APPLERA CORP
Form 10-Q
February 14, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2002

OR

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

Commission file number: 1-4389

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

Delaware	06-1534213
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

301 Merritt 7,
Norwalk, Connecticut 06851-1070
(Address of Principal Executive Offices, Including Zip Code)

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

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

Yes x No
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As of the close of business on February 12, 2003, there were 209,452,923 shares of Applera Corporation - Applied Biosystems Group Common Stock and 71,806,370 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	Six M

	December 31,		De
	2001	2002	2001
Net Revenues	$ 437,166	$ 473,017	$ 825,020
Cost of sales	206,302	230,326	392,826
Gross Margin	230,864	242,691	432,194
Selling, general and administrative	109,322	111,426	216,429
Research, development and engineering	88,467	103,285	172,969
Amortization of intangible assets	1,635	1,723	2,106
Other special charges		24,313	
Acquired research and development	101,181		101,181
Operating Income (Loss)	(69,741)	1,944	(60,491)
Loss on investments, net		(273)	
Interest expense	(388)	(193)	(628)
Interest income	11,979	7,875	26,326
Other income (expense), net	10	3,050	(1,728)
Income (Loss) Before Income Taxes	(58,140)	12,403	(36,521)
Provision (benefit) for income taxes	3,293	(1,021)	7,927
Income (Loss) From Continuing Operations	(61,433)	13,424	(44,448)
Loss from discontinued operations, net of income taxes			
Net Income (Loss)	$ (61,433)	$ 13,424	$ (44,448)
Applied Biosystems Group (see Note 4)			
Income From Continuing Operations	$ 49,034	$ 29,187	$ 81,230
Basic and diluted per share	$ 0.23	$ 0.14	$ 0.38
Loss From Discontinued Operations	$ -	$ -	$ -
Basic and diluted per share	$ -	$ -	$ -
Net Income	$ 49,034	$ 29,187	$ 81,230
Basic and diluted per share	$ 0.23	$ 0.14	$ 0.38
Dividends per share	$ 0.0425	$ 0.0425	$ 0.0850
Celera Genomics Group (see Note 4)			
Net Loss	$(117,940)	$ (16,124)	$(133,502)
Basic and diluted per share	$ (1.82)	$ (0.23)	$ (2.11)

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

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

	At June 30, 2002	At December 31, 2002 (unaudited)
Assets		
Current assets		
Cash and cash equivalents	$ 470,218	$ 653,023
Short-term investments	889,685	706,828
Accounts receivable, net	406,244	397,440
Inventories, net	146,804	160,085
Prepaid expenses and other current assets	99,547	89,807
Total current assets	2,012,498	2,007,183
Property, plant and equipment, net	488,744	503,349
Other long-term assets	574,157	599,832
Total Assets	$ 3,075,399	$ 3,110,364
Liabilities And Stockholders' Equity		
Current liabilities		
Loans payable	$ 299	$ -
Accounts payable	168,218	165,145
Accrued salaries and wages	82,165	64,308
Accrued taxes on income	101,209	89,164
Other accrued expenses	275,348	297,908
Total current liabilities	627,239	616,525
Long-term debt	17,983	17,542
Other long-term liabilities	205,234	231,813
Total Liabilities	850,456	865,880
Stockholders' Equity		
Capital stock		
Applera Corporation - Applied Biosystems Group	2,128	2,128
Applera Corporation - Celera Genomics Group	710	717
Capital in excess of par value	2,086,929	2,096,731
Retained earnings	292,690	282,637
Accumulated other comprehensive loss	(91,574)	(75,106)
Treasury stock, at cost	(65,940)	(62,623)
Total Stockholders' Equity	2,224,943	2,244,484
Total Liabilities And Stockholders' Equity	$ 3,075,399	$ 3,110,364

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

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

	Six months ended December 31,	
	2001	2002
Operating Activities Of Continuing Operations		
Income (loss) from continuing operations	$ (44,448)	$ 25,489
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	53,651	69,879
Asset impairments		10,017
Provisions for office closures and severance costs		23,744
Long-term compensation programs	3,849	3,572
(Gain) loss on sale of assets	(811)	273
Deferred income taxes	(24,359)	(32,340)
Loss from equity method investees	1,391	4,338
Acquired research and development	101,181	
Changes in operating assets and liabilities:		
Accounts receivable	30,984	14,452
Inventories	3,907	(16,837)
Prepaid expenses and other assets	(13,124)	(2,438)
Accounts payable and other liabilities	43	(28,664)
Net Cash Provided By Operating Activities Of Continuing Operations	112,264	71,485
Investing Activities Of Continuing Operations		
Additions to property, plant and equipment, net	(56,808)	(62,584)
Proceeds from short-term investments, net	16,749	184,246
Purchases of long-term investments		(16,834)
Acquisitions and other investments, net	(41,314)	
Proceeds from the sale of assets, net		539
Net Cash Provided (Used) By Investing Activities Of Continuing Operations	(81,373)	105,367
Net Cash Used By Operating Activities Of Discontinued Operations	(2,198)	(1,263)
Financing Activities		
Net change in loans payable	(11,523)	(291)
Dividends	(17,973)	(17,798)
Purchases of common stock for treasury	(941)	(6,847)
Proceeds from stock issued for stock plans	17,942	22,384
Net Cash Used By Financing Activities	(12,495)	(2,552)
Effect Of Exchange Rate Changes On Cash	6,515	9,768
Net Change In Cash And Cash Equivalents	22,713	182,805
Cash And Cash Equivalents Beginning Of Period	608,535	470,218
Cash And Cash Equivalents End Of Period	$ 631,248	$ 653,023

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

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements presented in the Applera Corporation (the "Company") 2002 Annual Report to Stockholders. Significant accounting policies disclosed therein have not changed.

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

NOTE 2 - SPECIAL CHARGES

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

The severance and benefits charge related to the termination of approximately 400 employees worldwide. Positions are being eliminated mainly in the United States and Europe and primarily within the areas of research, manufacturing, sales, marketing and administration. The workforce reduction commenced in January 2003. The asset impairment charges resulted primarily from uncertainties surrounding the commercial introduction of products based on a collaboration with Illumina, Inc. and from a revised focus on products designed to offer the most efficient and newest technology with long-term earnings growth potential.

The charge for office closures was primarily for one-time payments to terminate the leases of excess facilities and to write-off the fixed assets and leasehold improvements related to these facilities.

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

(Dollar amounts in millions)	Employee-Related Charges	Asset Impairment	C
Total charges	$22.9	$ 9.5	
Non-cash charges		9.5	
Remaining reserve balance at December 31, 2002	$22.9	$ -	

The cash expenditures relating to the workforce reductions and office closures are expected to be substantially paid by the end of calendar 2003, funded primarily by cash provided by operating activities.

The Celera Genomics group recorded a restructuring charge of $2.8 million during the fourth quarter of fiscal 2002 for severance costs associated with the termination of 132 employees primarily within the areas of DNA sequencing, data management and analysis support, sales, and general administration. All actions under this plan were taken as of June 30, 2002 and all cash payments had been substantially made as of December 31, 2002.

NOTE 3 - COMPREHENSIVE GAIN (LOSS)

Accumulated other comprehensive loss included in stockholders' equity in the Condensed Consolidated Statements of Financial Position consists of foreign currency translation adjustments, unrealized gains and losses on foreign currency and interest rate hedge contracts, unrealized gains and losses on available-for-sale investments, and minimum pension liability adjustments. Total comprehensive gain (loss) for the three and six months ended December 31 is presented in the following table:

(Dollar amounts in millions)	Three months ended December 31, 2001	2002
Net income (loss)	$ (61.4)	$ 13.4
Other comprehensive gain (loss):		
Net unrealized gains (losses) on investments, net of tax	13.2	(0.4)
Net unrealized gains on investments reclassified into earnings, net of tax		(0.1)
Net unrealized gains (losses) on hedge contracts, net of tax	11.0	(8.5)
Net unrealized (gains) losses on hedge contracts reclassified into earnings, net of tax	(2.1)	6.4
Foreign currency translation adjustments	(13.5)	19.1
Other comprehensive gain (loss)	8.6	16.5
Comprehensive gain (loss)	$ (52.8)	$ 29.9

NOTE 4 - EARNINGS (LOSS) PER SHARE

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

(Amounts in thousands except per share amounts)	Applied Biosystems Group 2001	2002	
Weighted average number of common shares used in the calculation of basic earnings (loss) per share	211,744	209,084	
Common stock equivalents	4,473	1,522	
Shares used in the calculation of diluted earnings (loss) per share	216,217	210,606	
Income (loss) from continuing operations used in the calculation of earnings (loss) per share from continuing operations	$ 49,034	$ 29,187	$(1
Income (loss) per share from continuing operations Basic and diluted	$ 0.23	$ 0.14	$

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

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

	Applied Biosystems Group		
(Amounts in thousands except per share amounts)	2001	2002	
Weighted average number of common shares used in the calculation of basic earnings (loss) per share	211,556	208,956	
Common stock equivalents	4,302	1,377	
Shares used in the calculation of diluted earnings (loss) per share	215,858	210,333	
Income (loss) from continuing operations used in the calculation of earnings (loss) per share from continuing operations	$ 81,230	$ 63,409	$(1
Income (loss) per share from continuing operations Basic and diluted	$ 0.38	$ 0.30	$

Options to purchase 8.7 million and 26.4 million shares of Applera Corporation - Applied Biosystems Group Common Stock were outstanding at December 31, 2001 and 2002, respectively, but were not included in the computation of diluted earnings per share because the exercise prices of the options were greater than the average market price of the stock and, therefore, the effect would have been antidilutive. Options and warrants to purchase 14.5 million and 11.7 million shares of Applera Corporation - Celera Genomics Group Common Stock ("Applera - Celera stock") were outstanding at December 31, 2001 and 2002, respectively, but were not included in the computation of diluted loss per share because the effect was antidilutive.

NOTE 5 - INVENTORIES

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

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

(Dollar amounts in millions)	June 30, 2002	December 31, 2002
Raw materials and supplies	$ 71.3	$ 70.9
Work-in-process	11.1	8.0
Finished products	64.4	81.2
Total inventories	$ 146.8	$ 160.1

NOTE 6 - GOODWILL AND INTANGIBLE ASSETS

The following table presents the Company's intangible assets subject to amortization:

	June 30, 2002		December 31, 2002	
(Dollar amounts in millions)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulat Amortizat
Patents	$ 30.7	$ 8.5	$ 30.7	$ 10.4
Acquired technology	68.6	28.2	69.3	35.0
Favorable operating leases	11.6	1.8	11.6	3.3
Total	$ 110.9	$ 38.5	$ 111.6	$ 48.7

Aggregate amortization expense for the three month periods ended December 31, 2001 and 2002 was $3.8 million and $4.6 million, respectively. Aggregate amortization expense for the six month periods ended December 31, 2001 and 2002 was $5.8 million and $10.2 million, respectively. The amortization expense in fiscal 2003 includes the amortization of intangible assets acquired as part of the acquisition of Axys Pharmaceuticals, Inc. ("Axys") and Boston Probes, Inc. in November of fiscal 2002. The Applied Biosystems group and Celera Diagnostics record amortization expense in cost of sales. The Celera Genomics group records amortization expense in amortization of intangible assets. The estimated annual amortization expense for each of the next five fiscal years ending June 30 for intangible assets recorded in the Statement of Financial Position as of December 31, 2002 is as follows:

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

(Dollar amounts in millions)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Consolidated
2003	$ 9.5	$ 5.9	$ 2.0	$ 17.4
2004	9.0	2.9	2.1	14.0
2005	8.7	2.9	2.1	13.7
2006	8.6	1.1	2.0	11.7
2007	7.7		1.9	9.6

The carrying amount of goodwill at December 31, 2002 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 7 - PATENT LITIGATION

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

The jury awarded TA Instruments $13.3 million based on lost sales, price erosion, and reasonable royalties. This award is subject to entry of a final order by the court, where interest and additional damages may be added. The Company recorded a charge of $16.4 million, net of income taxes, as part of discontinued operations in the quarter ended September 30, 2002. However, the Company intends to appeal the judgment.

