purchases of shares of Applera-Applied Biosystems stock during the third quarter of fiscal 2004.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2) *(in millions)*
January 5-30, 2004	10,771	$21.42		$116.0
February 2-27, 2004	4,285,505	$23.09	4,269,400	$ 17.5
March 1-April 2, 2004	778,600	$22.46	778,600	$
Total	5,074,876	$22.99	5,048,000	$100.0(3)

(1) On August 28, 2003, we announced that our Board of Directors had authorized the repurchase of up to $200 million in Applera-Applied Biosystems stock. We completed our share repurchases under this authorization in March 2004. The difference between the total number of shares purchased and the total number of shares purchased as part of publicly announced plans or programs consists of shares repurchased from employees in connection with the exercise of employee stock options as well as the payment of taxes relating to stock option exercises.

(2) We previously announced that our Board of Directors has authorized the repurchase of shares of Applera-Applied Biosystems stock from time to time to replenish shares issued under our various employee stock benefit plans. This authorization has no set dollar or time limits and delegates to Company management discretion to purchase shares at times and prices it deems appropriate through open market or negotiated purchases. No shares were purchased under this authorization during the third quarter of fiscal 2004.

(3) The dollar amount shown reflects a new share repurchase authorization obtained from our Board of Directors after the end of the third quarter of fiscal 2004 and announced on April 5, 2004. Under this authorization, we may repurchase up to an additional $100 million in Applera-Applied Biosystems stock. This authorization has no expiration date.

This table provides information regarding our purchases of shares of Applera-Celera stock during the third quarter of fiscal 2004.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may yet be Purchased Under the Plans or Programs (2)
January 5-30, 2004	5,218	$15.58		$
February 2-27, 2004	3,660	$15.57		$
March 1-April 2, 2004		$		$
Total	8,878	$15.57		$

(1) Consists of shares repurchased from employees in connection with the exercise of employee stock options as well as the payment of taxes relating to stock option exercises.

(2) We previously announced that our Board of Directors has authorized the repurchase of shares of Applera-Celera stock from time to time to replenish shares issued under our various employee stock benefit plans. This authorization has no set dollar or time limits and delegates to Company management discretion to purchase shares at times and prices it deems appropriate through open market or negotiated purchases. No shares were purchased under this authorization during the third quarter of fiscal 2004.

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

(a) *Exhibits.*

13 Annual Report to Stockholders for the fiscal year ended June 30, 2003, to the extent incorporated herein by reference (incorporated by reference to Exhibit 13 to Annual Report on Form 10-K of the Company for the fiscal year ended June 30, 2003 (Commission file number 1-4389)).

31.1 Certification of Principal Executive Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Principal Financial Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) *Reports on Form 8-K.*

During the quarter ended March 31, 2004, we filed a Current Report on Form 8-K dated January 28, 2004, to disclose under Item 12 thereof our January 28, 2004, press releases setting forth the financial results of Applera and the Applied Biosystems group and the Celera Genomics group for the second quarter of our 2004 fiscal year.

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SIGNATURES

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

APPLERA CORPORATION

By: /s/ Dennis L. Winger

Dennis L. Winger
Senior Vice President and
Chief Financial Officer

By: /s/ Ugo D. DeBlasi

Ugo DeBlasi
Vice President and Controller
(Chief Accounting Officer)

Dated: May 13, 2004

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EXHIBIT INDEX

Exhibit Number

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