FORM 10-K

Annual report pursuant to section 13 and 15(d)

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APPLERA CORP
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☒ **Annual Report Pursuant to Section 13 Or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended June 30, 2004

Or

☐ **Transition Report Pursuant to Section 13 Or 15(d) of the Securities Exchange Act of 1934**

For the transition period from _____ to _____

Commission File Number 1-4389

Applera Corporation
(Exact name of registrant as specified in its charter)

DELAWARE	**06-1534213**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
301 Merritt 7, Norwalk, Connecticut	**06851-1070**
(Address of principal executive offices)	**(Zip Code)**

Registrant' s telephone number, including area code: 203-840-2000

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Each Exchange on Which Registered
Applera Corporation-Applied Biosystems Group Common Stock (par value $0.01 per share)	**New York Stock Exchange Pacific Exchange**
Rights to Purchase Series A Participating Junior Preferred Stock (par value $0.01 per share)	**New York Stock Exchange Pacific Exchange**
Applera Corporation-Celera Genomics Group Common Stock (par value $0.01 per share)	**New York Stock Exchange Pacific Exchange**
Rights to Purchase Series B Participating Junior Preferred Stock (par value $0.01 per share)	**New York Stock Exchange Pacific Exchange**

Securities registered pursuant to Section 12(g) of the Act:

Title of Class
Class G Warrants

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant' s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No ☐

As of December 31, 2003, the last business day of the registrant' s most recently completed second fiscal quarter, the aggregate market value of Applera Corporation-Applied Biosystems Group Common Stock (based upon the average of the high and low price) held by non-affiliates was $4,273,700,698, and the aggregate market value of Applera Corporation-Celera Genomics Group Common Stock (based upon the average of the high and low price) held by non-affiliates was $1,021,199,248. As of September 3, 2004, 195,710,205 shares of Applera Corporation-Applied Biosystems Group Common Stock and 73,031,206 shares of Applera Corporation-Celera Genomics Group Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Annual Report to Stockholders for Fiscal Year ended June 30, 2004 - Parts I, II, and IV.

Proxy Statement for 2004 Annual Meeting of Stockholders - Part III.

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EXHIBITS, INCLUDING CERTIFICATIONS

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PART I

Item 1. Business

Company Overview

Business Segments

Applera Corporation conducts business through three business segments, which are described below. Throughout this report, terms such as "Applera," "we," "us," or "our" may be used to refer to Applera Corporation.

Applied Biosystems Group. Our Applied Biosystems Group, which we refer to as "Applied Biosystems" throughout this report, serves the life science industry and research community by developing and marketing instrument-based systems, consumables, software, and services. Its customers use these tools to analyze nucleic acids (DNA and RNA), small molecules, and proteins to make scientific discoveries, develop new pharmaceuticals, and conduct standardized testing. A description of this business segment and developments during our 2004 fiscal year is set forth below in this Item 1 under the heading "Applied Biosystems Group Business."

Celera Genomics Group. Our Celera Genomics Group, which we refer to as "Celera Genomics" throughout this report, is engaged principally in the discovery and development of targeted therapeutics for cancer, autoimmune, and inflammatory diseases. Celera Genomics is leveraging its proteomic, bioinformatic, and genomic capabilities to identify and validate drug targets, and to discover and develop small molecule therapeutics. It is also seeking to advance therapeutic antibody and selected small molecule drug programs in collaboration with global technology and market leaders. A description of this business segment and developments during our 2004 fiscal year is set forth below in this Item 1 under the heading "Celera Genomics Group Business."

Celera Diagnostics, a 50/50 Joint Venture between Applied Biosystems and Celera Genomics. Celera Diagnostics, a joint venture formed by Applied Biosystems and Celera Genomics in April 2001, is focused on the discovery, development, and commercialization of diagnostic products. A description of this business segment and developments during our 2004 fiscal year is set forth below in this Item 1 under the heading "Celera Diagnostics, a 50/50 Joint Venture between Applied Biosystems and Celera Genomics."

Information about the risk factors associated with our business segments is set forth below in Item 5 of Part II of this report under the headings "Market for Registrant' s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities – Forward Looking Statements and Risk Factors."

We maintain a corporate staff to provide accounting, tax, treasury, legal, information technology, human resources, and other internal services for Applied Biosystems, Celera Genomics, and Celera Diagnostics.

Corporate History and Structure; Two Classes of Stock

Applera was incorporated in 1998 under the laws of the State of Delaware. Applera is the successor to "The Perkin-Elmer Corporation," a corporation originally formed in 1939, as a result of a recapitalization completed in May 1999. As part of the 1999 recapitalization, Applera established the following two classes of common stock that were intended to reflect separately the relative performance of the businesses of Applied Biosystems and Celera Genomics, which are business units of Applera and are not separate legal entities:

Applera Corporation-Applied Biosystems Group Common Stock, which we refer to in this report as "Applera-Applied Biosystems stock;" and

Applera Corporation-Celera Genomics Group Common Stock, which we refer to in this report as "Applera-Celera stock."

More information about Applera-Applied Biosystems stock and Applera-Celera stock is set forth below in Item 5 of Part II of this report under the headings "Market for Registrant' s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities – Information about our Common Stock and its Holders." Also, information about the risk factors associated with our capital structure and our two classes of stock is set forth below in Item 5 of Part II of this report under the headings "Market for Registrant' s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities – Forward Looking Statements and Risk Factors."

Available Information

Websites. We maintain Internet websites for Applera, Applied Biosystems, Celera Genomics, and Celera Diagnostics. All interested persons can access the following information on these websites, free of charge:

our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed with or furnished to the Securities and Exchange Commission;

Section 16 "insider transaction" reports, which include Forms 3, 4, and 5, filed by our officers and directors with the SEC; and

information relating to our corporate governance, including: our Corporate Governance Guidelines; our Code of Business Conduct and Ethics, which is applicable to our officers, directors, and employees; the charters for the Audit/Finance Committee, the Management Resources Committee, and the Nominating/Corporate Governance Committee of our Board of Directors; information on how to communicate with our Board of Directors, including our non-management directors; and information on how to report valid complaints to the Company regarding accounting and related matters.

We make our SEC reports and the insider transaction reports available on our websites as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC.

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The following table indicates how to access the documents described above on our websites:

	Website Address	SEC Filings	"Insider Transaction" Reports	Corporate Governance Information
Applera	www.applera.com	Click on the link to "SEC Filings" in the "Investors & Media" section of the website, and then click again on the link to "SEC Filings"	Click on the link to "SEC Filings" in the "Investors & Media" section of the website, and then click again on the link to "SEC Insider Filings"	Click on the link to "Corporate Governance" in the "Corporate" section of the website
Applied Biosystems	www.appliedbiosystems.com	Click on the link to "SEC Filings" in the "Investors" section of the website, and then click again on the link to "SEC Filings"	Click on the link to "SEC Filings" in the "Investors" section of the website, and then click again on the link to "SEC Insider Filings	Click on the link to "Corporate Governance" in the "Investors" section of the website
Celera Genomics	www.celera.com	Click on the link to "SEC Filings" in the "Investors & Media" section of the website, and then click again on the link to "SEC Filings"	Click on the link to "SEC Filings" in the "Investors & Media" section of the website, and then click again on the link to "SEC Insider Filings"	Click on the link to "Corporate Governance" in the "Investors & Media" section of the website

In addition, you can obtain copies of these materials by calling our corporate Secretary at 203-840-2000 or by making a request in writing mailed to: Attention: Secretary, Applera Corporation, 301 Merritt 7, P.O. Box 5435, Norwalk, CT 06856-5435.

Except for the documents on our websites that are expressly incorporated by reference into this report, the information contained on our websites is not incorporated by reference into this report and should not be considered to be a part of this report. This includes the websites referred to in the table above, as well as other websites that we refer to elsewhere in this report. All of these website addresses are included in this document as inactive textual references only.

Information Incorporated by Reference. The SEC allows us to "incorporate by reference" some information from parts of other documents filed with the SEC, including:

our Annual Report to Stockholders for our 2004 fiscal year, which we refer to in this report as our "2004 Annual Report;" and

our Proxy Statement relating to our Annual Meeting of Stockholders to be held on October 21, 2004, which we refer to in this report as our "2004 Proxy Statement."

When we "incorporate by reference," that means that we are referring you to important information in other documents that have been filed with the SEC rather than repeating that information in this report. We recommend that you refer to the information that we indicate is

contained in the other documents and which is incorporated by reference into this report. The portions of our 2004 Annual Report that are incorporated by reference into this report are included as Exhibit 13 to this report.

Scientific Background

All living organisms contain biological molecules. The most numerous are in the categories of: nucleic acids, which include DNA and RNA; proteins; carbohydrates; and lipids. Biological molecules are typically much larger and more complex than common molecules, and there is a wide diversity in the types of biological molecules present in living organisms. These characteristics make the analysis of biological molecules significantly more complex than the analysis of smaller compounds. Key advances in therapeutics have historically often come from an understanding of either proteins or DNA.

DNA molecules provide instructions that ultimately control the synthesis of proteins within a cell, a process referred to as "gene expression." DNA molecules consist of chemical subunits, called "nucleotides," bound in two long strands formed by a chemical "backbone" made up of sugar and phosphate molecules. There are four nucleotides – adenine, cytosine, guanine, and thymine – often abbreviated with their first letters A, C, G, and T and often referred to as "bases." In a DNA molecule, the nucleotides in the two strands are bound together in pairs to form a structure that resembles a twisted ladder, which is often referred to as a "double helix." The bound pairs of nucleotides, which form the rungs of the "ladder," are often referred to as "base pairs."

Genes are individual segments of these DNA molecules that carry the specific information necessary to construct particular proteins. Genes may contain from several dozen to tens of thousands of nucleotides. The entire collection of DNA in an organism, called the "genome," may contain a wide range of nucleotides, including as few as 4 million nucleotides in the case of simple bacteria and 3.1 billion base pairs of nucleotides in the case of human beings.

RNA molecules are similar to DNA in structure and are essential for biological function through a number of biochemical activities within the human body. There are different types of RNA molecules, each of which has a different function. For example, messenger RNA, the most common form of RNA, acts as an intermediary between DNA and protein, transcribing the genetic code from DNA into protein.

Principally driven by the "biotechnology revolution," and the increasing focus on DNA, researchers are developing a better understanding of DNA' s role in human disease. An increased appreciation of how DNA ultimately determines the functions of living organisms has generated a worldwide effort to identify and sequence genes of many organisms, including the genes that make up the human genome. We believe the best scientific evidence to date indicates that the number of genes in the human genome that code for proteins is between 25,000 and 35,000, which is significantly less than had been previously thought. The study of genes and other genetic material of organisms is now commonly referred to as "genomics."

The field of genomics research generally includes three broad categories of analysis, consisting of sequencing, genotyping, and gene expression studies:

> Sequencing is performed to determine the exact order of the individual nucleotides in a DNA strand. Sequencing was used to identify the nucleotides in the entire human genome and other species. It has also been used to identify naturally occurring genetic variations in the human genome, which are referred to as "single nucleotide polymorphisms" or "SNPs." Scientists believe that SNPs can be correlated with, for

example, susceptibility to disease, disease prognosis, therapeutic efficacy, and therapeutic toxicity, and therefore may have diagnostic or therapeutic utility.

Genotyping is performed to determine a particular sequence variant of a gene and its particular association with an individual' s DNA. Genotyping is not performed to determine the complete structure of the gene, but rather is performed to determine if the particular DNA sequence variant, typically a SNP, can be associated with, for example, susceptibility to a particular disease or response to a particular drug.

Gene expression is performed to determine whether a particular gene is expressed, or present, and in some cases at what levels, in a relevant biological material. This analysis can be used, for example, to measure and compare gene activity in various biological samples, such as samples from populations of healthy and diseased individuals, or from populations at different stages of disease development. These types of studies may be useful in the development of diagnostic tests and therapeutic treatments.

As researchers learn more about DNA and genes, they are also developing a better understanding of the role of proteins in human disease through efforts in the field of "proteomics," the study of proteins expressed, or coded, by genes. Proteins are the products of genes and, along with gene expression and modification, are believed to be key drivers and mediators of cellular function and biological system activity. The understanding and treatment of disease today involves the study of genes and the proteins they code for, and frequently involves the measurement of a drug' s ability to bind to specific proteins in the body.

Although DNA contains the code for proteins, scientists have discovered that the body may modify proteins after they have been made in cells. These modifications, referred to as "post-translational modifications," can alter a protein' s function, leading to changes in the biological reactions that take place in cells, which researchers refer to as "biological pathways." These post-translational modifications complicate the study of proteins, because scientists studying proteins and seeking to understand their role in health and disease need a more thorough characterization of proteins than simply knowing their genetic, or DNA, code.

We believe that gene and protein research will increase as companies in the pharmaceutical and biotechnology industries seek to improve their drug discovery and development efforts. We also believe that ongoing drug discovery and development efforts will increase research of cells as researchers seek to further understand how drugs work in the body.

The growth in DNA, protein, and other research has created the need for systems that facilitate the collection, organization, and analysis of the large amounts of data generated by this research. This demand has led to the development of the science of "bioinformatics." The science of bioinformatics seeks to blend biology and computing to transform massive amounts of data into useful information.