NOTE 8 - SUPPLEMENTAL CASH FLOW INFORMATION

Significant non-cash financing activities were as follows:

(Dollar amounts in millions)	Six months ended December 31, 2001	2002
Tax benefit related to employee stock options	$ 6.2	$ 0.8
Dividends declared but not paid	$ 9.0	$ 8.9
Equity instruments issued in Axys acquisition	$181.9	
Debt and capital lease obligation assumed in Axys acquisition	$ 39.1	

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

NOTE 9 - FINANCIAL INSTRUMENTS

Cash Flow Hedges
The Company's international sales are typically denominated in the customers' local (non-U.S. dollar) currencies. The Company uses foreign exchange forward, option, and range forward contracts to hedge a portion of forecasted international sales not denominated in U.S. dollars. The Company utilizes hedge accounting on derivative contracts that are considered highly effective in offsetting the changes in fair value of the forecasted sales transactions caused by movements in foreign currency exchange rates. These contracts are designated as cash flow hedges and the effective portion of the change in the fair value of these contracts is recorded in other comprehensive income (loss) in the Condensed Consolidated Statements of Financial Position until the underlying external forecasted transaction affects earnings. At that time, the gain or loss on the derivative instrument, which had been deferred in accumulated other comprehensive income (loss), is reclassified to net revenues in the Condensed Consolidated Statements of Operations. During the three and six month periods ended December 31, 2001, the Company recognized net gains of $3.1 million and $7.8 million, respectively, in net revenues from derivative instruments designated as cash flow hedges of anticipated sales. During the three and six month periods ended December 31, 2002, the Company recognized net losses of $9.7 million and $12.3 million, respectively, in net revenues from derivative instruments designated as cash flow hedges of anticipated sales. At December 31, 2002, $23.5 million of net derivative losses ($15.5 million net of deferred taxes) recorded in accumulated other comprehensive loss are expected to be reclassified to net revenues during the next twelve months.

NOTE 10 - GUARANTEES

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

The Company has identified three types of guarantees as part of its business activities that are included in the scope of FIN 45: leases with recourse provisions; the guarantee of pension benefits for a divested business; and product warranties.

Leases
The Company provides lease-financing options to its customers through third party financing companies. For certain leases, the financing companies have recourse to the Company for any unpaid principal balance upon default by the customer. The leases typically have terms of three years and

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

are secured by the underlying instrument. In the event of default by a customer, the Company would repossess the underlying instrument. The Company records revenues from such transactions upon the shipment of products and maintains a reserve for estimated losses on all lease transactions with recourse provisions based on historical default rates and current economic conditions. At December 31, 2002, the financing companies' outstanding balance of lease receivables with recourse to the Company was $12.7 million. The Company believes that the entire balance could be recovered from the sale of the underlying instruments in the event of default by all customers.

Guarantee of pension benefits for divested business
As part of the divestiture of the Analytical Instruments business in fiscal 1999, the pension benefits for employees of a former German subsidiary are being paid by the purchaser of the Analytical Instruments business. However, the Company has 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 $41.9 million at December 31, 2002, is not expected to have a material adverse effect on the Company's consolidated financial position.

Product warranties
Warranty costs for product sales are accrued at the time of shipment based on historical experience as well as anticipated product performance. The product warranties extend over a specified period of time ranging up to two years from the date of sale depending upon the product subject to warranty. The Company periodically reviews the adequacy of its warranty reserve, and adjusts, if necessary, the warranty percentage and accrual based upon actual experience and estimated costs to be incurred.

The following table provides the analysis of the warranty reserve:

(Dollar amounts in millions)	
Balance at June 30, 2002	$ 12.6
Accruals for warranties during the period	14.8
Usage of reserve during the period	(12.2)
Other	1.0
Balance at December 31, 2002	$ 16.2

NOTE 11 - DEBT

During the second quarter of fiscal 2003, the Company purchased $18.1 million of non-callable U.S. government obligations to serve as collateral for the 8% senior secured convertible notes, acquired as part of the acquisition of Axys. These government obligations are being substituted for the shares of Discovery Partners International, Inc. ("DPI") common stock held by the Company that originally collateralized the notes. The government obligations are required to be held in a trust and the proceeds from the maturation of, and interest payments on, these obligations will fund the interest and principal payments under the notes. The Company expects that the DPI shares will be released to the Company during the third quarter of fiscal 2003. The government obligations, which mature over the next two fiscal years, are classified as available for sale at December 31, 2002, with $0.9 million in short-term investments, and

$16.8 million in other long-term assets.

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

NOTE 12 - CONTINGENCIES

Litigation
The Company is involved in various legal proceedings from time to time, including actions with respect to commercial, intellectual property, antitrust, environmental, securities, and employment matters. The Company believes that it has meritorious defenses against the claims currently asserted against it and intends to defend them vigorously. Following is a description of certain claims currently being defended by the Company.

The Company and some of its officers were served in five lawsuits between April and May, 2000, purportedly on behalf of purchasers of Applera - Celera stock in the Company's follow-on public offering of Applera - Celera stock completed on March 6, 2000. In the offering, the Company sold an aggregate of approximately 4.4 million shares of Applera - Celera stock at a public offering price of $225 per share. All of these lawsuits have been consolidated into a single case and are pending in the United States 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 United States and the United Kingdom, to providing patent protection to the Company's genomic-based products. Although the Celera Genomics group has never sought, or intended to seek, a patent on the basic human genome sequence data, the complaint also alleges that the Company did not adequately disclose the risk that it would not be able to patent this data. The consolidated complaint seeks monetary damages, rescission, costs and expenses, and other relief as the court deems proper. A motion to dismiss the complaint is pending.

The Company is involved in several litigation matters with MJ Research, Inc., commencing with the Company's filing claims against MJ Research based on its alleged infringement of certain polymerase chain reaction, or PCR, patents. On December 21, 2000, MJ Research filed an action against the Company in the United States District Court for the District of Columbia. The complaint is based on the allegation that the patents underlying the Company's DNA sequencing instruments were invalidly obtained because one of the alleged inventors, whose work was funded in part by the United States government, was knowingly omitted from the patent applications. The Company patents at issue are U.S. Patent Nos. 5,171,534, 5,821,058, 6,200,748, and 4,811,218. 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 Applera. 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 United States government although the government has to date declined to participate in the suit.

On April 24, 2001, Promega Corporation filed a patent infringement action against the Company, Lifecodes Corporation, Cellmark Diagnostics, and Genomics International Corporation in the United States District Court for the Western

District of Wisconsin. 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 the Company asserted counterclaims alleging that Promega is infringing the Company's 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.

On July 3, 2002, Beckman Coulter, Inc. filed a patent infringement action against the Company in the United States District Court for the Central District of California. The complaint alleges that the Company is 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. Beckman Coulter is seeking monetary damages, costs and expenses, injunctive relief, and other relief as the court deems proper.

On or about November 3, 1999, 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 the Company, PerkinElmer, Inc. and Sick UPA, GmbH in the United States District Court for the District of Connecticut. The complaint alleges 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, are based on allegedly proprietary information belonging to On-Line Technologies and that the MCS100E infringes U.S. Patent No. 5,440,143. On-Line Technologies is seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper.

The Company has not made any accrual in its consolidated financial statements for any potential losses in the cases described above because it believes 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 the Company cannot be sure that it will prevail in any of the cases described above or in the Company's other current litigation. An adverse determination in certain of the Company's current litigation, particularly the cases described above, could have a material adverse effect on the consolidated financial statements of the Company.

NOTE 13 - SEGMENT AND CONSOLIDATING INFORMATION

Presented below is the Company's segment and consolidating financial information, including the allocation of expenses between the segments in accordance with the Company's allocation policies, as well as other related party transactions, such as sales of products between segments. Earnings attributable to each group are determined by the Company's Board of Directors. This determination is generally based on net income or loss amounts of the corresponding group determined in accordance with accounting principles generally accepted in the United States of America.

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

See Note 14 to the consolidated financial statements included in the Company's 2002 Annual Report to Stockholders for a detailed description of the segments and the management and allocation policies (which information is incorporated herein by reference).

(Dollar amounts in millions)	Three Months Ended December 31, 2001	2002	Six Mo Dece 2001
Applied Biosystems group			
Sales to the Celera Genomics group (1)	$ 8.8	$ 0.7	$ 14.8
Sales to Celera Diagnostics (1)	0.4	1.1	0.4
Nonreimbursable utilization of tax benefits (2)	0.6	6.5	8.5
Payments for reimbursable utilization of tax benefits (3)	4.2	3.7	7.5
Funding of Celera Diagnostics (4)	0.4	1.3	(0.2)
Celera Genomics group			
Revenues from royalties (5)		0.4	
Funding of Celera Diagnostics (6)	8.1	10.2	16.1
Celera Diagnostics			
Sales to the Applied Biosystems group (7)	$ 1.7	$ 0.1	$ 3.5

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

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

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

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

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

beginning July 1, 2002, operated by the Celera Genomics group.

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

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

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

For the three and six month periods ended December 31, 2001 and 2002, 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 loss on Celera Diagnostics, which is included both in the "Celera Diagnostics" column and net within the "Celera Genomics group" column as "Loss from joint venture."

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

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics
Net revenues from external customers	$ 442,835	$ 22,485	$ 7,697
Intersegment revenues	1,851	368	147
Net Revenues	444,686	22,853	7,844
Cost of sales	225,738	3,707	2,169
Gross Margin	218,948	19,146	5,675
Selling, general and administrative	90,969	5,359	2,318
Corporate allocated expenses	10,575	1,643	562
Research, development and engineering	59,173	32,901	12,690
Amortization of intangible assets		1,723	
Other special charges	24,313		
Operating Income (Loss)	33,918	(22,480)	(9,895)
Loss on investments, net		(273)	
Interest expense	(61)	(132)	
Interest income	3,015	4,860	
Other income (expense), net	2,460	590	
Loss from joint venture		(9,895)	

Income (Loss) Before Income Taxes	39,332	(27,330)	(9,895)
Provision (benefit) for income taxes	10,145	(11,206)	
Net Income (Loss)	$ 29,187	$ (16,124)	$ (9,895)

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Condensed Consolidating Statement of Operations For the Six Months Ended December 31, 2002

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnosti
Net revenues from external customers	$ 836,953	$ 45,671	$ 7,72
Intersegment revenues	3,630	830	3,09
Net Revenues	840,583	46,501	10,82
Cost of sales	419,036	7,125	4,58
Gross Margin	421,547	39,376	6,23
Selling, general and administrative	178,455	10,395	4,48
Corporate allocated expenses	21,365	3,599	1,22
Research, development and engineering	120,205	65,434	23,75
Amortization of intangible assets		4,423	
Other special charges	24,313		
Operating Income (Loss)	77,209	(44,475)	(23,22
Loss on investments, net		(273)	
Interest expense	(90)	(313)	
Interest income	6,238	10,226	
Other income (expense), net	3,505	(2,570)	
Loss from joint venture		(23,228)	
Income (Loss) Before Income Taxes	86,862	(60,633)	(23,22
Provision (benefit) for income taxes	23,453	(24,860)	
Income (Loss) From Continuing Operations	63,409	(35,773)	(23,22
Loss from discontinued operations, net of income taxes	(16,400)		
Net Income (Loss)	$ 47,009	$ (35,773)	$ (23,22

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Condensed Consolidating Statement of Financial Position At December 31, 2002

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostic
Assets			
Current assets			
Cash and cash equivalents	$ 519,799	$ 133,224	$ -
Short-term investments		706,828	
Accounts receivable, net	369,977	23,594	3,718
Inventories, net	154,552	2,309	3,364
Prepaid expenses and other current assets	80,307	8,986	612
Total current assets	1,124,635	874,941	7,694
Property, plant and equipment, net	376,022	116,622	11,427
Other long-term assets	415,801	194,668	9,600
Total Assets	$ 1,916,458	$ 1,186,231	$ 28,721
Liabilities And Stockholders' Equity			
Current liabilities			
Accounts payable	$ 152,806	$ 6,524	$ 5,946
Accrued salaries and wages	53,079	8,596	2,633
Accrued taxes on income	78,520	10,644	
Other accrued expenses	241,029	54,719	1,914
Total current liabilities	525,434	80,483	10,493
Long-term debt		17,542	
Other long-term liabilities	199,316	32,377	120
Total Liabilities	724,750	130,402	10,613
Total Stockholders' Equity	1,191,708	1,055,829	18,108
Total Liabilities And Stockholders' Equity	$ 1,916,458	$ 1,186,231	$ 28,721

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Condensed Consolidating Statement of Cash Flows For the Six Months Ended December 31, 2002

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Cele Diagno
Operating Activities Of Continuing Operations			
Income (loss) from continuing operations	$ 63,409	$(35,773)	$(23,
Adjustments to reconcile income (loss) from continuing operations to net cash provided (used) by operating activities:			
Depreciation and amortization	47,428	21,332	1,
Asset impairments	10,017		
Provisions for office closures and severance costs	23,744		
Long-term compensation programs	2,698	874	
Loss on sale of assets		273	
Deferred income taxes	(33,611)	(1,393)	
Loss from joint venture and equity method investees		27,566	
Nonreimbursable utilization of intergroup tax benefits	16,250	(16,250)	
Changes in operating assets and liabilities:			
Accounts receivable	12,046	6,356	(3,
Inventories	(15,232)	(449)	(1,
Prepaid expenses and other assets	(2,288)	(142)	
Accounts payable and other liabilities	(9,866)	(22,115)	2,
Net Cash Provided (Used) By Operating Activities Of Continuing Operations	114,595	(19,721)	(23,
Investing Activities Of Continuing Operations			
Additions to property, plant and equipment, net	(54,981)	(3,487)	(4,
Proceeds from short-term investments, net	29,646	154,600	
Purchases of long-term investments		(16,834)	
Investments in joint venture, net	(3,118)	(24,387)	
Proceeds from the sale of assets, net		539	
Net Cash Provided (Used) By Investing Activities Of Continuing Operations	(28,453)	110,431	(4,
Net Cash Used By Operating Activities Of Discontinued Operations	(1,263)		
Financing Activities			
Net change in loans payable	(291)		
Dividends	(17,798)		
Net cash funding from groups			27,
Purchases of common stock for treasury	(6,847)		
Proceeds from stock issued for stock plans	8,760	13,624	
Net Cash Provided (Used) By Financing Activities	(16,176)	13,624	27,
Effect Of Exchange Rate Changes On Cash	9,768		
Net Change In Cash And Cash Equivalents	78,471	104,334	
Cash And Cash Equivalents Beginning Of Period	441,328	28,890	
Cash And Cash Equivalents End Of Period	$ 519,799	$ 133,224	$

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Consolidating Statement of Operations For the Three Months Ended December 31, 2001

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics
Net revenues from external customers	$ 401,982	$ 35,054	$ 130
Intersegment revenues	9,207		1,722
Net Revenues	411,189	35,054	1,852
Cost of sales	196,792	17,992	1,111
Gross Margin	214,397	17,062	741
Selling, general and administrative	84,177	12,144	1,247
Corporate allocated expenses	9,462	1,812	480
Research, development and engineering	52,665	30,611	7,501
Amortization of intangible assets		1,635	
Acquired research and development	2,200	98,981	
Operating Income (Loss)	65,893	(128,121)	(8,487)
Interest expense	(250)	(138)	
Interest income	3,275	8,704	
Other income (expense), net	1,043	(1,033)	
Loss from joint venture		(8,487)	
Income (Loss) Before Income Taxes	69,961	(129,075)	(8,487)
Provision (benefit) for income taxes	20,927	(11,135)	
Net Income (Loss)	$ 49,034	$ (117,940)	$ (8,487)

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Condensed Consolidating Statement of Operations For the Six Months Ended December 31, 2001

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics

Net revenues from external customers	$ 762,462	$ 62,328	$ 230
Intersegment revenues	15,279		3,470
Net Revenues	777,741	62,328	3,700
Cost of sales	376,165	29,907	2,607
Gross Margin	401,576	32,421	1,093
Selling, general and administrative	165,901	22,733	3,446
Corporate allocated expenses	19,488	3,828	1,033
Research, development and engineering	104,983	58,353	14,478
Amortization of intangible assets		2,106	
Acquired research and development	2,200	98,981	
Operating Income (Loss)	109,004	(153,580)	(17,864)
Interest expense	(490)	(138)	
Interest income	6,772	19,554	
Other income (expense), net	21	(1,749)	
Loss from joint venture		(17,864)	
Income (Loss) Before Income Taxes	115,307	(153,777)	(17,864)
Provision (benefit) for income taxes	34,077	(20,275)	
Net Income (Loss)	$ 81,230	$(133,502)	$ (17,864)

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Condensed Consolidating Statement of Financial Position At June 30, 2002

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics
Assets			
Current assets			
Cash and cash equivalents	$ 441,328	$ 28,890	$ -
Short-term investments	29,653	860,032	
Accounts receivable, net	376,375	29,950	177
Inventories, net	142,876	1,860	2,215
Prepaid expenses and other current assets	81,759	17,082	764
Total current assets	1,071,991	937,814	3,156
Property, plant and equipment, net	354,536	127,024	8,746
Other long-term assets	392,055	185,206	9,924
Total Assets	$ 1,818,582	$ 1,250,044	$ 21,826
Liabilities and Stockholders' Equity			

Current liabilities			
Loans payable	$ 299	$ -	$ -
Accounts payable	152,959	12,276	3,241
Accrued salaries and wages	65,187	13,585	3,393
Accrued taxes on income	92,972	8,237	
Other accrued expenses	210,731	63,409	1,266
Total current liabilities	522,148	97,507	7,900
Long-term debt		17,983	
Other long-term liabilities	171,203	33,936	95
Total Liabilities	693,351	149,426	7,995
Total Stockholders' Equity	1,125,231	1,100,618	13,831
Total Liabilities and Stockholders' Equity	$ 1,818,582	$ 1,250,044	$ 21,826

APPLERA CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

Condensed Consolidating Statement of Cash Flows For the Six Months Ended December 31, 2001

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Cel Diagn
Operating Activities Of Continuing Operations			
Net income (loss)	$ 81,230	$ (133,502)	$ (17
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	37,914	16,310	1
Long-term compensation programs	2,942	907	
Gain on sale of assets		(811)	
Deferred income taxes	(12,663)	(5,821)	
Loss from joint venture and equity method investees		19,255	
Nonreimbursable utilization of intergroup tax benefits	8,499	(8,499)	
Acquired research and development	2,200	98,981	
Changes in operating assets and liabilities:			
Accounts receivable	41,412	(11,241)	
Inventories	3,039	(73)	
Prepaid expenses and other assets	(10,674)	(470)	(1
Accounts payable and other liabilities	(4,805)	241	5
Net Cash Provided (Used) By Operating Activities Of Continuing Operations	149,094	(24,723)	(12
Investing Activities Of Continuing Operations			
Additions to property, plant and equipment, net	(42,131)	(10,837)	(3

Proceeds from short-term investments, net		16,749	
Acquisitions and investments in joint ventures and others, net	(36,369)	(20,892)	
Net Cash Used By Investing Activities Of Continuing Operations	(78,500)	(14,980)	(3
Net Cash Used By Operating Activities Of Discontinued Operations	(2,198)		
Financing Activities			
Net change in loans payable	(3,080)	(8,443)	
Dividends	(17,973)		
Net cash funding from groups			15
Purchases of common stock for treasury		(941)	
Proceeds from stock issued for stock plans	9,174	8,768	
Net Cash Provided (Used) By Financing Activities	(11,879)	(616)	15
Effect Of Exchange Rate Changes On Cash	6,515		
Net Change In Cash And Cash Equivalents	63,032	(40,319)	
Cash And Cash Equivalents Beginning Of Period	392,459	216,076	
Cash And Cash Equivalents End Of Period	$455,491	$ 175,757	$

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 the understanding of significant factors influencing the historical operating results, financial condition and cash flows and also to convey our expectations of the potential impact of known trends, events or uncertainties that may impact future results. You should read this discussion in conjunction with our consolidated financial statements and related notes included in this report and in our 2002 Annual Report to Stockholders. Historical results and percentage relationships are not necessarily indicative of operating results for future periods.

Overview

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

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

The Celera Genomics group is engaged principally in integrating advanced technologies to discover and develop new therapeutics. The Celera Genomics group

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

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

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

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

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

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

Our fiscal year ends on June 30. The financial information for each segment is presented in Note 13 to our condensed consolidated financial statements, Segment and Consolidating Information. Management's Discussion and Analysis addresses the consolidated financial results followed by the discussions of our three segments.

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

Applied Biosystems Group

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

- In September 2002, MDS SCIEX Instruments, a partnership between the Applied Biosystems group and MDS INC., introduced the QSTAR(R) XL LC/MS/MS system. This system is designed to provide improved sensitivity and resolution to proteomics researchers as well as improved sensitivity and mass accuracy to pharmaceutical drug discovery researchers.
- In October 2002, the Applied Biosystems group, as successor to The Perkin-Elmer Corporation, received an adverse jury verdict in a patent lawsuit with TA Instruments, Inc., a subsidiary of Waters Corporation, relating to thermal analysis products. Please refer to Note 7 to our condensed consolidated financial statements for more information.
- In December 2002, the Applied Biosystems group announced organization-wide cost reductions in response to uncertain economic conditions and to return R&D investment to more traditional levels. Please refer to Note 2 to our condensed consolidated financial statements for more information.
- In January 2003, the Applied Biosystems group announced the SNPlex(TM) system, a reagent and software product, designed to allow researchers to conduct ultra high throughput genotyping. This genotyping product could enable production scale laboratories to analyze more than one million genotypes per instrument per day, at an expected cost as low as one cent or less per genotype.

Celera Genomics Group

- In August 2002, Robert Booth, Ph.D. joined the Celera Genomics group, as Senior Vice President of Research & Development, responsible for integrating and leading all of the Celera Genomics group's therapeutic discovery and development activities.
- In October 2002, the Celera Genomics group purchased a number of pre-clinical oral tryptase inhibitors for the treatment of asthma from Bayer AG. These compounds were generated under a prior collaboration between Axys Pharmaceuticals, Inc. and Bayer. We acquired Axys during the second quarter of fiscal 2002. Please refer to the acquired in-process research and development section of this Management's Discussion and Analysis for more information.
- In December 2002, the Celera Genomics group announced its refined business and scientific plan, which supports increased investment in clinical programs, and greater efficiency and economy in target discovery, while continuing to place emphasis on management of the Celera Genomics group's cash as a strategic asset.
- In January 2003, James P. Yee, M.D., Ph.D. joined the Celera Genomics group as Head of Development, responsible for building the development organization at the group's facilities in South San Francisco, California, and for leading therapeutic development activities and clinical trial processes at the Celera Genomics group.

Celera Diagnostics

- In October 2002, Celera Diagnostics announced three new collaborations, with:
  - Bristol-Meyers Squibb to study genes that may be useful in the diagnosis and treatment of cardiovascular disease and diabetes;
  - Laboratory Corporation of America to establish the clinical utility of laboratory tests based on novel diagnostic markers for Alzheimer's disease, breast cancer and prostate cancer; and
  - Quest Diagnostics Incorporated to establish the clinical utility of laboratory tests based on novel diagnostic markers for

cardiovascular disease and diabetes.

- In November 2002, Celera Diagnostics announced a research initiative with the University of California, San Francisco (UCSF) to develop new diagnostic tools for breast cancer. The UCSF research activities will be funded in part by the UC Discovery Grant from the Industry-University Cooperative Research Program, and in part by Celera Diagnostics.
- In December 2002, Celera Diagnostics received marketing clearance from the United States Food and Drug Administration for its 510(k) submission of the ViroSeq(TM) HIV-1 Genotyping System as an in vitro diagnostic product. The system will be manufactured by Celera Diagnostics and distributed by Abbott Diagnostics.
- In January 2003, Celera Diagnostics announced a collaborative agreement with Genomics Collaborative, Inc. supporting Celera Diagnostics' efforts to identify genetic patterns associated with rheumatoid arthritis.

Critical Accounting Policies

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

Events Impacting Comparability

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

Acquisitions

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

Acquired In-Process Research and Development

During fiscal 2002, we recorded charges to write-off the value of acquired in-process research and development ("IPR&D") in connection with the Axys and Boston Probes acquisitions. The Applied Biosystems group recorded a charge of $2.2 million related to Boston Probes and the Celera Genomics group recorded a charge of $99.0 million related to Axys. As of the acquisition dates, the technological feasibility of the related projects had not been established, and it was determined that the acquired projects had no future alternative uses.