Applied Biosystems Group Business

Overview

Applied Biosystems serves the life science industry and research community by developing and marketing instrument-based systems, consumables, software, and services. Its customers use these tools to analyze nucleic acids (DNA and RNA), small molecules, and proteins to make scientific discoveries, develop new pharmaceuticals, and conduct standardized testing. Applied Biosystems' products are designed to address the demand for increased automation and efficiency in pharmaceutical and biotechnology laboratories by combining the detection capabilities of analytical instruments with advances in automation and laboratory work-flow design. The markets for Applied Biosystems' products span the spectrum of the life sciences industry and research community, including: basic human disease research and genetic analysis performed by universities, government agencies, and other non-profit organizations; pharmaceutical drug discovery, development, and manufacturing; human identification; agriculture; biosecurity, which refers to products needed in response to the threat of terrorism; and food and environmental testing.

Applied Biosystems expects its ongoing research and development efforts will increasingly focus on integrated science solutions, which we refer to as "iScience," to expedite our customers' research and commercial goals. Scientists are increasingly adopting approaches that link technology, computer science, and traditional laboratory research to enable the study of complex biological systems and disease. This trend is evidenced by a growing number of high-profile initiatives and institutions worldwide dedicated to systems biology, which refers generally to the coordinated, integrated, and interdisciplinary study of the various parts of a biological system rather than just the focused study of individual parts such as genes, proteins, or cells. Applied Biosystems believes that the increasing availability of high-quality biological data and advances in technology are transforming the study of complex biological systems, but that the overwhelming amount of available biological information creates economic and practical challenges for this study. Consequently, Applied Biosystems is seeking to develop iScience products and services that help customers more easily and cost effectively leverage recent biological information and technological advances.

During our 2004 fiscal year, Applied Biosystems engaged a leading strategy consulting firm to assist management in an in-depth review of the group' s entire product portfolio. The purpose of this review is to identify opportunities for growth, increased profitability, and shareholder value creation. The first two phases of the project, which have been completed, included: a rigorous fact-based analysis of Applied Biosystems' current product portfolio; an evaluation of research and development investments in an attempt to achieve optimum alignment with future growth opportunities; and an examination of Applied Biosystems' business processes with a goal to improving operational efficiency and productivity. A third phase of this review is ongoing, during which Applied Biosystems is seeking to identify and analyze additional internal and external growth opportunities. As part of this business review, Applied Biosystems has been evaluating portfolio decisions, and this process has led to changes in, and may in the future result in further changes in, Applied Biosystems' product and business mix.

In July 2004, subsequent to the end of our 2004 fiscal year, Applied Biosystems announced a new organization structure which resulted from the strategic review described in the preceding paragraph. The new structure, which is expected to be substantially phased in by the end of September 2004, will create the following four business divisions, each led by a division President: Molecular Biology; Proteomics and Small Molecules; Applied Markets; and Service. Applied Biosystems intends to create integrated and fully-functioning divisions with the resources necessary to execute their business plans, including strategic planning, research and development, marketing, and sales professionals. The four new business divisions will be supported by several cross divisional functions, including units focused on Applied Biosystems' strategic planning and business development, investigation of advanced technologies, and incubation of new businesses in new or underserved markets. Also, these operating activities will continue to be supported by a shared service organization responsible for functions such as human resources, finance, communications, legal, and intellectual property.

Also, in August 2004, subsequent to the end of our 2004 fiscal year, Applied Biosystems announced the retirement of Michael W. Hunkapiller, Ph.D., Senior Vice President and President, Applied Biosystems Group. At the same time, Applied Biosystems announced the promotion of Catherine M. Burzik, formerly a Vice President of Applera and Executive Vice President and Chief Operating Officer of Applied Biosystems, to the position left by Dr. Hunkapiller.

For information on revenues from instruments and consumables for our 2002, 2003 and 2004 fiscal years, refer to pages 31 and 33 of Management' s Discussion and Analysis in our 2004 Annual Report, which pages are incorporated herein by reference.

Products for the Genomics Market

Customers in the genomics market use systems for the analysis of nucleic acids for: basic research; pharmaceutical and diagnostic discovery and development; biosecurity; food and environmental testing; analysis of infectious diseases; and human identification and forensic analysis. Applied Biosystems has developed technologies and products to support key applications in genomics research such as sequencing, genotyping, and gene expression studies. Applied Biosystems' products for the genomics market are described in the following paragraphs.

PCR Instruments, including Thermal Cyclers and Real-Time PCR Systems, and Related Consumables. Polymerase chain reaction, commonly referred to as "PCR," is a process in which a short strand of DNA is copied multiple times, or "amplified," so that it can be more readily detected and analyzed. Applied Biosystems' PCR product line includes amplification instruments, known as "thermal cyclers," several combination thermal cyclers and PCR detection systems, and reagents and software necessary for the PCR amplification and detection process.

The Dual 384-Well GeneAmp® PCR System 9700 thermal cycler is the highest capacity thermal cycler offered by Applied Biosystems. This instrument supports all key applications in genetic analysis and fills a significant market need for laboratories conducting high-volume genomics research. This instrument is referred to as a "dual 384-well" instrument because it can simultaneously amplify samples in two plastic trays, referred to by researchers as "microtiter plates," each having wells to hold 384 samples. Applied Biosystems also offers 60- and 96-well thermal cyclers and a dual 96-well thermal cycler. Applied Biosystems' PCR product line also includes reagents for high-fidelity, or high-accuracy, amplification of long DNA segments.

These are useful in the determination of "haplotypes," which are correlated patterns of inherited DNA mutations. Scientists are just beginning to understand haplotypes and use them in complex disease-gene association studies.

Applied Biosystems' real-time PCR systems product line, which it previously referred to as its "Sequence Detection Systems" product line, includes its ABI PRISM™ 6100 Nucleic Acid PrepStation for sample preparation and its real-time PCR instruments for analysis. The ABI PRISM 6100 Nucleic Acid PrepStation extracts DNA and/or RNA from whole cells, blood, and other samples. This DNA or RNA, largely separated from the other molecules found in cells, can then be analyzed in instruments largely without interference from those other molecules, such as proteins. The ABI PRISM 6100 Nucleic Acid PrepStation was designed to decrease the labor and cost involved in preparing DNA and RNA for analysis by automating some aspects of this key phase in the sample preparation process. Applied Biosystems had previously marketed the ABI PRISM 6700 Automated Nucleic Acid Workstation, which fully automated several key steps in sample preparation, including the extraction process described above. However, Applied Biosystems discontinued this higher-priced instrument as of the end of our 2004 fiscal year, though it continues to provide servicing and support for this instrument.

Applied Biosystems offers four real-time PCR instrument systems for the detection and quantitation of nucleic acids: The ABI PRISM® 7900HT Sequence Detection System, the ABI PRISM 7000 Sequence Detection System, the Applied Biosystems 7300 Real-Time PCR System, and the Applied Biosystems 7500 Real-Time PCR System. The model 7900HT system is a flexible, automated analyzer that can be used with 96-well and 384-well plates as well as Applied Biosystems' TaqMan® Low Density Array, which is described below. In its highest throughput configuration, using 384-well plates and robotics, this system can be used for large-scale gene expression and genotyping studies. Applied Biosystems began marketing the model 7300 and 7500 systems during our 2004 fiscal year. These instruments are designed to provide smaller laboratories with a more economical, yet versatile system for a broad range of applications, with the model 7500 system offering additional features and capabilities in comparison to the model 7300 system. These are next generation systems that have been designed with technological improvements that enhance performance and flexibility, though they are less automated than the model 7900HT system and do not have the same throughput capability because they use only 96-well plates. The model 7000 system is an older instrument that was also designed for the needs of smaller laboratories, and was the precursor to the model 7300 and 7500 systems. Limited demand for this product is expected to continue because some research and applied markets applications require the use of a system such as the model 7000 system that has been previously validated, or demonstrated acceptable, by users for those applications.

All of the real-time PCR Systems are modified versions of Applied Biosystems' thermal cyclers, which are described above, and use TaqMan® chemistry, a unique PCR technology designed by the Roche Group and developed by Applied Biosystems. TaqMan chemistry can be used both for measurement of gene expression and for genotyping. TaqMan chemistry detects the product of PCR amplification and quantifies the initial sample during the amplification process. This technique is referred to as "quantitative real-time PCR." The real-time PCR systems analyze a sample by measuring fluorescence resulting from the reaction of the TaqMan chemistry and the sample. This product line has been widely accepted in the pharmaceutical discovery research market. Applied Biosystems' TaqMan Gene Expression Assays and SNP Genotyping Assays are TaqMan chemistry-based assays designed for use on Applied Biosystems' real-time PCR systems. These products are described below in Item 1 of this report

under the headings "Applied Biosystems Group Business – Products for the Genomics Market – Genomic Assays."

Applied Biosystems offers a proprietary TaqMan Low Density Array (which it formerly referred to as its "Micro Fluidic Card" system), which was jointly developed with 3M Company, and a modified version of its model 7900HT system to support the Low Density Arrays for gene expression analysis. The Low Density Arrays are consumable laminated plastic sheets containing 384 microscopic fluid channels and wells. They are designed for use instead of microtiter plates, which are used in many types of laboratory analyses, including gene expression or genotyping studies on Applied Biosystems' instruments. The microscopic fluid channel design of the Low Density Arrays enables researchers to automatically route a sample to the reaction wells rather than doing this by hand or using expensive and complex robotics as is required when using microtiter plates. Applied Biosystems is currently offering the Low Density Arrays pre-loaded with its human, mouse, and rat TaqMan Gene Expression Assays, which are described below in Item 1 of this report under the headings "Applied Biosystems Group Business – Products for the Genomics Market – Genomic Assays." Using an on-line ordering system, customers can customize the cards by selecting the assays that are pre-loaded onto the Low Density Arrays.

Genetic Analysis Instruments; Genotyping and Resequencing Systems. Applied Biosystems' genetic analysis instruments, referred to as DNA or genetic analyzers, can be used to perform both DNA sequencing and fragment analysis. DNA sequencing is used to determine the exact order of nucleotides in a strand of DNA. DNA fragment analysis is used to determine the size, quantity, or pattern of DNA in a strand of DNA. DNA sequencing instruments have been used extensively to obtain the DNA sequence of the human genome and the genomes of other species and to identify SNPs and other genetic mutations.

Applied Biosystems' genetic analysis instruments use "electrophoresis" to analyze molecules. During electrophoresis, the molecules being analyzed are placed in a separation medium, usually a gel, and then subjected to an electric charge. The molecules will pass through the gel at different speeds because the molecules have different lengths and electrical charges. Typically, the molecules being analyzed are labeled, or chemically linked, with fluorescent "tags" before being subjected to the electrophoresis, with each of the four different nucleotides – A, C, G, and T – being labeled with a different color tag. During electrophoresis, the genetic analysis instrument can analyze the molecules by using an optical device that can "read" the fluorescent tags. Applied Biosystems offers several sequencing chemistries optimized for various customer requirements. Samples prepared using these chemistries are then analyzed on Applied Biosystems genetic analysis instruments.

All of Applied Biosystems' genetic analysis instruments now use capillaries, which are tubes through which a DNA sample moves during electrophoresis. Capillary systems have higher throughput and greater automation than those based on slab-gels, an older and less efficient technology. Applied Biosystems offers the following genetic analysis instruments:

Instrument	**Description**
Applied Biosystems 3730*xl* DNA Analyzer	96 capillary sequencer
Applied Biosystems 3730 DNA Analyzer	48 capillary sequencer
ABI PRISM® 3100 Genetic Analyzer	16 capillary sequencer
ABI PRISM® 3100-*Avan*t Genetic Analyzer	4 capillary sequencer
ABI PRISM® 310 Genetic Analyzer	1 capillary sequencer

Applied Biosystems provides servicing and customer support for these instruments.

The model 3730*xl* DNA Analyzer has superseded the 96 capillary model 3700 DNA Analyzer, which is no longer offered for sale by Applied Biosystems although Applied Biosystems continues to provide servicing and support for this instrument. At the time of its introduction in 1999, the model 3700 instrument represented a significant advance in DNA sequencing technology because it could perform high-throughput analysis of samples in unattended operation. The model 3700 instrument was the principal instrument used by Celera Genomics for sequencing human and other genomes, and we believe the model 3700 instrument is also the principal instrument used by the Human Genome Project for its sequencing projects. The model 3730*xl* instrument offers significant advances in data quality, throughput, and cost effectiveness over the model 3700 instrument. Because of these advances, the model 3730*xl* instrument is able to read longer DNA fragments than its predecessor. For a given sequencing project, this means that customers using the model 3730*xl* instrument will need to process fewer samples, lowering their preparation costs. Also, by incorporating a more sensitive optical design, the model 3730*xl* instrument is able to complete the same analysis with lower reagent consumption per sample. The 48-capillary model 3730 instrument, which incorporates the same technological advances as the model 3730*xl* instrument, can be upgraded to become a 96-capillary model 3730*xl* instrument.