The Axys projects acquired as part of the acquisition are in various stages of research and development and will require additional research and development

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

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

- In the second quarter of fiscal 2003, the Serm-beta research project was completed and the project is not expected to be pursued.
- In October 2002, the Celera Genomics group purchased from Bayer AG a number of pre-clinical tryptase inhibitors, including study data and a broad intellectual property estate

pertaining to use of these compounds in all fields, for the treatment of asthma. These compounds were generated under a prior collaboration between Axys and Bayer AG.

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

As of December 31, 2002, the Celera Genomics group's portion of the estimated costs to complete the partnered projects is not expected to be significant. The costs to complete the proprietary projects are dependent on decisions of how to commercialize, such as whether to partner the project, and at what stage to partner. The Celera Genomics group continues to review the proprietary pre-clinical projects, which may lead to revised prioritization, resourcing and strategy to move toward clinical trials and commercialization. As a result, actual results may vary from the valuation assumptions outlined in Note 2 to our consolidated financial statements contained in our 2002 Annual Report to Stockholders.

Other Special Charges

During the second quarter of fiscal 2003, we recorded pre-tax charges totaling $33.8 million for organization-wide cost reductions in response to uncertain economic conditions as well as the Applied Biosystems group's overall strategy to return research and development investment to more traditional levels, following the completion of the research phase of the Applera Genomics Initiative. The Applera Genomics Initiative includes the resequencing of genes and regulatory regions at the Celera Genomics group, validation of single nucleotide polymorphisms at the Applied Biosystems group, and disease gene association studies at Celera Diagnostics. The economic uncertainties included delays in appropriations for the National Institutes of Health for the current federal government fiscal year and uncertainty about funding levels in Japan and parts of Europe as well as within the pharmaceutical industry. The Applied Biosystems group recorded $24.3 million in other special charges comprised of

$22.9 million for severance and benefits costs and $1.4 million for office closures. The Applied Biosystems group also recorded $9.5 million for the impairment of assets in cost of sales.

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

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

(Dollar amounts in millions)	Employee-Related Charges	Asset Impairment	Office Closures	Total
Total charges	$22.9	$ 9.5	$1.4	$33.8
Non-cash charges		9.5	0.5	10.0
Remaining reserve balance at December 31, 2002	$22.9	$ -	$0.9	$23.8

The cash expenditures relating to the workforce reductions and office closures are expected to be substantially paid by the end of calendar 2003, funded primarily by cash provided by operating activities.

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

Discussion of Consolidated Operations

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

We reported net income of $13.4 million in the second quarter of fiscal 2003 compared with a net loss of $61.4 million in the second quarter of fiscal 2002. Net income for the second quarter of fiscal 2003 included the cost reduction, asset impairment and other special charges described above, while the net loss for the second quarter of fiscal 2002 included the acquired IPR&D charges described above. Also driving the increase in net income were higher revenues, partially offset by higher R&D expenses and a change in the effective tax rate. Please refer to the discussion on pages 33 to 46 of this quarterly report for further information on the financial results of our segments.

Our net revenues increased 8.2% in the second quarter of fiscal 2003 compared with the prior year quarter. Revenues increased primarily due to strong instrument sales at the Applied Biosystems group, partially offset by lower revenues at the Celera Genomics group resulting from the group's decision not to pursue additional sequencing service business. The effects of foreign currency increased net revenues by approximately $3 million, or 1%, for the same period.

Gross margin, as a percentage of net revenues, was 51.3% for the second quarter of fiscal 2003 compared with 52.8% for the second quarter of fiscal 2002. The lower gross margin percentage in fiscal 2003 was due primarily to the asset impairment charges recorded in fiscal 2003, partially offset by a decrease in the lower margin sequencing service business for the Celera Genomics group. The special charges in the second quarter of fiscal 2003 reduced gross margin by 2.0 percentage points.

Our SG&A expenses, as a percentage of net revenues, decreased to 23.6% for the second quarter of fiscal 2003 compared with 25.0% for the second quarter of fiscal 2002 primarily due to a workforce reduction at the Celera Genomics group resulting from the June 2002 restructuring of the

organization, partially offset by an increased number of employees resulting from the acquisition of Axys in November 2002 and increased staffing at Celera Diagnostics.

R&D expenses increased by $14.8 million for the second quarter of fiscal 2003 to $103.3 million from $88.5 million for the second quarter of fiscal 2002 primarily due to spending on: the development of new products and technologies by the Applied Biosystems group, including support for Knowledge Business initiatives; therapeutic programs by the Celera Genomics group, including the programs acquired with Axys; and diagnostics programs by Celera Diagnostics.

Interest income, net decreased by $3.9 million for the second quarter of fiscal 2003, primarily due to lower average interest rates and, to a lesser extent, to lower average cash and cash equivalents and short-term investment balances during the second quarter of fiscal 2003 as compared to the second quarter of fiscal 2002.

Other income, net increased in the second quarter of fiscal 2003 primarily due to benefits associated with our foreign currency risk management program and miscellaneous non-operating income. In the second quarter of fiscal 2002, other income, net included a gain on the sale of the plant genotyping business.

The change in the effective tax rate in the second quarter of fiscal 2003 compared with the prior year quarter reflects the previously discussed impact of special charges in both fiscal years. Also impacting the rate are increased R&D and foreign tax credits, which partially offset the impact of higher forecasted taxable income.

Results of Continuing Operations--The Six Months Ended December 31, 2002

Compared With The Six Months Ended December 31, 2001

We reported income from continuing operations of $25.5 million in the first half of fiscal 2003 compared with a loss from continuing operations of $44.4 million in the same period last year. Income from continuing operations for fiscal 2003 included the cost reduction, asset impairment and other special charges described above, while the loss from continuing operations for fiscal 2002 included the acquired IPR&D charges described above. Also driving the increase in income from continuing operations were higher revenues, partially offset by higher R&D expenses, lower interest income and a change in the effective tax rate. Please refer to the discussion on pages 33 to 46 of this quarterly report for further information on the financial results of our segments.

Our net revenues increased 7.9% in the first six months of fiscal 2003 compared with the prior year period. Revenues increased primarily due to strong instrument sales at the Applied Biosystems group, partially offset by lower revenues at the Celera Genomics group resulting from the group's decision not to pursue additional sequencing service business. The effects of foreign currency increased net revenues by approximately $8 million, or 1%, for the same period.

Gross margin, as a percentage of net revenues, was 52.2% for the first six months of fiscal 2003 compared with 52.4% for the first six months of fiscal 2002. The lower gross margin percentage in

fiscal 2003 was due primarily to the asset impairment charges recorded in fiscal 2003, partially offset by a decrease in the lower margin sequencing service business for the Celera Genomics group and the positive effects of foreign currency. The special charges in the first six months of fiscal 2003 reduced gross margin by 1.1 percentage points.

Our SG&A expenses, as a percentage of net revenues, decreased to 24.7% for the first six months of fiscal 2003 compared with 26.2% for the first six months of fiscal 2002 primarily due to a workforce reduction at the Celera Genomics group resulting from the June 2002 restructuring of the organization, partially offset by an increased number of employees resulting from the acquisition of Axys in November 2002 and increased staffing at Celera Diagnostics.

R&D expenses increased by $33.6 million for the first six months of fiscal 2003 to $206.6 million from $173.0 million for the first six months of fiscal 2002 primarily due to spending on: the Applera Genomics Initiative, the costs of which are shared among our three businesses; the development of new products and technologies by the Applied Biosystems group, including support for Knowledge Business initiatives; therapeutic programs by the Celera Genomics group, including the programs acquired with Axys; and diagnostics programs by Celera Diagnostics.

Interest income, net decreased by $9.6 million for the first six months of fiscal 2003, primarily due to lower average interest rates and, to a lesser extent, to lower average cash and cash equivalents and short-term investment balances during the first six months of fiscal 2003 as compared to the first six months of fiscal 2002.

Other income, net increased in the first six months of fiscal 2003 due primarily

to benefits associated with our foreign currency risk management program and lower non-operating costs, partially offset by losses related to an investment acquired as part of the Axys acquisition, accounted for under the equity method of accounting. In the first six months of fiscal 2002, other expense, net included a gain on sale of the plant genotyping business.

The change in the effective tax rate for the six months of fiscal 2003 compared with the prior year period reflects the previously discussed impact of special charges in both fiscal years. Also impacting the rate are increased R&D and foreign tax credits, which partially offset the impact of higher forecasted taxable income.

Discussion of Condensed Consolidated Financial Resources and Liquidity

We had cash and cash equivalents and short-term investments of $1.4 billion at December 31, 2002 and June 30, 2002. We maintain a $100 million revolving credit agreement with four banks that expires on April 20, 2005, under which there were no borrowings outstanding at December 31, 2002. Cash provided by operating activities has been our primary source of funds over the last fiscal year.

We believe that existing funds, cash generated from operations, and existing sources of debt financing are adequate to satisfy our normal operating cash flow needs, planned capital expenditure requirements, and dividends for the foreseeable future. However, we may raise additional capital from time to time.

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

(Dollar amounts in millions)	June 30, 2002	December 31, 2002
Cash and cash equivalents	$ 470.2	$ 653.0
Short-term investments	889.7	706.8
Total cash and cash equivalents and short-term investments	$ 1,359.9	$ 1,359.8
Total debt	18.3	17.5
Working capital	1,385.3	1,390.7
Debt to total capitalization	0.8%	0.8%

During the second quarter of fiscal 2003, we purchased $18.1 million of non-callable United States government obligations to serve as collateral for the 8% senior secured convertible notes acquired as part of the acquisition of Axys. These government obligations are being substituted for the shares of Discovery

Partners International, Inc. ("DPI") common stock that originally collateralized the notes. The government obligations are required to be held in a trust and the proceeds from the maturation of, and interest payments on, these obligations will fund the interest and principal payments under the notes. We expect that the DPI shares will be released to us during the third quarter of fiscal 2003. The government obligations, which mature over the next two fiscal years, are classified as available for sale at December 31, 2002, with $0.9 million in short-term investments, and $16.8 million in other long-term assets.

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

(Dollar amounts in millions)	2001	2002
Net cash from operating activities	$ 112.3	$ 71.5
Net cash from investing activities	(81.4)	105.4
Net cash from financing activities	(12.5)	(2.6)

Net cash from operating activities of continuing operations for the first six months of fiscal 2003 decreased $40.8 million in comparison to the first six months of fiscal 2002 due to the timing of accounts receivable collections and higher inventory levels to support sales activity, as well as lower compensation-related accruals and deferred revenues, which were only partially offset by higher income-related cash flows.

For first six months of fiscal 2003, cash was generated from the sales and maturities of short-term investments. A portion of these proceeds was used to purchase long-term investments to secure the 8% senior secured convertible notes described above. During the second quarter of fiscal 2002, we acquired the remaining shares of Boston Probes for approximately $37 million in cash.

Financing activities for the first half of fiscal 2002 included the repayment of a portion of the debt assumed in the Axys acquisition. During the first six months of fiscal 2003, we repurchased 380,000 shares of Applera - Applied Biosystems stock for $6.8 million and during the first six months of fiscal 2002, we repurchased 47,700 shares of Applera - Celera stock for $0.9 million.

RESULTS OF OPERATIONS continued

Discussion of Segments' Operations, Financial Resources and Liquidity

Applied Biosystems Group

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

(Dollar amounts in millions)	2001	2002	% Increase/ (Decrease)
Net revenues	$ 411.1	$ 444.7	8.2%
Cost of sales	196.7	225.8	14.8%
Gross margin	214.4	218.9	2.1%
SG&A expenses	93.6	101.5	8.4%
R&D	52.7	59.2	12.3%
Other special charges		24.3	
Acquired IPR&D	2.2		(100.0%)
Operating income	65.9	33.9	(48.6%)
Interest income, net	3.0	3.0	-%
Other income (expense), net	1.0	2.5	150.0%
Income before income taxes	69.9	39.4	(43.6%)
Provision for income taxes	20.9	10.2	(51.2%)
Net income	$ 49.0	$ 29.2	(40.4%)

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

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

There was no tax effect on the acquired IPR&D charge in fiscal 2002. The total tax benefit recorded on the fiscal 2003 items was $10.4 million.

Net income decreased in the second quarter of fiscal 2003 primarily due to the special charges described above, as well as due to higher spending related to new products in development and support for Knowledge Business initiatives. Partially offsetting this decrease were higher instrument sales and service and license revenue. The foreign currency impact on net income was immaterial for the quarter.

Net revenues from the Celera Genomics group, primarily from leased instruments, consumables, and project materials, and contracted R&D services, were $0.7 million for the second quarter of fiscal 2003, or 0.2% of the Applied Biosystems group's net revenues, and $8.8 million for the second quarter of fiscal 2002, or 2.1%. The favorable effects of foreign currency increased net revenues during the second quarter of fiscal 2003 by approximately $3 million, or 1%, as compared to the prior

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

year period. The following table sets forth the Applied Biosystems group's revenues by geographic area for the quarters ended December 31:

(Dollar amounts in millions)	2001	2002	% Increase/ (Decrease)
United States	$ 190.6	$ 206.7	8.4%
Europe	121.4	142.7	17.5%
Asia Pacific	88.5	84.2	(4.9%)
Latin America and other markets	10.6	11.1	4.7%
Total	$ 411.1	$ 444.7	8.2%

Excluding the effects of foreign currency, revenues increased approximately 12% in Europe and decreased approximately 1% in Asia Pacific during the second quarter of fiscal 2003 compared to the prior year period.

For the second quarter of fiscal 2003, revenues from instrument sales were $225.9 million, an increase of 13.1% from $199.7 million in the prior year period. Instrument sales increased in the DNA sequencing and mass spectrometry product lines and decreased in the Sequence Detection Systems ("SDS") product line. The DNA sequencing product line growth was due primarily to the rapid acceptance of the 3730 product line by both large genome centers and smaller academic and commercial laboratories. Although the overall SDS and other applied genomics product line grew in the second quarter of fiscal 2003 compared to the prior year period, SDS instrument sales decreased due primarily to restrained year-end pharmaceutical spending on certain high-end instruments, partially offset by strong sales of the ABI Prism(R) 7000 system. Demand in the drug metabolism and pharmacokinetics and the protein discovery markets helped drive sales increases of mass spectrometry instruments compared to the prior year quarter, primarily the QSTAR(R) XL LC/MS/MS System, the Q TRAP(TM) LC/MS/MS System, and the AB 4700 Proteomics Analyzer with TOF/TOF(TM) Optics.

Consumables sales were $144.0 million in the second quarter of fiscal 2003 compared to $150.1 million in the second quarter of fiscal 2002, a decrease of 4.1%. Consumables sales were impacted primarily by a decline in revenues from DNA sequencing consumables resulting from sequencing capacity not increasing at a rate fast enough to offset the rate of reagent dilution, as well as by a decline in sales of core DNA synthesis consumables, partially offset by increasing customer acceptance of SDS reagents, custom oligo, Assays-by-Design(SM) service, and Assays-on-Demand(TM) products.

Revenues from other sources, which included service contracts, royalties, licenses, and contract research, increased 22.0% to $74.8 million in the second quarter of fiscal 2003 from $61.3 million in the second quarter of fiscal 2002. The increase in revenue resulted primarily from higher service and license fees, including $6.7 million for a license related to certain genetic analysis technology.

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

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

(Dollar amounts in millions)	2001	2002	% Change
DNA sequencing products	$156.3	$ 174.8	12%
% of total revenues	38%	39%	
SDS and other applied genomics products	78.5	85.3	9%
% of total revenues	19%	19%	
Mass Spectrometry	76.2	91.5	20%
% of total revenues	19%	21%	
Core DNA synthesis and PCR products	62.6	51.9	(17%)
% of total revenues	15%	12%	
Other	37.5	41.2	10%
% of total revenues	9%	9%	
Total	$ 411.1	$ 444.7	8%

Gross margin, as a percentage of net revenues, decreased from the prior year quarter, as the asset impairment charges and changes in product mix were only partially offset by higher margins from royalty and license revenues. The asset impairment charges reduced gross margin by 2.2 percentage points.

As a percentage of sales, SG&A expenses were approximately the same as the second quarter of fiscal 2002.

As a percentage of net revenues, R&D expenses were 13.3% for the second quarter of fiscal 2003 compared with 12.8% for the second quarter of fiscal 2002. The increase in R&D expenses was primarily the result of support for Knowledge Business initiatives and new products in development.

Interest income, net remained flat primarily due to lower average interest rates, offset by higher average cash and cash equivalents and short-term investments for the second quarter of fiscal 2003 compared with the second quarter of fiscal 2002.

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

The effective income tax rate was 26% in the second quarter of fiscal 2003 compared to 30% in the second quarter of fiscal 2002. The decrease in the effective tax rate was primarily due to the implementation of certain tax planning strategies allowing for the increased utilization of foreign tax credits as well as the impact of the special charges in both periods.

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

Results of Continuing Operations--The Six Months Ended December 31, 2002 Compared With The Six Months Ended December 31, 2001

(Dollar amounts in millions)	2001	2002	% Increase/ (Decrease)
Net revenues	$ 777.7	$ 840.6	8.1%
Cost of sales	376.1	419.1	11.4%
Gross margin	401.6	421.5	5.0%
SG&A expenses	185.4	199.8	7.8%
R&D	105.0	120.2	14.5%
Other special charges		24.3	
Acquired IPR&D	2.2		(100.0%)
Operating income	109.0	77.2	(29.2%)
Interest income, net	6.3	6.2	(1.6%)
Other income (expense), net		3.5	
Income before income taxes	115.3	86.9	(24.6%)
Provision for income taxes	34.1	23.5	(31.1%)
Income from continuing operations	$ 81.2	$ 63.4	(21.9%)

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

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

There was no tax effect on the acquired IPR&D charge in fiscal 2002. The total tax benefit recorded on the fiscal 2003 items was $10.4 million.

Income from continuing operations decreased for the first six months of fiscal 2003 primarily due to the special charges described above, as well as due to higher R&D spending related to products in development, support for Knowledge Business initiatives, and funding of the Applera Genomics Initiative. Partially offsetting this decrease were higher instrument, service and license revenues, and the favorable effects of foreign currency. The favorable effects of foreign currency increased income from continuing operations by approximately $2 million, or 3%, as compared with the first six months of fiscal 2002.

Net revenues from the Celera Genomics group, primarily from leased instruments, consumables, and project materials, and contracted R&D services, were $1.6 million for the first half of fiscal 2003, or 0.2% of the Applied Biosystems group's net revenues, and $14.8 million for the first half of fiscal 2002, or 1.9%. The favorable effects of foreign currency increased net revenues during the six months of fiscal 2003 by approximately $8 million, or 1%, as compared to

the prior year period. The following table sets forth the Applied Biosystems group's revenues by geographic area for the six months ended December 31:

(Dollar amounts in millions)	2001	2002	% Increase/ (Decrease)
United States	$ 378.1	$ 419.3	10.9%
Europe	215.7	239.2	10.9%
Asia Pacific	163.2	158.4	(2.9%)
Latin America and other markets	20.7	23.7	14.5%
Total	$ 777.7	$ 840.6	8.1%

Excluding the effects of foreign currency, revenues increased approximately 6% in Europe and decreased approximately 1% in Asia Pacific during the first half of fiscal 2003 compared to the prior year period.

For the first six months of fiscal 2003, revenues from instrument sales were $414.9 million, an increase of 14.6% from $361.9 million in the prior year period. Instrument sales increased in the DNA sequencing and mass spectrometry product lines and decreased in the SDS product line. The DNA sequencing product line growth was driven by early shipments of the 3730xl DNA Analyzer to some of the large genome centers in the United States, as well as demand for both the 3730 and the 3730xl systems from smaller academic and commercial laboratories. Although the overall SDS and other applied genomics product line grew in the first six months of fiscal 2003 compared to the prior year period, SDS instrument sales decreased due primarily to restrained year-end pharmaceutical spending on certain high-end instruments, partially offset by strong sales of the ABI Prism(R) 7000 system. Strong demand in the drug metabolism and pharmacokinetics and the protein discovery markets helped drive sales increases of mass spectrometry instruments compared to the prior year period, primarily relating to the QSTAR(R) XL LC/MS/MS System, the Q TRAP(TM) LC/MS/MS System, the AB 4700 Proteomics Analyzer with TOF/TOF(TM) Optics, and the API 4000(TM) LC/MS/MS System.

Consumables sales were $282.4 million for the first six months of fiscal 2003 compared to $299.3 million for the first six months of fiscal 2002, a decrease of 5.6%. Consumables sales were impacted primarily by a decline in revenues from DNA sequencing consumables resulting from sequencing capacity not increasing at a rate fast enough to offset the rate of reagent dilution, as well as by a decline in sales of core DNA synthesis and PCR consumables, partially offset by increasing customer acceptance of SDS reagents, custom oligo, Assays-by-Design(SM) service, and Assays-on-Demand(TM) products.

Revenues from other sources, which included service contracts, royalties, licenses, and contract research, increased 23.0% to $143.3 million for the first six months of fiscal 2003 from $116.5 million for the first six months of fiscal 2002. The increase in revenue resulted from higher service revenues, license fees, and royalties, including $5.4 million and $6.7 million for licenses related to certain mass spectrometry and genetic analysis technologies, respectively.

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

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

(Dollar amounts in millions)	2001	2002	% Change
DNA sequencing products	$306.5	$ 324.1	6%
% of total revenues	39%	38%	
SDS and other applied genomics products	147.3	168.7	15%
% of total revenues	19%	20%	
Mass Spectrometry	130.4	174.9	34%
% of total revenues	17%	21%	
Core DNA synthesis and PCR products	121.7	100.9	(17%)
% of total revenues	16%	12%	
Other	71.8	72.0	-%
% of total revenues	9%	9%	
Total	$ 777.7	$ 840.6	8%

Gross margin, as a percentage of net revenues, decreased from the prior year period, as the asset impairment charges and changes in product mix were only partially offset by higher margins from royalty and license revenues. The asset impairment charges reduced gross margin by 1.2 percentage points.

As a percentage of sales, SG&A expenses were approximately the same as the first six months of fiscal 2002.

As a percentage of net revenues, the increase in R&D expenses was primarily the result of funding of the Applera Genomics Initiative, support for Knowledge Business initiatives, and new products in development.

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

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

The effective tax rate was 27% for the first six months of fiscal 2003 compared to 30% for the first six months of fiscal 2002. The decrease in the effective income tax rate was primarily due to the implementation of certain tax planning strategies allowing for the increased utilization of foreign tax credits as well as the impact of special charges in both periods.

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

Discussion of Financial Resources and Liquidity

The Applied Biosystems group had cash and cash equivalents and short-term investments of $519.8 million at December 31, 2002 and $471.0 million at June 30, 2002. We maintain a $100 million revolving credit agreement with four banks that expires on April 20, 2005, under which there were no borrowings outstanding at December 31, 2002. Cash provided by operating activities has been the Applied Biosystems group's primary source of funds.

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

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

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

(Dollar amounts in millions)	June 30, 2002	December 31, 2002
Cash and cash equivalents	$ 441.3	$ 519.8
Short-term investments	29.7	
Total cash and cash equivalents and short-term investments	$ 471.0	$ 519.8
Total debt	0.3	
Working capital	549.8	599.2
Debt to total capitalization	-%	

Cash and cash equivalents for the six months ended December 31, 2002 increased as cash generated from operating activities, maturities of short-term investments and stock issuances were only partially offset by expenditures for capital assets, the funding of the Celera Diagnostics joint venture, the payment of dividends, and the repurchase of Applera - Applied Biosystems stock. Net cash

flows of continuing operations for the six months ended December 31 were as follows:

(Dollar amounts in millions)	2001	2002
Net cash from operating activities	$ 149.1	$ 114.6
Net cash from investing activities	(78.5)	(28.5)
Net cash from financing activities	(11.9)	(16.2)

Net cash from operating activities of continuing operations for the first six months of fiscal 2003 was $34.5 million lower than the first six months of fiscal 2002. This decrease resulted primarily from the timing of accounts receivable collections and higher inventory levels to support sales activity, partially offset by lower payments under supply agreements and for purchased licensed technology and higher income-related cash flows. An 8% increase in revenues in the first half of fiscal 2003 resulted in a higher accounts receivable balance. The Applied Biosystems group's days sales outstanding was 63 days at December 31, 2002 compared to 72 days at June 30, 2002 and 67 days at December 31, 2001. Inventory on hand was 3.5 months at December 31, 2002 compared to 3.3 months at June 30, 2002.

During the second quarter of fiscal 2002, the Applied Biosystems group acquired the remaining shares of Boston Probes for approximately $37 million in cash.

During the first six months of fiscal 2003, we repurchased 380,000 shares of Applera - Applied Biosystems stock for $6.8 million.