The 16-capillary model 3100 Genetic Analyzer was designed for use by academic programs and commercial laboratories. It was the technological precursor of the model 3730 DNA Analyzer and incorporates many of the same features, though it has lower throughput and is less expensive. The 4-capillary model 3100-*Avant* Genetic Analyzer is a reduced capacity instrument derived from the model 3100 Genetic Analyzer and has a lower cost than the model 3100 instrument. A model 3100-*Avant* Genetic Analyzer can be upgraded to a model 3100 Genetic Analyzer. Applied Biosystems has discontinued sales of its ABI PRISM 377 DNA Sequencer, the last of its instruments to use slab-gel technology, although Applied Biosystems continues to provide servicing and support for this instrument.

In January 2004, Applied Biosystems began marketing the SNPlex™ Genotyping System. The SNPlex system uses “multiplexing,” a scientific term that refers to multiple reactions in a single tube or well, to rapidly identify large numbers of target SNPs in a single biological sample. Using this system, customers can perform studies based on Applied Biosystems’ proprietary SNP reference library or their own customized set of reference SNPs. The system consists of reagents and software for use on the Applied Biosystems 3730 and 3730*xl* DNA Analyzers. The high-throughput genotyping capabilities of this new system complement the PCR-based genotyping that can be performed by the Applied Biosystems’ real-time PCR instrument systems. Applied Biosystems expects that researchers seeking to perform genotyping will choose between these alternative technologies based on a variety of factors, including the type of studies they are performing, the scientific requirements of these studies, their access to the needed instrumentation, and their budgets.

In February 2004, Applied Biosystems began marketing the VariantSEQr™ Reseqencing System. This system is a comprehensive solution for researchers seeking to perform resequencing, which refers to a method by which the DNA sequence information of one or multiple DNA samples is compared to a known reference sequence to determine whether any genetic variations are present. Scientists may use this information to, for example, better understand the causes and prevention of disease, facilitate the development of better and more

targeted therapies and diagnostics, and understand individual response to treatment. Applied Biosystems believes that the VariantSEQr system will enable scientists to perform resequencing studies that were previously impractical and too expensive to perform because of the amount of time, labor, and expertise needed for experiment setup. The VarianSEQr system integrates reagents and software for use on the Applied Biosystems 3730 and 3730*xl* DNA Analyzers and 3100 and 3100-*Avant* Genetic Analyzers. Using this system, researchers can perform resequencing of more than four thousand human genes. Applied Biosystems intends to introduce additional resequencing sets for this system that will enable the resequencing of more human genes as well as DNA of non-human genes such as pathogens.

Genomic Assays. Our genomic assays are chemical tests used to measure a DNA or RNA target. A genomic assay combines a set of pre-selected "oligonucleotides" or "oligos," which are synthetic single-stranded pieces of DNA, with other analytical reagents that allow a researcher to measure differences between samples of genetic material. For example, a gene expression assay is a chemical test to measure how much RNA is being produced from a specific gene in the cells of a tissue sample. A genotyping assay is a chemical test to measure the presence or absence of a specific genetic sequence variation or mutation among DNA samples from different populations that can be used to correlate genetic traits with physical traits such as disease susceptibility or drug response. Applied Biosystems' genomic assays include several products and services for both gene expression and genotyping, which are described in the following table.

Gene Expression Assays	**Description**
TaqMan Gene® Expression Assays	Ready-made gene expression assays that can be ordered from Applied Biosystems' inventory
TaqMan® Pre-Designed Gene Expression Assays	Pre-designed gene expression assays that can be made to order
Custom TaqMan® Gene Expression Assays	Service for the manufacture of custom TaqMan chemistry-based gene expression assays based on targets supplied by researchers

SNP Genotyping Assays	**Description**
TaqMan® SNP Genotyping Assays	Ready-made SNP genotyping assays that can be ordered from Applied Biosystems' inventory
TaqMan® Pre-Designed SNP Genotyping Assays	Pre-designed SNP genotyping assays that can be made to order
TaqMan® Coding SNP Genotyping Assays	Ready-made SNP genotyping assays within protein coding regions of genes that can be ordered from Applied Biosystems' inventory
Custom TaqMan® SNP Genotyping Assays	Service for the manufacture of custom TaqMan chemistry-based SNP genotyping assays based on targets supplied by researchers

Since the initial launch of its genomic assays in our 2002 fiscal year, Applied Biosystems has continued to increase the number of assays available and currently offers a large library of ready-made and pre-designed SNP genotyping and gene expression assays. This library includes over 1.5 million human SNP genotyping assays, and over 300,000 gene expression assays including assays for the human, mouse, and rat genomes. The ability to study the mouse and rat genomes is important to researchers involved in, for example, therapeutic research and development because mice and rats have genes that are believed to correspond to human genes and the results of disease research or safety, toxicology, or other studies on mice or rats may therefore be correlated to humans with corresponding genetic characteristics. Applied Biosystems originally launched its genomic assay product and service lines under the names "Assays-on-Demand," which included its ready-made assays, and "Assays-by-Design," which

included its service for the manufacture of custom assays. During our 2004 fiscal year, Applied Biosystems renamed these product lines and expanded them to include the pre-designed assays described above.

Researchers traditionally have used "home brew" assays, which are assays that researchers both design and prepare themselves in their laboratories, a process that is relatively time consuming and expensive. Applied Biosystems believes that its ready-made and pre-designed genomic assays offer significant advantages to researchers compared with home brew assay design. These advantages include:

facilitation of experiments with many genes in parallel;

substantial reduction in experiment setup time;

decreased assay cost; and

creation of a set of standard and validated assays that enable comparisons of data between laboratories.

Applied Biosystems' SNP genotyping and gene expression assays are designed to be used with Applied Biosystems' real-time PCR systems.

Microarrays. Applied Biosystems offers the Applied Biosystems Expression Array System for gene expression analysis. This system combines "microarray" technology and a proprietary "chemiluminescence" technology and was designed to detect the expression of a greater number of genes, with higher sensitivity and specificity, while using less biological sample, than existing commercially-available microarray technologies. This system is highly sensitive because it can detect low levels of gene expression, and highly specific because of its accuracy in identifying the presence of expressed genes without falsely "reading" the presence of expression from other genes. Applied Biosystems commenced sales of this product in April 2004.

Microarray technology involves the miniaturization of reactions on a single consumable product to enable a large number of simultaneous reactions or analyses. Applied Biosystems' microarrays are small, porous nylon plates that can be used to analyze in parallel the expression of approximately 28,000 human genes in a sample. The microarrays are used in combination with the 1700 Chemiluminescent Microarray Analyzer, an instrument that measures gene expression by detecting chemiluminescence, which is the conversion of chemical energy stored within a molecule into light. DNA "probes," which are single-stranded pieces of DNA, are chemically attached to the microarray and designed to cause a chemiluminescent reaction in the presence of expression targets. The DNA probes used for this application are approximately 60 bases long. Applied Biosystems believes the use of chemiluminescence rather than fluorescence, and the use of longer probes, results in higher sensitivity and specificity compared to existing commercially-available microarray systems.

Applied Biosystems designed this system to complement the gene expression capabilities of its TaqMan chemistry-based real-time PCR System products. Researchers performing whole genome expression studies using the Expression Array System can validate their results and perform further analysis on Applied Biosystems' real-time PCR systems.

In May 2004, Applied Biosystems commenced commercial sales of whole genome expression arrays for the mouse genome, and plans to introduce a whole genome expression array for the rat genome in the future. The ability to study mouse and rat genomes is important to researchers involved in therapeutic research and development because mice and rats have genes that are believed to correspond to human genes and the results of disease research or safety, toxicology, or other studies on mice or rats may therefore be correlated to humans with corresponding genetic characteristics.

DNA Synthesis. DNA synthesizers produce synthetic single-stranded pieces of DNA for genetic analysis. These molecules, referred to as "oligonucleotides" or "oligos," are an essential reagent for PCR and DNA sequencing and are also used in drug discovery applications. DNA synthesis is used both by companies performing high-throughput synthesis as a service as well as individual laboratories that synthesize DNA for their own use. Applied Biosystems offers several models of synthesizers and supporting reagents for the needs of its different customers. Applied Biosystems also provides custom synthesis, in which oligonucleotides are made to order and shipped to customers.

PNA. Applied Biosystems has a license, which is exclusive for some applications, to manufacture and sell peptide nucleic acid within various markets including the molecular biology research market. Peptide nucleic acid, which is often referred to as "PNA," resembles DNA in its chemical structure except that it has a neutral peptide-like "backbone," whereas DNA has a negatively charged sugar phosphate backbone. The unique chemical structure of PNA enhances its affinity and specificity as a DNA or RNA "probe." Probes are used in various types of analysis, and are used to "search" for DNA and RNA sequences in a sample by binding to those sequences if they are present. PNA may be used in many areas, including basic research, pharmaceutical discovery, diagnostic development, and food and environmental testing. During our 2002 fiscal year, Applied Biosystems acquired additional rights to PNA technology, particularly exclusive rights in the field of diagnostics, through its acquisition of Boston Probes, Inc. and a party related to Boston Probes. During the fourth quarter of our 2004 fiscal year, Applied Biosystems recorded pre-tax charges of $14.9 million relating to Boston Probes. These charges are described in Note 2 to our fiscal 2004 Consolidated Financial Statements, which are incorporated by reference into Item 8 of this report.

Products for the Proteomics Market

Genes code for proteins in biological organisms, and proteins are the key biological molecules that function in all aspects of living things such as growth, development, and reproduction. The body may also modify proteins after they are made in cells, and such modifications, referred to as "post-translation modifications," often alter the function of the modified protein. These post-translational modifications are not encoded in the protein' s genetic, or DNA, code.

Differences in the types or amounts of specific proteins in biological systems are thought to be the primary differences between healthy and diseased systems or organs. A majority of drugs to treat human disease bind to and affect proteins. Proteins are large biological molecules made up of peptides, and peptides are made up of amino acids chemically linked together in long chains and frequently modified by the addition of chemical units such as "sugar chains" or "phosphate groups." Customers in the proteomics research market need systems for the analysis of proteins and peptides for the purpose of discovery of drug targets, protein therapeutics, and diagnostics. Applied Biosystems has developed products for the identification, characterization,

and measurement of expression of proteins and peptides. Applied Biosystems' products for the proteomics market are described in the following paragraphs.

Mass Spectrometry. Mass spectrometry has become very useful for the analysis of large molecules of biological importance such as proteins. Analysis of proteins and other molecules by mass spectrometry involves the very accurate measurement of the mass, or size, of components in a sample, such as the measurement of the multiple different peptides that make up a defective protein. The technique involves the measurement of these molecules in instruments using very high vacuum and sensitive electronics capable of measuring extremely fine differences in very small quantities of complex samples with multiple components. The technique of mass spectrometry requires that the following key elements be incorporated into the instrument:

A unique sample preparation process called "ionization" to charge the molecules for analysis. Applied Biosystems sells instruments with ionization by either a laser based system called "MALDI," which refers to "matrix assisted laser desorption ionization," or a high voltage electric system called "ESI," which refers to "electrospray ionization."

Mass analysis and detection, which involves the separation and electronic measurement of the mass of molecules and the measurement of the relative amounts present. Applied Biosystems has a variety of mass analysis technologies which separate and measure the mass of molecules in a sample. These include "TOF," which refers to "time of flight," which measures mass based on flight time in an electric field under vacuum; and "quadrupole" or "quad," and "linear ion trap," both of which measure mass using radio frequencies and electric charges though using related but different technologies.

Mass spectrometry products are often referred to or named based on their sample preparation and mass analysis technologies. For example, a "MALDI TOF" instrument is an instrument that uses MALDI to charge molecules for analysis and TOF for mass analysis. Also, mass spectrometry instruments are often referred to or named based on whether they are connected to liquid chromatography separation devices, which are used for sample preparation prior to analysis using mass spectrometry. For example, an "LC/MS" system is a liquid chromatography device connected directly to a mass spectrometry instrument, and an "LC/MS/MS" system is a liquid chromatography device coupled with tandem mass spectrometry instruments. Tandem mass spectrometry enables a more detailed and accurate analysis of the components of the molecules being studied.

The market for mass spectrometry is served by a wide range of instrument types based on a variety of technologies for both ionization and mass analysis and combined together in different combinations in different instruments. The different instrument types, technologies, and combinations result in differing performance characteristics and price levels, and the suitability of any particular system for any researcher or research laboratory will depend on the nature of the work being performed and the capital budget of the researcher or research laboratory.

Applied Biosystems and Applied Biosystems/MDS SCIEX Instruments, a joint venture between Applied Biosystems and MDS Inc. of Canada, supply a broad family of mass spectrometry products for the proteomics market that involve different combinations of these

technologies. Customers select from this range of product types based on their budgets, workflows, sample types, preferences, and experience. Under the terms of the joint venture agreement with MDS Inc., Applied Biosystems has the exclusive worldwide distribution rights to the LC/MS systems manufactured for the joint venture by the MDS SCIEX Division of MDS Inc. for the analytical instruments market.

The following table summarizes the mass spectrometry instruments offered by Applied Biosystems, including those manufactured through its MDS SCIEX Instruments joint venture, for the proteomics market:

Instrument Name	Ionization	Mass Analyzer
Voyager™-DE PRO Biospectrometry Workstation	MALDI	TOF
Voyager™-DE STR Biospectrometry Workstation	MALDI	TOF
4700 Proteomics Discovery System	MALDI	TOF/TOF™ Optics
QSTAR® XL Hybrid LC/MS/MS System	ESI or MALDI	Hybrid quad/TOF (often referred to as a Qq-TOF)
Q TRAP® LC/MS/MS System	ESI	Hybrid quad/linear ion trap
4000 Q TRAP® LC/MS/MS System	ESI or MALDI	Hybrid quad/linear ion trap

The 4700 Proteomics Discovery System and the 4000 Q TRAP LC/MS/MS System, both introduced in our 2003 fiscal year, are the most recent additions to this product line. The 4700 Proteomics Discovery System was designed to address the needs of proteomic researchers for increased speed and throughput as well as enhanced data quality and molecular information. The 4700 Proteomics Discovery System incorporates a high speed MALDI system with a tandem TOF mass analyzer. Applied Biosystems/MDS SCIEX Instruments introduced the 4000 Q TRAP LC/MS/MS System to complement the Q TRAP system. The 4000 Q TRAP system is based on the same linear ion trap technology introduced with the Q TRAP system but the 4000 Q TRAP system, a higher-priced instrument, has enhanced qualitative and quantitative analysis capabilities. Applied Biosystems believes these enhancements will enable researchers to combine experiments in a single, automated system that previously required multiple mass spectrometry instruments or were not practical to perform at all. This instrument became commercially available during our 2003 fiscal year and Applied Biosystems/MDS SCIEX Instruments achieved full production capacity in January 2004.

The 4700 Proteomics system, QSTAR system, Q TRAP system, and 4000 Q TRAP system all incorporate mass spectrometry instrumentation with an online link to relevant biological information available by subscription from Applied Biosystems, including annotated protein and genome information, and bioinformatics analysis tools. Applied Biosystems believes that these system enhancements, part of its iScience strategy, will facilitate researchers' efforts to characterize proteins and their functions in biological systems, including the human body.

In September 2004, subsequent to the end of our 2004 fiscal year, Applied Biosystems announced the signing of a definitive agreement with MDS Inc. to expand the scope of their Applied Biosystems/MDS SCIEX Instruments joint venture. Under the terms of the agreement, MDS has agreed to pay U.S. $40 million for a 50 percent interest in intellectual property assets related to current Applied Biosystems MALDI TOF mass spectrometry systems and next-generation products under development, together with a 100 percent interest in some MALDI TOF product-related manufacturing and research and development assets. The parties will each contribute the MALDI TOF and related intellectual property to the joint venture. Applied Biosystems, as part of its responsibilities to the joint venture, will continue to market, sell,

service, support, and provide research support for MALDI TOF products. Following a transition period, MDS Inc., through its MDS Sciex Division, as part of its responsibilities to the joint venture, will assume primary research and development as well as full manufacturing responsibility for MALDI TOF product lines. The existing products covered by this agreement include the Voyager instruments and the 4700 Proteomics Discovery System referred to in the table above. The other products referred to in the table are already included within the joint venture. The transaction is subject to customary closing conditions, including approval by regulatory authorities in the U.S. and Canada, and is expected to close in or before the fourth calendar quarter of 2004.

In addition to the range of mass spectrometry instruments and software used to operate those instruments, Applied Biosystems has developed and commercialized reagents for quantifying, or measuring, levels of molecules in one or more samples, including reagents using ICAT® reagent technology created by Dr. Ruedi Aebersold and others while at the University of Washington. The ICAT chemistry "tags" or affixes a chemical marker to a peptide containing a specific type of amino acid known as "cysteine." This process, when used with various mass spectrometry systems, enables the quantitation and identification of proteins in experiments that compare normal and diseased cells or samples. In our 2004 fiscal year, Applied Biosystems expanded its family of quantitiation chemistries for molecular identification with the development and commercialization of iTRAQ™ reagents. Using the iTRAQ™ reagents, researchers can affix chemical markers to all types of peptides within a protein-rich mixture, enabling the quantitation of a greater number of proteins, including the ability to detect post-translational modifications, and enabling the comparison of expression patterns within up to four samples in the same experiment. Applied Biosystems believes these new reagents complement the ICAT reagents because they enable experimentation that in many cases cannot be accomplished with the ICAT reagents. The ICAT and iTRAQ™ reagents offer laboratories a way of running protein experiments using mass spectrometry and are the foundation of an expanding family of Applied Biosystems consumables, software, and systems for proteomics.

Biochromatography. Biochromatography is an important step in both research applications and manufacturing of "biopharmaceuticals," which refers to protein-based pharmaceutical products. Researchers studying complex protein samples through mass spectrometry must first prepare these samples and separate them into the components to be analyzed. A common and important technique for the separation, and in some cases purification, of biological molecules is generally referred to as "biochromatography," a process by which molecules are separated according to one or more of their physical properties such as their size, shape, charge, or affinity to other molecules.

Applied Biosystems' biochromatography media products are used in "liquid chromatography." Liquid chromatography is a process that separates molecules by passing them, in a liquid, across a stationary or solid medium such as chemically modified plastic beads specially designed for this process. Separation occurs because different molecules, which have different affinities to the beads, will migrate, or pass, across the beads at different rates.

Applied Biosystems' biochromatography media products such as its POROS® beads are used in the proteomics discovery process and in the development and manufacturing of biopharmaceuticals. Applied Biosystems believes its biochromatography products offer productivity advantages, enabled by high speed separation combined with high capacity and resolution, over competitive product offerings.

Protein Sequencing and Synthesis. Proteins are large biological molecules and are made of peptides, and peptides are made of amino acids chemically linked together in long chains. Protein sequencers provide information about the sequence of amino acids that make up a given protein by chemically disassembling the protein and analyzing the amino acids. The Procise® Protein Sequencing system uses a protein sequencing chemistry known as Edman chemistry to sequence a peptide, one amino acid at a time, and in turn to identify or characterize the protein that contains the peptide.

Synthetically produced peptides are used in understanding antibody reactions and as potential drugs or drug analogs. The Applied Biosystems 433A Peptide Synthesis system is designed for the quality synthesis of peptides, peptide analogs, and small proteins. Applied Biosystems also manufactures and sells proprietary synthesis reagents and chemicals for use with this and other products.

Products for the Small Molecule Analysis Market

Applied Biosystems has a number of mass spectrometry products that life science researchers use to analyze small molecules. Small molecules studied in life science research are typically smaller than peptides and include, for example:

some drugs;

metabolites, the compounds resulting from the body' s acting upon a drug, and present in bodily fluids such as blood or urine;

other small biological molecules found naturally in the human body such as hormones, which affect physiological activity by sending signals to cells and organs, and cholesterol, which the body uses, for example, to build cells and produce hormones; and

various trace contaminants in food, beverage, or environmental applications.

Mass spectrometry instruments are especially important for pharmaceutical researchers studying "pharmacokinetics," the measurement of the bodily absorption, distribution, metabolism, and excretion, or elimination, of drugs. The U.S. Food and Drug Administration and other regulatory agencies require pharmacokinetic information for the approval of drugs. This application requires instruments which have a high resolution, or the ability to distinguish among different molecules with similar masses, and high sensitivity, or the ability to identify very small quantities of molecules, because the amounts of the drugs and their metabolites are very low and the mixtures are very complex. Researchers can perform the required pharmacokinetic analysis with LC/MS/MS systems that have been developed and refined by Applied Biosystems/ MDS SCIEX Instruments.

Mass spectrometry instruments are growing in importance in food, beverage, and environmental applications. Various regulatory bodies worldwide monitor quality of food, beverages, and water. For these applications, we believe that speed of data acquisition, increased sensitivity, and high resolution together with ease of use are critical to satisfying customer needs.

Applied Biosystems/MDS SCIEX Instruments offers a broad product line of mass spectrometry instruments for small molecule and pharmacokinetics researchers:

Instrument Name	Ionization	Mass Analyzer
API 2000™ LC/MS/MS System	ESI or MALDI	Triple quad
API 3000™ LC/MS/MS System	ESI	Triple quad
API 4000™ LC/MS/MS System	ESI	Triple quad
QSTAR® XL Hybrid LC/MS/MS System	ESI or MALDI	Hybrid quad/TOF (often referred to as a Qq-TOF)
Q TRAP® LC/MS/MS System	ESI	Hybrid quad/linear ion trap
4000 Q TRAP® LC/MS/MS System	ESI or MALDI	Hybrid quad/linear ion trap

The API product line instruments offer a range of sensitivity at varying costs, the API 4000 system being the most sensitive. This product line has been widely accepted by pharmaceutical researchers, and we believe the API 4000 system is the most sensitive triple quad mass spectrometry instrument available to this research market. The 4000 Q TRAP System has the same triple quad sensitivity but is a more versatile instrument because of its hybrid mass analyzer. The QSTAR XL Hybrid LC/MS/MS System offers higher resolution and mass accuracy, or the ability to accurately determine the mass of a molecule, than the API 2000, API 3000, API 4000, and Q TRAP systems, which is particularly useful to researchers seeking to identify unknown molecules such as metabolites. General information about mass spectrometry instruments and the technologies they incorporate, and also additional information about some of the instruments referred to in the table above, is set forth above in Item 1 of this report under the headings "Applied Biosystems Group Business – Products for the Proteomics Market – Mass Spectrometry."

In our 2004 fiscal year, the Applied Biosystems/MDS SCIEX Instruments joint venture announced a novel "Tissue Imaging" technology for the QSTAR XL Hybrid LC/MS/MS System that allows researchers to generate precise 2-dimensional and 3-dimensional images of low molecular weight drug compounds in tissue samples, and displays the spatial distribution of drugs within tissue samples from a human or other animal. This information can be used to determine whether a drug is reaching its intended target site within the tissue sample or is accumulating in the targeted tissue. Traditionally researchers attached radioactive molecules to small molecule drugs to track where the drug went and accumulated in the body. However, attaching the radioactive molecules can alter the drug properties, including where it goes in the body, frequently leading to inaccurate tissue distribution and toxicology information. Applied Biosystems believes Tissue Imaging by mass spectrometry represents a breakthrough technology for monitoring the safety and efficacy of small molecule drugs because it does not alter the properties of the drugs being studied.

Cell Biology and Functional Proteomics Products

Applied Biosystems has developed, and expects to continue developing, products used for the study of cell and biological molecule function. Applied Biosystems intends to market existing products and develop new products within this field. These products are intended for use by researchers studying the complex biological reactions that take place in cells, which researchers refer to as "biological pathways," and how these pathways relate to human disease. These studies are needed in a variety of fields, including in particular drug discovery and development. Applied Biosystems currently offers the 8200 Cellular Detection System, which is used by researchers to study cellular function. The system uses proprietary scanning technology to rapidly detect and measure fluorescence associated with objects as small as a single cell. Applied Biosystems also markets a line of Tropix® chemiluminescent reagent products used by

researchers studying cell function. Chemiluminescence is the conversion of chemical energy stored within a molecule into light, and the detection of chemiluminescence is another technology used to study cellular function. Applied Biosystems also licenses its chemiluminescence technology for adaptation for various types of diagnostic tests and drug discovery assays. These chemiluminescent-based tests and assays can be used in combination with a variety of detection instruments.

During our 2002 fiscal year, Applied Biosystems entered into a licensing, supply, and collaboration agreement with HTS Biosystems, Inc. to jointly develop and commercialize a functional proteomics system based on HTS Biosystems' "surface plasmon resonance" and "high-throughput affinity screening" technologies. Pursuant to this agreement, the parties developed, and Applied Biosystems began marketing, a proteomics instrument referred to as the 8500 Affinity Chip Analyzer. However, in June 2004 Applied Biosystems decided to exit this product line based on a strategic analysis of various business and technology investments. Accordingly, Applied Biosystems exercised its right to terminate the agreement with HTS Biosystems and return rights to the product line and related technology to HTS Biosystems. The termination will be effective no later than November 30, 2004.

Applied Genetic Analysis Products

Applied Biosystems has developed, and expects to continue developing, products and services specially designed for specific markets, with a focus in the areas of human identification, biosecurity, and environmental and food testing.

For example, Applied Biosystems develops systems that are used by crime laboratories and other agencies to identify individuals based on their DNA, commonly referred to as forensic analysis. Applied Biosystems' forensic analysis systems are used in criminal cases where DNA extracted from biological evidence found at the crime scene is compared with DNA from suspects or profiles stored in databases of potential suspects. The use of DNA in some criminal investigations has been shown to help solve crimes and reduce the cost of the investigation, and we believe there is a growing recognition of the validity of the use of DNA testing and DNA databases for this purpose. This is evidenced in particular by a growing number of governmental initiatives in the U.S. and abroad to finance the analysis of DNA from crime scenes, including the existing backlog of samples from past crimes, and build databases of potential suspects. This is also evidenced by the increasing use of DNA analysis to exonerate individuals previously convicted of crimes by testing archived evidence. Applied Biosystems' forensic analysis systems are also used to identify human remains, and for paternity testing. During our 2004 fiscal year, Applied Biosystems began marketing a new system to increase the efficiency and effectiveness of forensic analysis by providing a qualitative and quantitative assessment of DNA in a sample prior to forensic analysis. This assessment can be used by scientists and technicians performing forensic analysis to facilitate proper sample preparation for analysis, which can reduce the risk that analysis must be repeated, and Applied Biosystems believes its new system provides more accurate and useful results than systems offered by other companies that are used for forensic analysis.