Celera Genomics Group

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

(Dollar amounts in millions)	2001	2002	% Increase/ (Decrease)
Net revenues	$ 35.0	$22.9	(34.6%)
Cost of sales	18.0	3.7	(79.4%)
R&D	30.6	32.9	7.5%
SG&A expenses	13.9	7.0	(49.6%)
Amortization of intangible assets	1.6	1.7	6.3%
Acquired IPR&D	99.0		(100.0%)
Operating loss	(128.1)	(22.4)	(82.5%)
Loss on investments		(0.3)	

Interest income, net	8.5	4.7	(44.7%)
Other income (expense), net	(1.0)	0.6	
Loss from joint venture	(8.5)	(9.9)	16.5%
Loss before income taxes	(129.1)	(27.3)	(78.9%)
Benefit for income taxes	11.2	11.2	-%
Net loss	$ (117.9)	$ (16.1)	(86.3%)

As previously described in events impacting comparability, the three month results for fiscal 2002 were impacted by the $99.0 million pre-tax charge to write-off acquired IPR&D, with no offsetting tax benefit.

The lower net loss in the second quarter of fiscal 2003 primarily resulted from the acquired IPR&D charge recorded in fiscal 2002, as well as lower cost of sales and SG&A expenses in fiscal 2003. Partially offsetting these factors were increased R&D expenses and lower interest income in fiscal 2003. Without the acquired IPR&D charge in fiscal 2002, net loss decreased $2.8 million. Higher Online/Information Business operating income of $9.3 million in second quarter fiscal 2003 compared to $1.5 million in the second quarter of fiscal 2002 resulted from higher subscription revenue and reduced operating expenses subsequent to the online marketing and distribution agreement with the Applied Biosystems group.

Revenues decreased as lower contract sequencing revenue, resulting from the Celera Genomics group's decision not to pursue additional sequencing service business, was only partially offset by an increase in subscription revenue. Online/Information Business revenues increased to $20.3 million in the second quarter of fiscal 2003, compared to $17.3 million in the second quarter of fiscal 2002.

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

R&D expenses increased in the second quarter of fiscal 2003 in comparison to the same quarter last year due primarily to higher expenses for therapeutic discovery and development programs, including programs acquired with Axys. These increases were partially offset by lower R&D expenses related to DNA sequencing programs.

SG&A expenses decreased in the second quarter of fiscal 2003 compared to the prior year quarter primarily due to a workforce reduction resulting from the June 2002 restructuring of the organization to focus on drug discovery and development, partially offset by an increased number of employees resulting from the acquisition of Axys in November 2002.

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

In the second quarter fiscal 2003, other income, net consisted primarily of a miscellaneous non-operating income. In the second quarter of fiscal 2002, other expense, net reflected the losses recorded for equity method investments, partially offset by a gain on sale of the plant genotyping business.

The effective income tax benefit rate was 41% in the second quarter of fiscal 2003 compared to 9% in the second quarter of fiscal 2002. The increase in the effective income tax benefit rate was primarily attributable to the impact of increased R&D credits in fiscal 2003 and the acquired IPR&D charge in fiscal 2002. There was no tax benefit associated with the acquired IPR&D charge.

Results of Operations--The Six Months Ended December 31, 2002 Compared With The Six Months Ended December 31, 2001

(Dollar amounts in millions)	2001	2002	% Increase/ (Decrease)
Net revenues	$ 62.3	$ 46.5	(25.4%)
Cost of sales	29.9	7.1	(76.3%)
R&D	58.4	65.5	12.2%
SG&A expenses	26.5	14.0	(47.2%)
Amortization of intangible assets	2.1	4.4	109.5%
Acquired IPR&D	99.0		(100.0%)
Operating loss	(153.6)	(44.5)	(71.0%)
Loss on investments		(0.3)	
Interest income, net	19.4	9.9	(49.0%)
Other income (expense), net	(1.7)	(2.6)	52.9%
Loss from joint venture	(17.9)	(23.2)	29.6%
Loss before income taxes	(153.8)	(60.7)	(60.5%)
Benefit for income taxes	20.3	24.9	22.7%
Net loss	$ (133.5)	$ (35.8)	(73.2%)

As previously described in events impacting comparability, the six month results for fiscal 2002 were impacted by the $99.0 million pre-tax charge to write-off acquired IPR&D, with no offsetting tax benefit.

The lower net loss for the first six months of fiscal 2003 primarily resulted from the acquired IPR&D charge recorded in fiscal 2002, as well as lower cost of sales and SG&A expenses in fiscal 2003. Partially offsetting these factors were increased R&D expenses, higher development expenses within the Celera Diagnostics joint venture, and lower interest income in fiscal 2003. Without the acquired IPR&D charge in fiscal 2002, net loss increased $1.3 million. Higher Online/Information Business operating income of $18.4 million for the first six

months fiscal 2003 compared to $3.6 million for the first six months of fiscal 2002 resulted from higher subscription revenue and reduced operating expenses subsequent to the online marketing and distribution agreement with the Applied Biosystems group.

Revenues decreased as lower contract sequencing revenue, resulting from the Celera Genomics group's decision not to pursue additional sequencing service business, was only partially offset by an increase in subscription revenue. Online/Information Business revenues increased to $40.9 million for the first six months of fiscal 2003, compared to $34.3 for the first six months of fiscal 2002.

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

R&D expenses increased for the first six months of fiscal 2003 in comparison to the same period last year due primarily to: higher expenses for therapeutic discovery and development programs,

including programs acquired with Axys; participation in the Applera Genomics Initiative; and $2.9 million recorded in the first quarter of fiscal 2003 for asset write-downs associated with the Rockville sequencing facility due to the group's decision not to pursue additional sequencing service business. These increases were partially offset by lower R&D expenses related to DNA sequencing programs.

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

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

Other expense, net increased for the first six months of fiscal 2003 due primarily to losses relating to an investment acquired as part of the Axys acquisition, accounted for under the equity method, partially offset by lower non-operating costs.

The effective income tax benefit rate was 41% for the first six months of fiscal 2003 compared to 13% for the first six months of fiscal 2002. The increase in the effective income tax benefit rate was primarily attributable to the impact of increased R&D credits in fiscal 2003 and the acquired IPR&D charge in fiscal 2002. There was no tax benefit associated with the acquired IPR&D charge.

Discussion of Financial Resources and Liquidity

The Celera Genomics group had cash and cash equivalents and short-term investments of $840.0 million at December 31, 2002 and $888.9 million at June

30, 2002. We maintain a $100 million revolving credit agreement with four banks that expires on April 20, 2005, under which there were no borrowings outstanding at December 31, 2002.

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

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

(Dollar amounts in millions)	June 30, 2002	December 31, 2002
Cash and cash equivalents	$ 28.9	$ 133.2
Short-term investments	860.0	706.8
Total cash and cash equivalents and short-term investments	$ 888.9	$ 840.0
Total debt	18.0	17.5
Working capital	840.3	794.5
Debt to total capitalization	1.6%	1.6%

During the second quarter of fiscal 2003, the Celera Genomics group purchased $18.1 million of non-callable United States government obligations to serve as collateral for the 8% senior secured convertible notes acquired as part of the acquisition of Axys. These government obligations are being substituted for the shares of DPI common stock that originally collateralized the notes. The government obligations are required to be held in a trust and the proceeds from the maturation of, and interest payments on, these obligations will fund the interest and principal payments under the notes. We expect that the DPI shares will be released to us during the third quarter of fiscal 2003. The government obligations, which mature over the next two fiscal years, are classified as available for sale at December 31, 2002, with $0.9 million in short-term investments, and $16.8 million in other long-term assets.

Cash and cash equivalents for the first six months of fiscal 2003 increased as proceeds from the sales and maturities of short-term investments and stock issuances were only partially expended on operations, the funding of the Celera Diagnostics joint venture and the purchase of capital assets and long-term

investments. Net cash flows for the six months ended December 31 were as follows:

(Dollar amounts in millions)	2001	2002
Net cash from operating activities	$ (24.7)	$ (19.7)
Net cash from investing activities	(15.0)	110.4
Net cash from financing activities	(0.6)	13.6

Net cash used by operating activities for the first six months of fiscal 2003 was $5.0 million lower than the first six months of fiscal 2002. The lower use of cash resulted from lower net cash operating losses and a decrease in accounts receivable in fiscal 2003, partially offset by lower deferred revenues resulting from the Celera Genomics group's decision to forego new contract sequencing and service business, lower accrued salaries due to the workforce reduction from the June 2002 restructuring of the organization, and a lower accrual for leased instruments.

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

Net cash from financing activities for the first six months of fiscal 2003 increased primarily due to proceeds received from employee stock option exercises. The first half of fiscal 2002 included the repayment of a portion of the debt assumed in the Axys acquisition.

During the first six months of fiscal 2002, we repurchased 47,700 shares of Applera - Celera stock for $0.9 million.

Celera Diagnostics

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

(Dollar amounts in millions)	2001	2002	% Increase/ (Decrease)
Net revenues	$ 1.9	$ 7.8	310.5%
Cost of sales	1.1	2.2	100.0%
R&D	7.5	12.6	68.0%

SG&A expenses	1.8	2.9	61.1%
Operating loss	$ (8.5)	$ (9.9)	16.5%

Revenues for the second quarter of fiscal 2003 increased due to the adoption of Celera Diagnostics' cystic fibrosis reagents by several large reference laboratories and the inclusion of revenue relating to the profit-sharing alliance between Abbott Laboratories and Celera Diagnostics. The Applied Biosystems group distributed Celera Diagnostics' products and recorded end-user sales through September 2002. On October 1, 2002, pursuant to the profit-sharing alliance announced in June 2002, sales responsibilities for products manufactured by Celera Diagnostics were largely transferred to the diagnostic division of Abbott, which now records end-user sales for those products. End-user product sales were $5.0 million for the second quarter of fiscal 2003 and $2.2 million for the second quarter of fiscal 2002. Sales of products by Celera Diagnostics to Abbott are recorded at cost. The second quarter of fiscal 2003 included $5.1 million of revenue recorded under the Abbott alliance for the equalization of gross margin and relative expenses incurred by the parties.

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

Results of Operations--The Six Months Ended December 31, 2002 Compared With The Six Months Ended December 31, 2001

(Dollar amounts in millions)	2001	2002	% Increase/ (Decrease)
Net revenues	$ 3.7	$10.8	191.9%
Cost of sales	2.6	4.6	76.9%
R&D	14.5	23.7	63.4%
SG&A expenses	4.5	5.7	26.7%
Operating loss	$ (17.9)	$ (23.2)	29.6%

Revenues for the first six months of fiscal 2003 increased due to higher sales of cystic fibrosis reagents and the inclusion of revenue relating to the profit-sharing alliance between Abbott Laboratories and Celera Diagnostics. End-user product sales were $8.9 million for the first six months of fiscal 2003 and $4.6 million for the first six months of fiscal 2002. Fiscal 2003 included $5.1 million of revenue recorded under the Abbott alliance for the equalization of gross margin and relative expenses incurred by the parties.

R&D expenses increased in the first six months of fiscal 2003 as a result of

Celera Diagnostics' participation in the Applera Genomics Initiative, as well as increased spending for marker discovery and product development.

Recently Issued Accounting Standards

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

We continue to apply the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation - An Interpretation of Accounting Principles Board Opinion No. 25," and accordingly no compensation expense has been recorded for stock-based compensation plans. Our adoption of SFAS No. 148 requires additional interim disclosures effective for our third quarter fiscal 2003.

In November 2002, the FASB issued FASB Interpretation No. ("FIN") 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of

Others, an interpretation of Statement of Financial Accounting Standards Nos. 5, 57, and 107 and rescission of FIN 34." FIN 45 extends the disclosures to be made by a guarantor about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation under certain guarantees. The disclosure provisions of FIN 45 are effective for financial statements for periods ending after December 15, 2002. The provisions for initial recognition and measurement of guarantees are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. We do not expect the application of FIN 45 to have a material impact on our consolidated financial statements. See Note 10 to our condensed consolidated financial statements for a description of the types of guarantees we have issued.

Outlook

Applied Biosystems Group

Business conditions remain uncertain for several reasons, including: unpredictable spending patterns in the pharmaceutical and biotechnology sectors; delays in appropriations for the National Institutes of Health for the current federal government fiscal year; uncertainty about government funding levels in Japan and parts of Europe; and difficulties in predicting trends in the

consumption of sequencing reagents. As a result, forecasting remains challenging.