Also, Applied Biosystems is developing technologies for bacterial and fungal detection, characterization, and identification. It offers the MicroSeq® Microbial Identification System to accurately identify microorganisms. It also offers TaqMan® Pathogen Detection Systems, which operate on real-time PCR systems instruments, to rapidly detect bacterial contamination and detect and analyze genetically modified organisms in foods.

Applied Biosystems has entered into several contracts to manufacture products needed in response to the threat of biological terrorism, often referred to as the "biothreat" or "biosecurity" market. For example, Applied Biosystems entered into a contract to manufacture an Anthrax bacteria detection product that another company has contracted to install and maintain in select U.S. Postal Service mail sorting centers. Applied Biosystems is evaluating the market for biosecurity products and may develop or manufacture other products for this market if and when it identifies other opportunities.

Information Products, including the Celera Discovery System™

Applied Biosystems currently offers, and intends to further develop, products that offer information content designed to assist research and development efforts. The information products that Applied Biosystems currently licenses to customers include the Celera Discovery System, as well as software, for use in combination with the Applied Biosystems assay products, designed to facilitate and make more efficient experiment design and biological data analysis. The Celera Discovery System is an online information and discovery system through which users can access genomic and related biological and medical information, and which links users to information on Applied Biosystems genomics products. The system was originally developed and marketed by Celera Genomics, but Applied Biosystems is now the exclusive distributor of this system pursuant to an agreement that is described below in Item 1 of this report under the headings "Applied Biosystems Group Business – Marketing and Distribution Agreement with Celera Genomics."

In February 2004, Applied Biosystems launched a new release of the Celera Discovery System that includes enhanced visualization and analysis tools for comparing the human, mouse, and rat genomes and additional data integration. Significant features added with this new release include the ability to directly compare the versions of these three genomes that have been sequenced by Celera Genomics and the publicly-funded Human Genome Project. Also, as part of Applied Biosystems' iScience strategy and mission of providing "whole-product" solutions to its customers, Applied Biosystems now offers several systems with online links to relevant biological information available by subscription, including the 1700 Chemiluminescent Microarray Analyzer, 4700 Proteomics Discovery System, QSTAR® XL Hybrid LC/MS/MS System, Q TRAP® LC/MS/MS System, and the 4000 Q Trap® LC/MS/MS System.

Informatics Products and Services

Applied Biosystems develops, markets, and distributes informatics software and services used to integrate and automate life sciences research, development, and manufacturing laboratories with the goal of increasing their efficiency and effectiveness. Users of Applied Biosystems' informatics products and services are typically involved in gene mapping, drug discovery, drug development, and drug manufacturing. Applied Biosystems offers various software products for laboratory information management systems, often referred to as "LIMS." These products are designed to facilitate sample tracking, data collection, data analysis, and data mining, and are generally designed to assist researchers in transforming data into useful information. Applied Biosystems also offers informatics consulting services directly through its Professional Services Group and through alliances with other companies. These consulting services are designed for laboratories seeking greater automation and integration of lab processes. Applied Biosystems consultants principally provide installation and customization of Applied Biosystems' LIMS software offerings, and also can assist customers in selecting and

integrating technologies to streamline and accelerate their genomics, proteomics, and high throughput screening activities.

Service and Support

Applied Biosystems provides warranties on all equipment at the time of sale, for periods of time ranging up to two years from the date of sale depending on the product subject to warranty. The warranties cover equipment installation, customer training, and application support. Applied Biosystems also offers service contracts to its customers that are generally one year after the original warranty period, but may range up to three years after the original warranty period. Applied Biosystems provides both repair services and routine maintenance services under these arrangements, and also offers repair and maintenance services on a time and material basis to customers that do not have service contracts. Service in the U.S. and major markets outside of the U.S. is provided by Applied Biosystems' service staff. In some foreign countries, service is provided through distributorship arrangements.

Marketing and Distribution

General. The markets for Applied Biosystems' products and services span the spectrum of the life sciences industry and research community, including: basic human disease research and genetic analysis performed by universities, government agencies, and other non-profit organizations; pharmaceutical drug discovery, development, and manufacturing; human identification; agriculture; biosecurity; and food and environmental testing. Each of these markets has unique requirements and expectations that Applied Biosystems seeks to address in its product offerings. Applied Biosystems' customers are continually searching for processes and systems that can perform tests faster, more efficiently, and at a lower cost. Applied Biosystems believes that its focus on automated and high-throughput systems enables it to respond to these needs.

The size and growth of Applied Biosystems' markets are influenced by a number of factors, including:

technological innovation in methods for analyzing biological data;

government funding for basic and disease-related research, such as in heart disease, AIDS, and cancer;

application of biotechnology to basic agricultural processes;

increased awareness of biological contamination in food and the environment; and

research and development spending by biotechnology and pharmaceutical companies.

In the U.S., Applied Biosystems markets the largest portion of its products directly through its own sales and distribution organizations, although some products are marketed through independent distributors and sales representatives. Sales to major markets outside of the U.S. are generally made by Applied Biosystems' foreign-based sales and service staff, but are also made directly from the U.S. to foreign customers in some cases. In some foreign countries, sales are made through various representative and distributorship arrangements. Applied

Biosystems owns or leases sales and service offices in the U.S. and in foreign countries through its foreign sales subsidiaries and distribution operations. None of Applied Biosystems' products are distributed through retail outlets.

Applied Biosystems Portal. During our 2003 fiscal year, Applied Biosystems decided to expand the role of the Internet in both the marketing and distribution of its products and services and also generally educating and interacting with its customers. In furtherance of that decision, Applied Biosystems' has since developed an Internet "Portal," which consists primarily of the following two linked websites:

The Applied Biosystems website for electronic commerce, or "e-commerce," which is located at www.appliedbiosystems.com. This website existed prior to the initiation of the Portal strategy but it was updated during our 2004 fiscal year.

The myScience℠ website, an Internet virtual research community which is located at myscience.appliedbiosystems.com. This website, which was launched during our 2004 fiscal year, is a free online resource that offers access to search tools and graphical viewers intended to help scientists plan their experiments, including selection of genomic reagents such as the Applied Biosystems TaqMan® gene expression and genotyping assays. The myScience Internet website also offers fee-based access to the entire Celera Discovery System™ for an in-depth interpretation and analysis of experimental results.

Applied Biosystems designed its Portal to link research resources directly to an online ordering system for Applied Biosystems products, and it has become a source of direct sales, particularly of its genomics products. The myScience website now includes features to browse and select for purchase a number of Applied Biosystems products, including TaqMan® Gene Expression and SNP Genotyping Assays, TaqMan® Low Density Arrays, the SNPlex™ Genotyping System, and the VariantSEQr™ Resequencing System. Applied Biosystems intends to phase additional features into its Portal over the next several fiscal years, and may consult or partner with third parties for this with the goal of creating a more effective Internet presence.

Marketing and Distribution Agreement with Celera Genomics

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

In exchange for the rights it acquired under the marketing and distribution agreement, Applied Biosystems agreed to pay royalties to Celera Genomics based on revenues generated by sales of some Applied Biosystems products from July 1, 2002, through the end of our 2012 fiscal year. The royalty rate is progressive, up to a maximum of 5%, with the level of sales through our 2008 fiscal year. The royalty rate becomes a fixed percentage of sales starting in our 2009 fiscal year, and the rate declines each succeeding fiscal year through our 2012 fiscal year. The products subject to the royalties include:

TaqMan® Gene Expression and SNP Genotyping Assays, TaqMan® Pre-Designed Gene Expression and SNP Genotyping Assays, and Custom TaqMan® Gene Expression and SNP Genotyping Assays;

Some reagents for arrays; and

New database subscriptions sold by Applied Biosystems.

Under the terms of the marketing and distribution agreement, Celera Genomics receives all revenues under, and is responsible for all costs and expenses associated with, Celera Discovery System and related information contracts that were entered into on or prior to June 30, 2002. However, Applied Biosystems took full responsibility for marketing and contracting for the Celera Discovery System and related products after that date. Accordingly, Celera Genomics does not expect any revenues from the Celera Discovery System and related products and services other than under contracts existing on that date, so long as they remain in effect, and from potential royalty payments from Applied Biosystems under the marketing and distribution agreement. Applied Biosystems has agreed to reimburse Celera Genomics for any shortfall in earnings before interest, taxes, depreciation, and amortization from these contracts below $62.5 million during the four fiscal years ending with the 2006 fiscal year, if the shortfall is due to the actions of Applied Biosystems including changes in marketing strategy for the Celera Discovery System. However, this commitment is also subject to Celera Genomics otherwise continuing to perform under these contracts, and does not protect Celera Genomics from lost revenue due to other circumstances such as customer bankruptcy or default.

Raw Materials

There are no specialized raw materials that are particularly essential to the operation of Applied Biosystems' business. Applied Biosystems' manufacturing operations require a wide variety of raw materials, electronic and mechanical components, chemical and biochemical materials, and other supplies, some of which are occasionally found to be in short supply. Applied Biosystems has multiple commercial sources for most components and supplies, but it is dependent on single sources for a limited number of such items, in which case Applied Biosystems normally secures long-term supply contracts. In some cases, if a supplier discontinues a product, it could temporarily interrupt the business of Applied Biosystems.

Patents, Licenses, and Franchises

Applied Biosystems' products are based on complex, rapidly developing technologies. Some of these technologies are covered by patents owned by Applied Biosystems, and others are owned by third parties and are used by Applied Biosystems under license. Applied Biosystems has pursued a policy of seeking patent protection in the U.S. and other countries for

developments, improvements, and inventions originating within its organization that are incorporated into Applied Biosystems' products or that fall within its fields of interest. Applied Biosystems' business depends on its ability to continue developing new technologies which can be patented, or licensing new technologies from third parties that own patents in desired technologies. The rights that Applied Biosystems considers important to its current business include the following:

Applied Biosystems licenses rights to PCR technology under a series of agreements with Hoffmann-La Roche Inc. and its affiliates, which own some of the patents covering the PCR process. Applied Biosystems receives royalties from third-party sales of products incorporating this technology through a series of licensing programs that it has established for industry access to some of its intellectual property. The first of these patents expires in March 2005 in the U.S., and in March 2006 in Europe and some other jurisdictions. The expiration of these patents may result in reduced royalty payments to Applied Biosystems. However, Applied Biosystems expects that a possible reduction in PCR royalties would be offset to a substantial degree by income from real-time PCR and other PCR-related technologies that it owns or licenses. In addition, Applied Biosystems has rights to multiple other PCR-related patents that should support a PCR-related royalty stream beyond our 2005 and 2006 fiscal years. Taken together, Applied Biosystems believes these factors should mitigate the effects of the patent expirations. The agreements with Hoffmann-LaRoche Inc. and its affiliates are the subject of legal proceedings described below in Item 3 of this report under the heading "Roche." The outcome of legal proceedings is inherently uncertain, and an adverse outcome in these proceedings could negatively affect the value of our PCR rights.

Applied Biosystems also licenses rights under some patents assigned to the California Institute of Technology relating to DNA sequencing. These patents expire between 2009 and 2018 in the U.S., and in 2005 in Europe and some other jurisdictions.

From time to time, Applied Biosystems has asserted that various competitors and others are infringing its patents; and similarly, from time to time, others have asserted that Applied Biosystems was or is infringing patents owned by them. These claims are sometimes settled by mutual agreement on a satisfactory basis and result in the granting of licenses by or to Applied Biosystems. However, we cannot make any assurances as to the outcome of any pending or future claims.

Backlog

Applied Biosystems' total recorded backlog at June 30, 2003, was $252.5 million, which included $1.2 million of orders from Celera Genomics and $3.1 million of orders from Celera Diagnostics. Applied Biosystems' total recorded backlog at June 30, 2004, was $237.9 million, which included $1.5 million of orders from Celera Genomics and $1.8 million of orders from Celera Diagnostics. Recorded backlog may not result in sales because of cancellation or other factors. It is anticipated that most of the orders included in backlog at June 30, 2004, will be delivered before the close of our 2005 fiscal year.

Competition

The markets in which Applied Biosystems operates are highly competitive and are characterized by the application of advanced technology. A number of Applied Biosystems' competitors are well known manufacturers with a high degree of technical proficiency. In addition, competition is intensified by the ever-changing nature of the technologies in the industries in which Applied Biosystems is engaged.

Applied Biosystems' principal competition comes from specialized manufacturers that have strengths in narrow segments of the life science markets. Applied Biosystems competes principally in terms of the breadth and quality of its product offerings, and its service and distribution capabilities. While the absence of reliable statistics makes it difficult to determine Applied Biosystems' relative market position in its industry segment, Applied Biosystems believes it is one of the principal suppliers in its fields, marketing a broad line of instruments and life science systems.

Research, Development, and Engineering

Applied Biosystems is actively engaged in basic and applied research, development, and engineering programs designed to develop new products and to improve existing products. Research, development, and engineering expenses for Applied Biosystems totaled $219.6 million in our 2002 fiscal year, $238.4 million in our 2003 fiscal year, and $233.8 million in our 2004 fiscal year. Applera expensed $381.9 million in our 2002 fiscal year, $401.5 million in our 2003 fiscal year, and $377.1 million in our 2004 fiscal year for Applera research, development, and engineering activities.