Reflecting these risks and uncertainties, the Applied Biosystems group expects that revenue percentage growth in fiscal 2003 will be in the high single digits. The Applied Biosystems group continues to expect that growth in fiscal 2003 will be heavily influenced by the adoption of new products. New products include the 3730 and 3730xl DNA Analyzers, for which the group anticipates significant additional demand from customers doing whole genome sequencing, resequencing, and SNP genotyping. At the same time, it is difficult to predict the timing and magnitude of future sales of these more expensive systems, particularly at the large genome centers, until pending life science funding decisions are made by the governments in the United States and Japan. The 3730 product line is the successor to the ABI PRISM(R) 3700 DNA Analyzer introduced in 1998. To date, customers have replaced a significant number of 3700s with 3730s, although this still represents a relatively small fraction of the installed base of 3700s.

The outlook for the Applied Biosystems group's revenues from sequencing reagents remains difficult to forecast accurately due to several variables, including: the total volume of sequencing activity; the mix of instruments in use; the nature of its customers' research projects; and the utilization of consumables per unit of sequencing. For the remainder of this fiscal year, the Applied Biosystems group continues to anticipate that revenue from sequencing consumables will trend down on a year-to-year basis, but at a more moderate level.

The Applied Biosystems group expects the effective tax rate for fiscal 2003 to be approximately 27 percent, one percentage point lower than the previously forecasted rate of 28 percent due to the effect of the second quarter special charges. 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.

The Applied Biosystems group believes that operations are on track to meet the previous guidance for diluted earnings per share from continuing operations for fiscal 2003, which, after reflecting the special charge of $0.11 per diluted share in the second quarter, should be in the range of $0.74 to $0.84. Because of the delay in the approval of the fiscal 2003 National Institutes of Health budget and funding issues in Japan and Europe, the Applied Biosystems group expects that some sales that would otherwise have occurred during the third fiscal quarter, and approximately $0.03 to $0.04 of diluted earnings per share, will now be shifted to the fourth fiscal quarter. As a result, the Applied Biosystems group expects fiscal third quarter diluted earnings per share to be somewhat below the level of the prior year quarter and fiscal fourth quarter diluted earnings per share to be somewhat higher than the comparable quarter last year.

Capital spending in fiscal 2003 is anticipated to be approximately $150 million,

including approximately $75 million for the facilities expansion in Pleasanton, CA.

Celera Genomics Group

The Celera Genomics group intends to advance its most promising small molecule compounds, such as tryptase inhibitors for asthma and allergic rhinitis and its Factor VIIa inhibitors for anticoagulation, into clinical development. The Celera Genomics group anticipates that at least one of its compounds, most likely one of its partnered compounds, could enter clinical trials during calendar 2003. In addition, the Celera Genomics group plans to initiate at least one new preclinical development program and to make significant progress in building its development organization to support these programs during the coming year. Over the next three years, the Celera Genomics group plans to shift a significant portion of its R&D spending toward preclinical and clinical development activities, and to place less emphasis on target identification.

The Celera Genomics group has obtained pilot-scale quantities of its lead asthma compound, and plans to initiate additional toxicology and safety evaluations during the third quarter of fiscal 2003. Investigational New Drug-enabling studies with these asthma compounds are anticipated in calendar 2003, pending analysis of the data from these additional evaluations.

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

The Celera Genomics group's cash use during fiscal year 2003 is expected to be between $75 and $85 million, reflecting reductions in SG&A expenses and increased operating income due to the online marketing and distribution agreement with the Applied Biosystems group, and including the Celera Genomics group's portion of the funding for the Celera Diagnostics joint venture. This outlook excludes the conversion of $17 million of short-term investments to long-term investments.

The Celera Genomics group anticipates R&D expenses during fiscal year 2003 to be in the range of $130 to $140 million, including approximately $10 million for its share of the Applera Genomics Initiative. A larger portion of R&D expenses should support development activities as the year progresses. SG&A expenses are expected to be between $30 and $35 million. Pre-tax losses related to the Celera Diagnostics joint venture are expected to be approximately $50 to $60 million.

The Celera Genomics group anticipates total revenues for fiscal year 2003 between $85 and $95 million, including revenues from CDS subscriptions and from Knowledge Business royalties, of between $75 and $80 million.

Celera Diagnostics

For fiscal 2003, Celera Diagnostics continues to anticipate end-user sales, including those from its alliance with Abbott Laboratories, to be in the range of $18 to $22 million. This outlook assumes continued demand growth, both for new products and from higher sales of existing products. For fiscal 2003, Celera Diagnostics anticipates pretax losses of $50 to $60 million and net cash use in the range of $55 to $65 million, including capital spending of approximately $10

million.

During calendar 2003, Celera Diagnostics anticipates it will launch several new products, including analyte specific reagents (ASRs) for hepatitis viral load and genotyping. In addition, Celera Diagnostics plans to commercialize new ASRs for additional diseases, contingent upon success in its disease association studies.

Forward-Looking Statements

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

Factors Relating to the Applied Biosystems Group

Rapidly changing technology in life sciences could make the Applied Biosystems group's product line obsolete unless it continues to improve existing products, develop new products, and pursue new market opportunities. A significant portion of the net revenues for the Applied Biosystems group each year is derived from products that did not exist in the prior year. The Applied Biosystems group's future success depends on its ability to continually improve its current products, develop and introduce, on a timely and cost-effective basis, new products that address the evolving needs of its

customers, and pursue new market opportunities that develop as a result of technological and scientific advances in life sciences. The Applied Biosystems group's products are based on complex technology which is subject to rapid change as new technologies are developed and introduced in the marketplace. Unanticipated difficulties or delays in replacing existing products with new products, or the inability to gain market acceptance of new products on a timely basis, could adversely affect the Applied Biosystems group's future operating results. The pursuit of new market opportunities will add further complexity and require additional management attention and resources as these markets are addressed.

The Applied Biosystems group relies on third parties for the manufacture of some of its products and also for the supply of some components of the products it manufactures on its own. Although the Applied Biosystems group has contracts with most of these manufacturers and suppliers, there can be no assurance that their operations will not be disrupted. The Applied Biosystems group does not currently have alternative third party manufacturing or supply arrangements for

some of the key products and key components manufactured or supplied by third parties. Although the Applied Biosystems group has its own manufacturing facilities, and believes it might be able to manufacture some of the products and components currently sourced from third parties, it also believes that it would take considerable time and resources to establish the capability to do so. Accordingly, if third party manufacturers or suppliers are unable or fail to fulfill their obligations to the Applied Biosystems group, the Applied Biosystems group might not be able to satisfy customer demand in a timely manner and its business could be adversely affected.

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

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

decrease in capital spending or change in spending policies of these companies could significantly reduce the demand for the Applied Biosystems group's products.

A substantial portion of the Applied Biosystems group's sales is to customers at universities or research laboratories whose funding is dependent on both the level and timing of funding from government sources. As a result, the timing and amount of revenues from these sources may vary significantly due to factors that can be difficult to forecast. Although research funding has increased during the past several years, grants have, in the past, been frozen for extended periods or otherwise become unavailable to various institutions, sometimes without

advance notice. Budgetary pressures may result in reduced allocations to government agencies that fund research and development activities. If government funding necessary to purchase the Applied Biosystems group's products were to become unavailable to researchers for any extended period of time, or if overall research funding were to decrease, the business of the Applied Biosystems group could be adversely affected.

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

MJ Research, Inc. has filed a lawsuit against the Company based on the allegation that four patents underlying the Applied Biosystems group's DNA sequencing instruments were invalidly obtained because one of the alleged inventors, whose work was funded in part by the United States government, was knowingly omitted from the patent applications. MJ Research claims to be suing in the name of the United States government although the government has to date declined to participate in the lawsuit. Promega Corporation has filed a lawsuit against the Company alleging that the Applied Biosystems group, along with certain other named defendants, is infringing two Promega

patents due to the sale of forensic identification and paternity testing kits. Beckman Coulter, Inc. has filed a lawsuit against the Company alleging that the Applied Biosystems group is infringing three Beckman Coulter patents, although it has not identified the specific facts on which the allegation is based. If any of these matters proceed to trial, the cost of the litigation, and the

amount of management time that will be devoted to the litigation, will be significant. There can be no assurance that these matters will be resolved favorably, that the Company, the Applied Biosystems group, or the Celera Genomics group will not be enjoined from selling the products in question or other products as a result, or that any monetary or other damages assessed against the Company will not have a material adverse effect on the financial condition of the Company, the Applied Biosystems group, or the Celera Genomics group.

Since the Applied Biosystems group's business is dependent on foreign sales, fluctuating currencies will make revenues and operating results more volatile. Approximately 50% of the Applied Biosystems group's net revenues during fiscal 2002 were derived from sales to customers outside of the United States. The majority of these sales were based on the relevant customer's local currency. A significant portion of the related costs for the Applied Biosystems group are based on the U.S. dollar. As a result, the Applied Biosystems group's reported and anticipated operating results and cash flows are subject to fluctuations due to material changes in foreign currency exchange rates that are beyond the Applied Biosystems group's control.

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

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

The Applied Biosystems group's computer and communications hardware is protected through physical and software safeguards. However, it is still vulnerable to fire, storm, flood, power loss, earthquakes, telecommunications failures, physical or software break-ins, and similar events. In addition, the Knowledge Business online products are complex and sophisticated, and as such, could contain data, design, or software errors that could be difficult to detect and correct. Software defects

could be found in current or future products. If the Applied Biosystems group fails to maintain and further develop the necessary computer capacity and data to support its computational needs and its customers' access to the Knowledge Business product offerings, it could experience a loss of or delay in revenues or market acceptance. In addition, any sustained disruption in Internet access provided by third parties could adversely affect the Knowledge Business.

Electricity shortages and earthquakes could disrupt operations in California. The headquarters and principal operations of the Applied Biosystems group are located in Foster City, California. In 2001, the State of California experienced a statewide electricity shortage due to a variety of factors. Although some of the factors causing this shortage have been eliminated or mitigated, there are ongoing concerns about the availability of electricity in California, particularly during peak usage periods. Blackouts in Foster City, even of modest duration, could impair or cause a temporary suspension of the group's operations, including the manufacturing and shipment of new products. Power disruptions of an extended duration or high frequency could have a material adverse effect on operating results. In addition, Foster City is located near major California earthquake faults. The ultimate impact of earthquakes on the Applied Biosystems group, its significant suppliers, and the general infrastructure is unknown, but operating results could be materially affected in the event of a major earthquake.

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

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

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

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 $612.6 million as of December 31, 2002, and expects that it will continue to incur

additional net losses for the foreseeable future. These cumulative losses are expected to increase as the Celera Genomics group continues to make investments in new technology and product development, including its investments in its therapeutics business and the Applera Genomics Initiative, as well as investments in diagnostics through Celera Diagnostics, its joint venture with the Applied Biosystems group. The Celera Genomics group will record all initial operating losses of Celera Diagnostics up to a maximum of $300 million, after which any additional operating losses would be shared equally by the Celera Genomics group and the Applied Biosystems group. As an early stage business, the Celera Genomics group faces significant challenges in expanding its operations into the therapeutics research and development business. As a result, there is a high degree of uncertainty that the Celera Genomics group will be able to achieve profitable operations.

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

Under the terms of the agreement, the Applied Biosystems group is obligated to pay a royalty to the Celera Genomics group based on sales, if any, of certain Knowledge Business products after July 1, 2002. The amount of any royalty paid to the Celera Genomics group depends on the Applied Biosystems group's ability to successfully commercialize Knowledge Business products subject to the royalty. The Knowledge Business is an emerging business, and the Applied Biosystems group has not proven its ability to successfully commercialize these products. The Celera Genomics group believes that in order for the Knowledge Business to be successful, the Applied Biosystems group may have to devote a significant amount of its resources to researching, developing, marketing, and distributing Knowledge Business products and services. However, the Celera Genomics group has no control over the amount and timing of the Applied Biosystems group's use of its resources, including for products subject to the Celera Genomics group's royalty. In addition, the market for these products is intensely competitive, and there can be no assurance that there will be market acceptance of the utility and value of the product offerings of the Knowledge Business.