Applied Biosystems' new products generally originate from four sources: internal research and development programs; external collaborative efforts with technology companies and individuals in academic institutions; devices or techniques that are generated in customers' laboratories; and business and technology acquisitions.

Research and development projects at Applied Biosystems include: the development of improved electrophoresis techniques for DNA analysis; real-time PCR for nucleic acid quantification; innovative approaches to cellular analysis; sample preparation; information technologies; and mass spectrometry.

Environmental Matters

Applied Biosystems is subject to federal, state, and local laws and regulations regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, in those jurisdictions where Applied Biosystems operates or maintains facilities. Applied Biosystems does not believe that any liability arising under, or compliance with, environmental laws or regulations will have a material effect on its business, and no material capital expenditures are expected for environmental control.

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Celera Genomics Group Business

Overview

Celera Genomics is engaged principally in the discovery and development of targeted therapeutics for cancer, autoimmune, and inflammatory diseases. Celera Genomics is leveraging its proteomic, bioinformatic, and genomic capabilities to identify and validate drug targets, and to discover and develop small molecule therapeutics. Celera Genomics expects to use these capabilities, along with its molecular and cell biology, medicinal and computational chemistry, pharmacology, and other drug development technologies to optimize the potency, selectivity, and physical properties of new drug candidates. Celera Genomics is also seeking to advance therapeutic antibody and selected small molecule drug programs in collaboration with global technology and market leaders.

Celera Genomics and Celera Diagnostics are pursuing, in cooperation with each other, a strategy that we refer to as "targeted medicine." This strategy is based on the belief that a better understanding of the genetic basis of biology and disease is key to improved diagnosis and treatment of many common complex diseases. Celera Genomics and Celera Diagnostics are applying research and development tools and methods to analyze biological information, including genetic variations discovered through the Applera Genomics Initiative, in an attempt to discover associations between genes and diseases. The Applera Genomics Initiative is described below in Item 1 of this report under the heading "Applera Genomics Initiative." Celera Genomics may use this information to select and validate therapeutic targets for new drugs, and to stratify patient populations in clinical trials to increase the proportion of patients who have an efficacious response to drug treatment. Celera Diagnostics intends to develop new diagnostic tests based on known and newly-identified genetic and proteomic markers to help physicians predict an individual' s predisposition to, better characterize, monitor progression of, and select appropriate therapy for, common complex diseases. The ultimate goal of this targeted medicine approach is to:

identify new and improved targets for drug discovery and development;

facilitate more efficient clinical trials of new therapeutics;

develop diagnostic tests that address unmet medical needs in predicting, detecting, characterizing, and monitoring diseases; and

use diagnostics to select a form of therapy that is likely to be more effective and possibly safer in a particular patient population.

Celera Genomics may pursue both "antibody" and "small molecule" therapeutics. Antibodies are a type of protein produced by the human immune system that bind to potentially harmful substances, such as viruses and bacteria, in order to disable and eliminate them. Antibody therapeutics, thus, are protein-based biological compounds that are designed to similarly bind to and interfere with the activities of a particular target. Celera Genomics has initially chosen to focus on the discovery of proteins found primarily on the surface of tumor

cells as potential targets for antibody therapeutics. Small molecule therapeutics are generally low molecular weight, synthetically derived chemical compounds designed to bind to and interfere with the activities of particular targets, such as proteins, DNA, or RNA.

Development of Therapeutics Business

Celera Genomics was originally formed for the purpose of generating and commercializing information to accelerate the understanding of biological processes and to assist the research endeavors of pharmaceutical, biotechnology, and life science research entities. A key component of Celera Genomics' original business strategy was the development and sale of its Celera Discovery System™, an online information and discovery system through which users can access Celera Genomics' genomic and related biological and medical information. The Celera Discovery System is now marketed by Applied Biosystems under a marketing and distribution agreement, which is described above in Item 1 of this report under the headings "Applied Biosystems Group Business – Marketing and Distribution Agreement with Celera Genomics."

During our 2001 fiscal year, Celera Genomics expanded its operations to include therapeutics discovery and development in addition to its online database business, and since then has established the therapeutics business as its primary focus. In December 2002, Celera Genomics announced a refined business and scientific plan for its therapeutics business which generally provides for increased investment in clinical development capabilities, and greater efficiency and economy in target discovery, while continuing to place emphasis on Celera Genomics' cash as a strategic asset. In support of this plan, Celera Genomics has hired key managers and staff for the therapeutics business.

During our 2004 fiscal year, Celera Genomics continued to develop its therapeutics business. Celera Genomics' scientists advanced several small molecule therapeutic programs, including its histone deacetylase, or HDAC, program for cancer and its Factor VIIa anticoagulation program, both of which are described below in Item 1 of this report under the headings "Celera Genomics Group Business – Small Molecule Drug Programs – Compound Development Programs." Also, during our 2004 fiscal year, Celera Genomics made significant progress in its proteomic studies of pancreatic, lung, and colon cancer and began processing breast tissue samples. These studies are described below in Item 1 of this report under the headings "Celera Genomics Group Business – Target Discovery Programs; Proteomics and Genomics Research – Proteomics Studies."

Also, in July 2004, subsequent to the end of our 2004 fiscal year, Celera Genomics announced several developments in its business, which are described below:

Celera Genomics announced the formation of a strategic collaboration with Abbott Laboratories to discover, develop, and commercialize therapies for the treatment of cancer. The collaboration will encompass the development of various therapeutic approaches, including antibodies and small molecule drugs targeted against differentially-expressed cell-surface proteins that have been associated with cancer and validated as therapeutic targets through Celera Genomics' proteomics research.

Celera Genomics announced along with Celera Diagnostics a joint research collaboration with General Electric Company intended to accelerate the

discovery and development of new products for personalized, or targeted, medicine. The parties will seek to understand and differentiate disease at the molecular level, which is expected to lead to new diagnostics and treatments that are tailored for a specific disease or patient population. The first project outlined in the research collaboration is intended to support General Electric' s development of novel imaging agents that selectively target cell surface proteins that Celera Genomics has identified to be associated with cancer. A second project is intended to apply bioinformatics techniques to the prioritization of targets for diagnostic and therapeutic use.

Celera Genomics announced receipt of a milestone payment from Merck & Co. Inc. under the cathepsin K inhibitor collaboration agreement between the companies. This research program is described below in Item 1 of this report under the headings "Celera Genomics Group Business – Small Molecule Drug Programs – Compound Development Programs." This payment recognizes Merck' s advancement of a cathepsin K inhibitor into Phase I clinical trials as a potential treatment for osteoporosis. If this compound or others developed under the cathepsin K collaboration are successfully developed and advanced toward commercialization, which requires several other clinical trials if Phase I trials are successful, Celera Genomics will receive additional milestone payments and royalties on net sales from Merck.

Celera Genomics announced a strategic collaboration with Seattle Genetics, Inc. to jointly discover and develop antibody-based therapies for cancer. Pursuant to the collaboration, the parties will jointly designate a number of cell-surface proteins discovered and validated through Celera Genomics' proteomics research as targets. Seattle Genetics will carry out initial screening to generate and select the appropriate corresponding antibodies for joint development and commercialization. Antibodies developed under this collaboration may include Seattle Genetics' proprietary "antibody-drug conjugates," which are antibodies carrying cell-killing drugs. These antibodies may not be potent enough to kill cancer cells but can target cancer cells and deliver the cell-killing or "cytotoxic," drugs.

Target Discovery Programs; Proteomics and Genomics Research

Overview. Therapeutic target discovery, including identification and validation research, continues to be an important part of Celera Genomics' business, although it has directed its resources primarily to small molecule therapeutics development. Therapeutic "targets" are biological points of intervention for a therapeutic designed to affect a particular disease or medical condition. "Validation" refers to the process whereby the biological relevance of a particular target, and, therefore, its potential therapeutic relevance, is confirmed by conducting additional, complementary testing or analysis. Celera Genomics is focusing its target discovery research efforts in two areas: proteomics studies, which are described further below under the heading "Proteomics Studies," and analysis of the results of Celera Diagnostics' gene-disease association studies, which are described below in Item 1 of this report under the headings "Celera Diagnostics, a 50/50 Joint Venture between Applied Biosystems and Celera Genomics – Research and Development." Celera Genomics believes that these research efforts may lead to several possible commercial uses, which are described below:

Currently, the primary purpose of these research efforts is to identify and validate targets for antibody therapeutics and small molecule therapeutics. Celera Genomics has entered into collaborations to support these development efforts, including an antibody and small molecule therapeutic collaboration with Abbott Laboratories, and an antibody therapeutic collaboration with Seattle Genetics. Both of these collaborations are for development of therapeutics targeted to cell-surface proteins associated with cancer. These collaborations are described above in Item 1 of this report under the headings "Celera Genomics Group Business – Development of Therapeutics Business." Generally, Celera Genomics is seeking to defer the need to partner on small molecule drugs, if at all, other than those covered by the Abbott Laboratories collaboration. On the other hand, Celera Genomics believes it will likely collaborate with other companies on most or all antibody therapeutics that it may pursue as it is not currently seeking to build the infrastructure needed for their internal development. Celera Genomics' development capabilities and expansion plans are described below in Item 1 of this report under the headings "Celera Genomics Group Business – Small Molecule Drug Programs."

Validated targets discovered through Celera Genomics' research may be useful as *in vitro* or *in vivo* diagnostics, whether or not they result in efficacious therapeutics. *In vitro* refers to testing or other activities performed outside the living body, and *in vivo* refers to testing or other activities performed in the living body. In July 2004, Celera Genomics and Celera Diagnostics announced a collaboration with General Electric pursuant to which General Electric may develop novel *in vivo* imaging agents targeted to cell surface proteins that Celera Genomics has identified to be associated with cancer. This collaboration is described above in Part I of this report under the headings "Celera Genomics Group Business – Development of Therapautics Business." Celera Genomics expects that any *in vitro* diagnostics derived from Celera Genomics' research would be commercialized, if at all, through Celera Diagnostics because these types of diagnostics are currently within Celera Diagnostics' field of business.

Also, Celera Genomics is seeking to incorporate its study of "pharmacogenomics" into the design of clinical studies. Pharmacogenomics, a term which refers to the combination of pharmacology and genomics, is the study of how an individual' s genetic inheritance affects the body' s response to drugs. Celera Genomics believes that its pharmacogenomics research, which includes its analysis of the results of Celera Diagnostics' gene-disease association studies, may generate information that is useful in stratifying patient populations to increase the proportion of patients who have an efficacious response to drug treatment.

Proteomics Studies. Celera Genomics uses high-throughput proteomics to identify proteins that are associated with disease. These proteins may be targets for therapeutic intervention. Celera Genomics' current proteomics efforts are focused on analyzing proteins on the surface of cells from both healthy and diseased individuals, seeking to identify proteins that can be associated with particular diseases. These cell surface proteins, which are referred to as "differentially-expressed cell-surface proteins," are the class of proteins believed to represent the most promising targets for near-term drug candidates in the form of therapeutic antibodies. However, Celera Genomics has recently begun studying proteins that are "shed" from cancer cells within the body, as it believes this may also be a class of proteins that could result in drug targets or diagnostic tests. The diseases that Celera Genomics has initially selected for

proteomics study are pancreatic, lung, colon, and breast cancer. Celera Genomics conducts its proteomics research at its own proteomics facility, which became fully operational during our 2003 fiscal year.

During our 2004 fiscal year, Celera Genomics made significant progress in its proteomic studies of pancreatic, lung, and colon cancer and began processing breast tissue samples. As a result of these studies, Celera Genomics successfully identified over 200 differentially-expressed proteins on the surface of cancer cells. Its scientists are now completing validation studies for several of these proteins as potential therapeutic targets for treating pancreatic cancer. They have also selected additional differentially expressed proteins for validation, including our first potential therapeutic targets related to lung and colon cancers.

In order to identify differentially expressed cell-surface proteins, Celera Genomics has designed advanced methods to separate cellular and subcellular components of biological samples. Celera Genomics uses advanced mass spectrometer systems that are amenable to high-throughput quantitation and identification of proteins from separated biological samples. Celera Genomics is also using its assembled human genome and proprietary software and algorithms to identify proteins associated with diseases.

For target validation, Celera Genomics uses a variety of methodologies. In collaboration with other companies, Celera Genomics uses "immunohistochemistry," or the identification of proteins in tissues and cells using antibodies, to refine its understanding of therapeutic targets of interest and, for example, to identify protein expression profiles that would support or preclude meaningful progression of the drug targets. For targets of interest, Celera Genomics intends to perform tests to determine their relevance across a broad range of tissues and diseases. Celera Genomics expects to continue accessing further validation capabilities through collaborations.

Bioinformatics. As a result of its prior activities in sequencing the human and other genomes and creating and maintaining the Celera Discovery System, Celera Genomics has substantial bioinformatics resources. Using these resources, Celera Genomics expects to develop the capability to perform simulated, computer-based experimentation, which Celera Genomics believes would minimize the need to perform more labor-intensive experiments in the laboratory. Also, Celera Genomics believes that it can develop proprietary algorithms for use in its large scale computing infrastructure for the extraction of data from proteomics experiments and the integration of this data with genome, gene expression, and protein characterization information, scientific literature, and the patent status of possible targets. Celera Genomics believes the application of these algorithms to this data could be used to facilitate the identification of targets. However, Celera Genomics' ability to develop these capabilities is unproven, and, if developed, their utility in the therapeutics discovery and development process is uncertain.

Genomics Studies. Also as a result of its prior activities, Celera Genomics has substantial genomics capabilities. As a complementary approach to the proteomics methods and the disease association studies described above, Celera Genomics uses genomics in its efforts to identify and validate therapeutic targets. Celera Genomics intends to further characterize recently discovered genes, including those for which we have been issued patents or for which we have filed patent applications, by conducting *in vitro* cell studies and *in vivo* animal studies. Celera Genomics expects to incorporate its bioinformatics capabilities into this process. After the functions of genes are determined, Celera Genomics intends to establish the priorities of these genes or their gene products as targets based on the families of proteins they encode, the

association of the expression of these genes with specific diseases, and the functional importance of the gene products to cells.

Small Molecule Drug Programs

Celera Genomics has a small molecule drug discovery and development facility in South San Francisco, California. At this facility, Celera Genomics is performing research to identify and validate potential small molecule therapeutic targets and develop small molecule therapeutic compounds. Celera Genomics originally acquired some of these capabilities with its acquisition of Axys Pharmaceuticals, Inc. in November 2001. Since the acquisition, Celera Genomics has developed additional capabilities and intends to continue doing so, particularly by expanding its small molecule drug development capabilities. Celera Genomics' small molecule drug research and development expertise and programs are described below.

Scientific Expertise For Lead Compound Identification. Celera Genomics has a range of chemistry and biology capabilities which have been used primarily for therapeutic compound discovery and development. To date, a primary focus of Celera Genomics' chemists and biologists has been lead compound discovery and development using a variety of methods. "Lead" compounds are those within a series of related compounds that we believe are the most promising and which we would seek to move into preclinical and clinical development. Currently, Celera Genomics' lead compound discovery and development efforts are focused on both "structure-based drug design" and "high-throughput screening." These methods are generally described as follows:

"Structure-based Drug Design." Structure-based drug design is a process whereby medicinal chemists attempt to develop compounds that will bind to a therapeutic target based on the physical 3-dimensional structure of the target molecule. Our medicinal chemists obtain this information by analyzing pictures of the molecule taken through X-ray crystallography and also by performing molecular modeling based on the known properties of the components of the target molecule.

"High-Throughput Screening." High-throughput screening involves the screening of thousands of compounds against a disease target, usually a protein, to determine whether and how any of them bind to the target. Axys developed and purchased compound libraries for these studies and Celera Genomics has continued to diversify its compound libraries through the purchase of additional compound collections.

Compound Development Programs. Using the technologies described above, Celera Genomics has developed a general expertise in discovering and developing potential therapeutic compounds that target "proteases," a known druggable class of proteins. Proteases are enzymes that break down chemical bonds in proteins and are essential to the body' s physiological processes such as inflammation. Proteases are generally classified by how they break down a protein' s chemical bonds. "Cysteine" and "serine" proteases are two classes of these enzymes.

Celera Genomics has discovered "inhibitors" of some of the proteases that it has studied. Inhibitors are natural or synthetic compounds that can bind to the protein molecule and change the way it will perform in the body, and in particular, can prevent the function of the target protease that is causing or contributing to a particular disease or condition. Celera Genomics is developing several inhibitors on its own, and has two collaborations with major pharmaceutical

companies for the development of therapeutics for inflammatory diseases. These internal and partnered programs include the following:

Celera Genomics has an internal program to develop inhibitors of Factor VIIa, a serine protease, as an anticoagulant for the treatment of indications such as deep vein thrombosis, with the goal of improved balance between bleeding time and therapeutic efficacy compared to existing therapies.

Celera Genomics has another internal program to develop inhibitors of histone deacetylase, or HDAC. HDAC is an enzyme that is involved in the regulation of histone acetylation, a biological process that influences gene expression. Inhibition of HDAC leads to an increase in gene expression in a number of genes, some of which are related to cell cycle arrest and cell death. Medicinal chemists at Celera Genomics have applied structure based drug design to generate compounds that possess potent *in vitro* inhibition of HDAC activity, and *in vivo* efficacy in models of cancer.

Celera Genomics has two partnered programs that it acquired with Axys Pharmaceuticals. The first is a collaboration with Merck & Co. Inc. to develop small molecule inhibitors of cathepsin K, a cysteine protease, for the treatment of osteoporosis. Osteoporosis is a major risk factor for bone fractures and associated disability that affects over 10 million Americans, especially post-menopausal women. The second is a collaboration with Aventis Pharmaceuticals to develop inhibitors of cathepsin S, another type of cysteine protease. Celera Genomics' portion of both programs has been completed, and further development of therapeutics is now the responsibility of the partners, who will make clinical development decisions. In July 2004, Celera Genomics announced receipt of a milestone payment from Merck & Co. Inc. under the cathepsin K program. This payment recognizes Merck' s advancement of a cathepsin K inhibitor into Phase I clinical trials as a potential treatment for osteoporosis. Under U.S. Food and Drug Administration regulations, if these trials are successful several other clinical trials would be required before the compound could be commercialized.

Celera Genomics also has an internal program to develop inhibitors of tryptase, a serine protease, for the treatment of asthma. Celera Genomics previously had a collaboration with Bayer AG but during the 2003 fiscal year purchased all rights to the compounds subject to the collaboration. Since then, Celera Genomics discontinued its development of the lead compound series that had been acquired from Bayer and has shifted its efforts in this program to new proprietary compounds developed using, in part, technology and expertise obtained from the Bayer collaboration and the purchase of rights from Bayer.

Development of Preclinical and Clinical Resources and Expertise. A key element of Celera Genomics' business and scientific plan is to increase its therapeutic development capabilities for both preclinical and clinical activities so that its most promising therapeutic programs can be advanced into clinical trials without having to partner with other companies. At Celera Genomics, a compound is considered to be in preclinical development when it has been identified as a lead compound within a series of compounds and Celera Genomics begins its efforts to assess and enable the effectiveness of the compound within the human body; and is considered to be in clinical development when clinical trials begin. Celera Genomics' preclinical

programs are described above in Item 1 of this report under the headings "Celera Genomics Group Business – Small Molecule Drug Programs – Compound Development Programs." It does not currently have any non-partnered compounds in clinical development.

When acquired by Celera Genomics, Axys had some preclinical development capabilities, particularly in the scientific area of pharmacokinetics, and no significant clinical development capabilities. Since the Axys acquisition, Celera Genomics has substantially increased its scientific personnel to support preclinical and clinical activities, particularly the following:

drug metabolism, pharmacokinetics, and other personnel to evaluate how a compound is absorbed into the body; distributed within the body; metabolized, or broken down, once introduced into the body; and excreted, or eliminated, by the body;

toxicology personnel to perform studies to determine the safety of compounds; and

pharmaceutical sciences personnel to focus on the conversion of a compound into an acceptable physical form for administration to animals or humans, for example an injection in the skin or a pill or liquid taken orally.

In addition to the areas of scientific expertise described above, Celera Genomics has hired limited personnel in other areas that are important for drug development, including: clinical sciences personnel, who are involved in the overall direction and management of clinical development and the execution of clinical trials; regulatory affairs personnel, who have expertise in U.S. Food and Drug Administration and other pertinent regulations; and project management personnel, who help integrate the different drug development project teams and facilitate communications among these different teams.

Marketing and Distribution Agreement with Applied Biosystems; Celera Discovery System™

In April 2002, Celera Genomics and Applied Biosystems entered into a ten-year marketing and distribution agreement pursuant to which Applied Biosystems became the exclusive distributor of Celera Genomics' Celera Discovery System. Applied Biosystems is continuing to integrate the Celera Discovery System and other genomic and biological information into its products and services. The agreement has enabled Celera Genomics' executive team to focus on therapeutics discovery and development. The agreement is described above in Item 1 of this report under the headings "Applied Biosystems Group Business – Marketing and Distribution Agreement with Celera Genomics." Important information about this agreement also appears later in Item 5 of Part II of this report under the headings "Market for Registrant' s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities – Forward Looking Statements and Risk Factors." Under the marketing and distribution agreement, Celera Genomics continues to have access to all data, which may include formats not available to third parties, and other intellectual property associated with the Celera Discovery System for its therapeutic programs. Celera Genomics expects that such data and intellectual property will have a significant role in its product research and development.

Raw Materials

Celera Genomics' operations require a variety of raw materials, such as chemical and biochemical materials and other supplies, some of which are occasionally found to be in short supply. Any interruption in the availability of these materials could adversely affect Celera Genomics' operations. In particular, Celera Genomics 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. Celera Genomics may not be able to obtain or maintain access to these materials and information on acceptable terms, or may not be able to obtain needed consents from individuals providing tissue or other samples. In addition, government regulation in the U.S. and foreign countries could result in restricted access to, or use of, human and other tissue samples. If Celera Genomics loses access to sufficient numbers or sources of tissue samples or other required biological materials, or if tighter restrictions are imposed on its use of related clinical or other information or the information generated from tissue samples or other biological materials, its business may be harmed.

Patents, Licenses, Franchises and other Intellectual Property

Through its internal research programs and collaborative programs, Celera Genomics anticipates that it will develop an increasing portfolio of intellectual property. Celera Genomics may use this intellectual property in its internal development programs or may license such intellectual property to third party collaborators or customers for some combination of license fees, milestone payments, and royalty payments.

Celera Genomics' competitive position depends on maintaining its intellectual property protection and obtaining licenses to intellectual property it may need from others. Celera Genomics' 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. Celera Genomics' ability to obtain patent protection for its inventions 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 be issued or the breadth of claims that will be allowed in biotechnology and pharmaceutical patents. This may be particularly true with regard to the patenting of gene sequences, gene functions, and genetic variations. In this regard, the U.S. Patent and Trademark Office has adopted guidelines for use in the review of the utility of inventions, particularly biotechnology inventions. These guidelines increased the amount of evidence required to demonstrate utility in order to obtain a patent in the biotechnology field, making patent protection more difficult to obtain. Although others have been successful in obtaining patents to biotechnology inventions, since the adoption of these guidelines, these patents have been issued with increasingly less frequency. As a result, patents may not be issued for patent applications that Celera Genomics may own or license if the applicant is unable to satisfy the new guidelines. Celera Genomics recognizes that many of the intellectual property laws are directly suitable for application to these discoveries while other protections may not be available or extend to cover genomic and/or proteomic-based discoveries.

Celera Genomics also cannot ensure that changes in policies or to laws, or interpretations thereof, relevant to the patenting of biotechnology inventions, including for example inventions relating to DNA, including SNP, protein, therapeutic, and diagnostic discoveries, will not adversely affect its patent position worldwide. Celera Genomics anticipates that there may be

significant opposition worldwide regarding intellectual property rights for biotechnology inventions. This opposition may result in stricter standards for obtaining or enforcing biotechnology patent rights. Celera Genomics may become involved in opposition proceedings or litigation in order to obtain or enforce it intellectual property rights. If Celera Genomics becomes involved in these proceedings or litigation, it could consume a substantial portion of Celera Genomics' resources, and Celera Genomics may not ultimately prevail and may not be able to prevent a competitor from making, using, or selling products or technology similar or identical to its own.

Celera Genomics itself may become involved in litigation with a third party seeking to enforce its own intellectual property rights. If Celera Genomics does not prevail in a patent litigation dispute, it may be required to pay damages or royalties or to take measures to avoid any future infringement.

Celera Genomics has filed for patent protection worldwide for inventions relating to its discoveries. Celera Genomics expects to continue seeking patent protection for inventions relating to its DNA, including SNP, protein, therapeutic, and diagnostic discoveries. Celera Genomics' current strategy is to apply for patent protection for inventions that are made relating to novel pharmaceuticals and any novel formulations or methods of manufacture thereof, and novel methods of treating and diagnosing disease, as well as any novel inventions that may be made relating to DNA, including SNP, and protein discoveries. Although obtaining patent protection for inventions relating to its DNA, protein, and diagnostic discoveries might enhance Celera Genomics' business, Celera Genomics does not believe that its commercial success will be materially dependent on its ability to do so. However, Celera Genomics' failure to receive patent protection for its therapeutic inventions could adversely affect the commercial value of these discoveries. Celera Genomics currently owns 170 U.S. patents claiming inventions relating to its DNA, protein and therapeutic discoveries.

Celera Genomics also relies on trade secret protection for its confidential and proprietary information and procedures. Celera Genomics 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 Genomics may not have adequate remedies for a breach. In addition, Celera Genomics' trade secrets may otherwise become known or be independently developed by competitors. Accordingly, it is uncertain whether Celera Genomics' reliance on trade secret protection will be adequate to safeguard its confidential and proprietary information and procedures.

Backlog

Celera Genomics' total recorded backlog at June 30, 2003, was $80.1 million. Celera Genomics' total recorded backlog at June 30, 2004, was $25.2 million. Recorded backlog may not result in sales because of cancellation or other factors. It is anticipated that most of the orders included in backlog at June 30, 2004, will be delivered before the close of our 2005 fiscal year.