The Celera Genomics group does not intend to seek any new customers for its Celera Discovery System and related information products and services after June 30, 2002, and therefore its future revenues from these products and services will be limited. Under the terms of the marketing and distribution agreement between the Celera Genomics group and the Applied Biosystems group, the Celera

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

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

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

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

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

- the Celera Genomics group or its collaborators may be unable to obtain necessary intellectual property protection, or third parties may own proprietary rights that prevent the Celera Genomics group or its

collaborators from commercializing their products.

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

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

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

successful. Many companies in the therapeutic industry, including biotechnology companies, have suffered significant setbacks in advanced clinical trials, even after promising results in earlier studies.

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

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

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

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

Introduction of new products may expose the Celera Genomics group to product liability claims. New products developed by the Celera Genomics group or its collaborators could expose the Celera Genomics group to potential product liability risks that are inherent in the testing, manufacturing, marketing and sale of human therapeutic products. Product liability claims or product recalls, regardless of the ultimate outcome, could require the Celera Genomics group to spend significant time and money in litigation and to pay significant damages. Although the Celera Genomics group

expects to seek and maintain product liability insurance to cover claims relating to the testing and use of therapeutic products, there can be no assurance that such insurance will be available on commercially reasonable terms, if at all, or that the amount of coverage obtained will be adequate to cover losses from any particular claim.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

parties, or to defend against these claims. The cost to the Celera Genomics group of any patent litigation or similar proceeding could be substantial, and it may absorb significant

management time. If infringement litigation against the Celera Genomics group is resolved unfavorably to the Celera Genomics group, the Celera Genomics group may be enjoined from manufacturing or selling its products or services without a license from a third party. The Celera Genomics group may not be able to obtain a license on commercially acceptable terms, or at all.

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

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

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

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

amount of $14.5 million during fiscal 1999.

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

Electricity shortages and earthquakes could disrupt operations in California. The Celera Genomics group has research and development facilities in South San Francisco, California. In 2001, the State of California experienced a statewide electricity shortage due to a variety of factors. Although some of the factors causing this shortage have been eliminated or mitigated, there are ongoing concerns about the availability of electricity in California, particularly during peak usage periods. Blackouts in South San Francisco, even of modest duration, could impair or cause a temporary suspension of the group's South San Francisco operations. Power disruptions of an extended duration or high frequency could have a material adverse effect on operating results. In addition, South San Francisco is located near major California earthquake faults. The ultimate impact of earthquakes on the Celera Genomics group, its significant suppliers, and the general infrastructure is unknown, but operating results could be materially affected in the event of a major earthquake.

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

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

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

Our company is subject to a purported class action lawsuit relating to its 2000 offering of shares of Applera - Celera stock that may be expensive and time consuming. Our company and some of its officers were served in five lawsuits purportedly on behalf of purchasers of Applera - Celera stock in our company's follow-on public offering of Applera - Celera stock completed on March 6, 2000. In the offering, our company sold an aggregate of approximately 4.4 million shares of Applera - Celera stock at a public offering price of $225 per share.

All of these lawsuits have been consolidated into a single case and an amended consolidated complaint was filed on August 21, 2001. The consolidated

complaint generally alleges that the prospectus used in connection with the offering was inaccurate or misleading because it failed to adequately disclose the alleged opposition of the Human Genome Project and two of its supporters, the governments of the United States and the United Kingdom, to providing patent protection to our company's genomic-based products. Although the Celera Genomics group has never sought, or intended to seek, a patent on the basic human genome sequence data, the complaint also alleges that our company did not adequately disclose the risk that it would not be able to patent this data. The consolidated complaint seeks unspecified monetary damages, rescission, costs and expenses, and other relief as the court deems proper. Our company and the other defendants have filed a motion to dismiss the case, which motion is pending before the court. Although our company believes the asserted claims are without merit and intends to defend the case vigorously, the outcome of this or any other litigation is inherently uncertain. The defense of this case will require management attention and resources.

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

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

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

- Celera Diagnostics or its collaborators may not successfully complete any research and development efforts;
- any diagnostic products that Celera Diagnostics or its collaborators develop may be found during clinical trials to have limited medical value;
- Celera Diagnostics or its collaborators may fail to obtain required regulatory clearances or approvals for products they develop;

- Celera Diagnostics or its collaborators may be unable to manufacture enough of any potential products at an acceptable cost and with appropriate quality;

- any diagnostic products Celera Diagnostics or its collaborators develop may not be competitive with other existing or future products;
- adequate reimbursement for Celera Diagnostics' and its collaborators' products may not be available to physicians or patients from the government or insurance companies; and
- Celera Diagnostics may be unable to obtain necessary intellectual property protection, or third parties may own proprietary rights that prevent Celera Diagnostics or its collaborators from commercializing their products.

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

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

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

The use of genotyping and gene expression information by doctors and clinicians for these purposes is relatively new. Celera Diagnostics cannot be certain that doctors and clinicians will want to use its products designed for these purposes.

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

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

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

Because each third-party payor individually approves reimbursement, obtaining these approvals is a time-consuming and costly process that requires Celera Diagnostics to provide scientific and clinical support for the use of each of its products to each payor separately with no assurance that such approval will

be obtained. This process can delay the broad market introduction of new products and could have a negative effect on Celera Diagnostics' revenues and operating results.

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

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

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

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

Celera Diagnostics' facilities are subject, on an ongoing basis, to the United States Food and Drug Administration's Quality System Regulations, international quality standards and other regulatory requirements, including requirements for good manufacturing practices and the State of California

Department of Health Services Food and Drug Branch requirements. Celera Diagnostics may encounter difficulties expanding Celera Diagnostics' manufacturing operations in accordance with these regulations and standards, which could result in a delay or termination of manufacturing or an inability to meet product demand.

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

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

Single suppliers or a limited number of suppliers provide key components of Celera Diagnostics' products. If these suppliers fail to supply these components, Celera Diagnostics may be unable to satisfy product demand. Several key components of Celera Diagnostics' products come from, or are manufactured for Celera Diagnostics by, a single supplier or a limited number of suppliers. This applies in particular to components such as enzymes and fluorescent dyes. Celera Diagnostics acquires some of these and other key components on a purchase-order basis, meaning that the supplier is not required to supply Celera Diagnostics with specified quantities over longer periods of time or set-aside part of its inventory for Celera Diagnostics' forecasted requirements. Celera Diagnostics has not arranged for alternative supply sources for some of these components and it may be difficult to find alternative suppliers, especially to replace enzymes and fluorescent dyes. If Celera Diagnostics' product sales increase beyond the forecast levels, or if its suppliers are unable or unwilling to supply it on commercially acceptable terms, it may not have access to sufficient quantities of key components on a timely basis and may be unable to

satisfy product demand.

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

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

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

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

Celera Diagnostics also relies on trade secret protection for its confidential and proprietary information and procedures. Celera Diagnostics protects its

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

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

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

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

Introduction of new products may expose Celera Diagnostics to product liability claims. New products developed by Celera Diagnostics or its collaborators could expose Celera Diagnostics to potential product liability risks that are inherent in the testing, manufacturing, marketing, and sale of human diagnostic products. In addition, clinicians, patients, third-party payors, and others may at times seek damages based on testing or analysis errors based on a technician's misreading of results, mishandling of the patient samples, or similar claims. Product liability claims or product recalls, regardless of the ultimate outcome, could require Celera Diagnostics to spend significant time and money in

litigation and to pay significant damages. Although Celera Diagnostics expects to seek and maintain product liability insurance to cover claims relating to the testing and use of diagnostic products, there can be no assurance that such insurance will be available on commercially reasonable terms, if at all, or that the amount of coverage obtained will be adequate to cover losses from any particular claim.

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

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

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

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

Electricity shortages and 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. In 2001, the State of California experienced a statewide electricity shortage due to a variety of factors. Although some of the factors causing this shortage have been eliminated or mitigated, there are ongoing concerns about the availability of electricity in California, particularly during peak usage periods. Blackouts in Alameda or Foster City, even of modest duration, could impair or cause a temporary suspension of Celera Diagnostics' operations, including the manufacturing and shipment of new products. Power disruptions of an extended duration or high frequency could have a material adverse effect on operating results. In addition, Alameda and Foster City are located near major California earthquake faults. The ultimate impact of earthquakes on Celera Diagnostics, its significant suppliers, and the general infrastructure is unknown, but operating results could be materially affected in the event of a major earthquake.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to potential loss from exposure to market risks represented principally by changes in foreign exchange rates, interest rates, and equity prices. Please refer to the market risk section of the Management's Discussion and Analysis included on page 30 of our 2002 Annual Report to Stockholders (which section is incorporated herein by reference).

Item 4. Controls and Procedures.

We maintain disclosure controls and procedures designed to ensure that the information required to be disclosed in the reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. We evaluated the effectiveness of the design and operation of these disclosure controls and procedures under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, within 90 days prior to the filing of this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to achieve their stated purpose. No significant changes were made to our internal controls or in other factors that could significantly affect these controls subsequent to the date of their most recent evaluation.

PART II - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders.

The Company held its Annual Meeting of Stockholders on October 17, 2002. At that meeting, the stockholders of the Company elected all of the nominees for director and approved all other proposals submitted by the Company to stockholders for approval at the meeting, each as described in the Notice of Annual Meeting and Proxy Statement dated September 4, 2002. The results of the voting of the stockholders with respect to these matters is set forth below.

I. Election of Directors.

	Total Vote For Each Director	Total Vote Withheld From Each Director
Richard H. Ayers	201,176,956	18,075,045
Jean-Luc Belingard	203,232,993	16,019,008
Robert H. Hayes	201,178,661	18,073,340
Arnold J. Levine	203,204,123	16,047,878
Theodore E. Martin	201,229,290	18,022,711
Georges C. St. Laurent, Jr.	203,192,427	16,059,574
Carolyn W. Slayman	203,228,298	16,023,703
Orin R. Smith	203,163,566	16,088,435
James R. Tobin	201,252,408	17,999,593

Tony L. White	217,039,522	2,212,479

II. Ratification of the selection of PricewaterhouseCoopers LLP as the Company's independent accountants for the fiscal year ending June 30, 2003.

FOR	AGAINST	ABSTAIN
196,141,583	22,104,536	1,005,882

III. Approval of amendments to the Applera Corporation 1999 Employee Stock Purchase Plan.

FOR	AGAINST	ABSTAIN
211,996,454	4,028,993	3,226,554

IV. Approval of an amendment to the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan.

FOR	AGAINST	ABSTAIN
130,989,170	84,716,835	3,545,996

V. Approval of an amendment to the Applera Corporation/Celera Genomics Group 1999 Stock Incentive Plan.

FOR	AGAINST	ABSTAIN
133,165,620	82,510,687	3,575,694

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

(a) Exhibits.

13	Annual Report to Stockholders for the fiscal year ended June 30, 2002, to the extent incorporated herein by reference (incorporated by reference to Exhibit 13 to Annual Report on Form 10-K of the Company for the fiscal year ended June 30, 2002 (Commission file number 1-4389)).
99.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K.

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

(1) Current Report on Form 8-K dated October 2, 2002, to incorporate under Item 9 thereof the text of the Company's press release issued October 4, 2002, regarding an unfavorable jury verdict relating to discontinued operations.

(2) Current Report on Form 8-K dated December 17, 2002, to incorporate under Item 9 thereof: (i) the text of the Company's press release issued December 10, 2002, in which it announced a meeting with the investment community on December 17, 2002, to discuss the Company's Celera Genomics Group and Celera Diagnostics, a joint venture between the Company's Applied Biosystems and Celera Genomics groups; (ii) the text of the presentations proposed to be made by the Company at such meeting; and (iii) the text of the Company's press release issued December 17, 2002, with respect to certain matters expected to be discussed at such meeting.

SIGNATURES

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

APPLERA CORPORATION

By: /s/ Dennis L. Winger

Dennis L. Winger
Senior Vice President and
Chief Financial Officer

By: /s/ Vikram Jog

Vikram Jog
Corporate Controller
Chief Accounting Officer

Dated: February 14, 2003

CERTIFICATIONS

Principal Executive Officer Certification

I, Tony L. White, certify that:

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

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

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

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

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

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

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

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

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

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

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

   Date: February 14, 2003

   /s/ Tony L. White

   Chief Executive Officer

Principal Financial Officer Certification

I, Dennis L. Winger, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: February 14, 2003

/s/ Dennis L. Winger

Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	
99.1	Certification of Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002
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