Competition

The pharmaceutical industry is 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 Celera Genomics or its collaborators;

develop therapeutic products which are more effective or more cost-effective than those developed by Celera Genomics or its collaborators;

obtain regulatory approvals of their therapeutic products more rapidly than Celera Genomics or its collaborators; or

obtain patent protection or other intellectual property rights that would limit the ability of Celera Genomics or its collaborators to develop and commercialize therapeutic products.

Research and Development

Celera Genomics is actively engaged in basic and applied research and development programs designed to develop new therapeutic products and support the commitments of existing online/information contracts. Research and development expenses for Celera Genomics totaled $132.7 million in our 2002 fiscal year, $120.8 million in our 2003 fiscal year, and $104.6 million in our 2004 fiscal year. Applera expensed $381.9 million in our 2002 fiscal year, $401.5 million in our 2003 fiscal year, and $377.1 million in our 2004 fiscal year for Applera research, development, and engineering activities. Celera Genomics' new products are expected to originate from three sources: internal research and development programs, external collaborative efforts or alliances, and business and technology acquisitions.

Environmental Matters

Celera Genomics is subject to federal, state, and local laws and regulations regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, in those jurisdictions where Celera Genomics operates or maintains facilities. Celera Genomics does not believe that any liability arising under, or compliance with, environmental laws or regulations will have a material effect on its business, and no material capital expenditures are expected for environmental control.

Celera Diagnostics, a 50/50 Joint Venture between Applied Biosystems and Celera Genomics

Overview

Celera Diagnostics is engaged principally in the discovery, development, and commercialization of diagnostic products. In particular, Celera Diagnostics is studying SNPs and gene expression patterns in human biological tissues and blood samples and their association with specific common, complex diseases. These SNPs and gene expression patterns are often referred to as "genetic markers." Celera Diagnostics' gene-disease association studies are currently focused on the following disease areas: heart disease; breast cancer; Alzheimer' s disease; autoimmune and inflammatory diseases, including rheumatoid arthritis; liver disease; and diabetes. In addition, Celera Diagnostics is conducting "host response studies" to identify genetic associations with patient response to treatments. Specifically, Celera Diagnostics is conducting these types of studies in patients infected with the Hepatitis C virus to identify patients who respond positively to interferon treatment, and in patients with heart disease to identify patients who respond to various types of treatment for that disease. Celera Diagnostics plans to conduct similar studies of this type in the future for other treatments and diseases. Celera Diagnostics expects that the discoveries resulting from its research will provide genetic information which may lead to earlier and more effective diagnosis and treatment of disease. Celera Diagnostics expects that the primary end-users of its products will be reference laboratories, hospitals, and medical clinics worldwide that perform diagnostic testing for human healthcare.

Celera Diagnostics and Celera Genomics are pursuing, in cooperation with each other, a strategy that we refer to as "targeted medicine." This strategy is based on the belief that a better understanding of the genetic basis of biology and disease is key to improved diagnosis and treatment of many common complex diseases. Celera Diagnostics and Celera Genomics are applying research and development tools and methods to analyze biological information, including genetic variations discovered through the Applera Genomics Initiative, in an attempt to discover associations between genes and diseases. The Applera Genomics Initiative is described below in Item 1 of this report under the heading "Applera Genomics Initiative." Celera Diagnostics intends to develop new diagnostic tests based on known and newly-identified genetic and proteomic markers to help physicians predict an individual' s predisposition to, better characterize, monitor progression of, and select appropriate therapy for, common complex diseases. Celera Genomics may use this information to select and validate therapeutic targets for new drugs, and to stratify patient populations in clinical trials to increase the proportion of patients who have an efficacious response to drug treatment. The ultimate goal of this targeted medicine approach is to:

identify new and improved targets for drug discovery and development;

facilitate more efficient clinical trials of new therapeutics;

develop diagnostic tests that address unmet medical needs in predicting, detecting, characterizing, and monitoring diseases; and

use diagnostics to select a form of therapy that is likely to be more effective and possibly safer in a particular patient population.

Development of Diagnostics Business

Celera Diagnostics was formed during our 2001 fiscal year pursuant to a joint venture agreement between Applied Biosystems and Celera Genomics. A description of that agreement is set forth below in Item 1 of this report under the headings "Celera Diagnostics, a 50/50 Joint Venture between Applied Biosystems and Celera Genomics – Summary of Joint Venture Agreement." Since its formation, Celera Diagnostics has achieved a number of important milestones in the development of its business including, among others: establishment of headquarters in Alameda, California; hiring of key personnel in areas of discovery research, product development, manufacturing, quality assurance, regulatory affairs, and marketing; construction of discovery laboratories and manufacturing facilities; commencement of large-scale study programs; formation of several important alliances, collaborations, and other third party relationships to support its research, development, and commercialization of products, including particularly its strategic alliance with Abbott Laboratories; and receipt of several marketing clearances for its ViroSeq™ HIV-1 Genotyping System from the U.S. Food and Drug Administration, or FDA. Key developments during our 2004 fiscal year included the following:

Between September 2003 and June 2004, Celera Diagnostics announced the discovery of, and publicly identified, a total of six genes that are markers associated with an increased risk for myocardial infarction, or heart attack. None of these genes were in a previously recognized disease pathway associated with myocardial infarction.

In October 2003, Celera Diagnostics announced a research collaboration with Merck & Co., Inc. to identify and validate genetic markers useful in Celera Diagnostics' development of diagnostic tests and Merck's development of therapeutics for selected cancers. Pursuant to this collaboration agreement, the parties have agreed to share data and other intellectual property for use in their separate research and development efforts. The collaboration is initially focused on breast cancer but may be expanded to other cancers by mutual consent.

In November and December, 2003, at scientific meetings Celera Diagnostics and its collaborators presented selected results from three genomic studies, including preliminary findings regarding risk of distant metastasis in breast cancer, interferon responsiveness in hepatitis C patients, and Alzheimer's disease.

In February 2004, Celera Diagnostics announced that it obtained clearance from the FDA for expanded claims related to its ViroSeq™ HIV-1 Genotyping System. The ViroSeq system is described in further detail below in Item 1 of this report under the headings "Celera Diagnostics, a 50/50 Joint Venture between Applied Biosystems and Celera Genomics – Celera Diagnostics Products – ViroSeq HIV-1 Genotyping System."

In June 2004, Celera Diagnostics announced the discovery of, and publicly identified, a SNP in a gene that is a marker associated with an increased risk for rheumatoid arthritis and its potential use as a new drug target.

In June 2004, Celera Diagnostics announced, along with Applied Biosystems, a patent license agreement with Cepheid relating to real time thermal cycler instruments for research, diagnostic, and other uses. The terms of the agreement require Cepheid to pay Applera a license fee of $11.5 million over a two year period, the majority of which relates to the diagnostic rights granted to Cepheid and will be recorded by Celera Diagnostics. Also, under the terms of the agreement, Cepheid is obligated to pay ongoing royalties on sales of its products incorporating Applera intellectual property based on the field of use. We anticipate that the majority of sales will be in the diagnostic field and the corresponding royalties will be recorded by Celera Diagnostics.

Also, subsequent to the end of our 2004 fiscal year, in July 2004, Celera Diagnostics announced along with Celera Genomics a joint research collaboration with General Electric Company intended to accelerate the discovery and development of new products for personalized, or targeted, medicine. The parties will seek to understand and differentiate disease at the molecular level, which is expected to lead to new diagnostics and treatments that are tailored for a specific disease or patient population. The first project outlined in the research collaboration is intended to support General Electric' s development of novel imaging agents that selectively target cell surface proteins that Celera Genomics has identified to be associated with cancer. A second project is intended to apply bioinformatics techniques to the prioritization of targets for diagnostic and therapeutic use.

Also in July 2004, Celera Diagnostics announced a collaboration agreement with Merck & Co., Inc. to identify novel drug targets and diagnostic markers related to Alzheimer' s disease. Pursuant to the collaboration, Merck will fund Celera Diagnostics' performance of expanded Alzheimer' s gene-disease association research. Merck will be entitled to the therapeutic rights to targets identified for the treatment of Alzheimer' s disease and some other neurological disorders, and Celera Diagnostics will retain rights to all diagnostic applications for markers identified.

Summary of Joint Venture Agreement

Celera Diagnostics was formed during our 2001 fiscal year as a joint venture between Applied Biosystems and Celera Genomics. In connection with the formation of Celera Diagnostics, Applied Biosystems contributed, among other things, its then-existing molecular diagnostics business to Celera Diagnostics, and Celera Genomics contributed, among other things, access to its genome databases. Also, Celera Genomics agreed to fund all of the cash operating losses of Celera Diagnostics up to a maximum of $300 million ("initial losses"), after which, operating losses, if any, will be shared equally by Applied Biosystems and Celera Genomics. Celera Diagnostics' profits, if any, will be shared in the ratio of 65 percent to Celera Genomics and 35 percent to Applied Biosystems until the cumulative profits of Celera Diagnostics equal the initial losses. Subsequently, profits and losses and cash flows would be shared equally between Applied Biosystems and Celera Genomics. Applied Biosystems and Celera Genomics will fund Celera Diagnostics' capital expenditures and working capital requirements equally. Applied Biosystems will reimburse Celera Genomics for all tax benefits generated by Celera Diagnostics to the extent such tax benefits are utilized by Applied Biosystems. In the event of liquidation of the assets attributable to Celera Diagnostics, including sale of these assets, the proceeds upon liquidation would be distributed to Applied Biosystems and Celera Genomics based on a proportion similar to their relative investment accounts. If the

proceeds upon liquidation are in excess of the groups' combined investment accounts, the excess liquidation proceeds would be shared in the ratio of 65 percent to Celera Genomics and 35 percent to Applied Biosystems until the cumulative amount of the distributed excess proceeds equals the initial losses funded by Celera Genomics. Any additional liquidation proceeds would be allocated equally to Celera Genomics and Applied Biosystems.

Abbott Laboratories Strategic Alliance

In June 2002, Celera Diagnostics announced a long-term strategic alliance with Abbott Laboratories, one of the world' s largest diagnostics companies, to discover, develop and commercialize a broad range of *in vitro* diagnostic products for disease detection, prediction of disease predisposition, disease progression monitoring, and therapy selection. *In vitro* diagnostic products are diagnostic products that are used for testing outside of the living body. The agreement with Abbott Laboratories is limited to diagnostic products that detect nucleic acids, for example DNA or RNA. Under the agreement, Abbott Laboratories and Celera Diagnostics are obligated to work exclusively with each other in the commercialization of nucleic acid diagnostic products, except for specific products that the parties mutually agree to exclude from the alliance, if any. Diagnostic products based on the detection of proteins, rather than nucleic acids, is another potential business area for Celera Diagnostics but is not a part of the agreement with Abbott Laboratories.

Under the Abbott Laboratories agreement, Celera Diagnostics and Abbott Laboratories will jointly fund their separate but coordinated research and development activities that are within the scope of the alliance. Generally, Abbott Laboratories will market products developed and manufactured by the parties that are covered by the alliance. Celera Diagnostics believes that Abbott Laboratories' expertise in the diagnostics industry and its global distribution system will enhance Celera Diagnostics' ability to bring products to market. Our alliance with Abbott Laboratories, including the economic arrangements, covers all nucleic acid diagnostic products marketed by Abbott Laboratories, including any of those products manufactured by other companies.

Celera Diagnostics expects to rely substantially on its alliance with Abbott Laboratories for the success of its business strategy for the foreseeable future. Although this is a long-term alliance, the alliance agreement contains provisions that could result in early termination for reasons that include the following: breach by either company; a change in control of either company; either company' s dissatisfaction with the performance of the alliance according to specific timelines for such judgments set forth in the alliance agreement; or by either company if the other party fails to meet performance criteria applicable to the other party set forth in the alliance agreement. Also, Celera Diagnostics cannot ensure that Abbott Laboratories will perform its obligations as expected. If Abbott Laboratories terminates the alliance or otherwise fails to conduct its collaborative activities in a timely manner, Celera Diagnostics' development or commercialization of diagnostics products may be delayed or otherwise adversely affected.

Information about the marketing and distribution aspects of this strategic alliance is described below in Item 1 of this report under the headings "Celera Diagnostics, a 50/50 Joint Venture between Applied Biosystems and Celera Genomics – Marketing and Distribution."

Research and Development

Overview. During our 2002 fiscal year, Celera Diagnostics' first full fiscal year of operations, Celera Diagnostics focused its activities on staffing and completing its high-volume discovery laboratories, and then began research and development for products that detect infectious diseases and human genetic disorders. During our 2003 fiscal year, Celera Diagnostics substantially expanded its research and development efforts, initiating nine large-scale studies. During our 2004 fiscal year, Celera Diagnostics continued expanding its research and development activities, including advancement of its original studies and addition of new studies. In performing these studies, Celera Diagnostics is seeking to leverage its genotyping and gene expression capabilities with the SNP data from the Applera Genomics Initiative.

Celera Diagnostics' is currently conducting gene-disease association studies in the following areas: Alzheimer' s disease; autoimmune and inflammatory diseases, including rheumatoid arthritis; breast cancer; heart disease; liver disease; and diabetes. Most of these studies involve the analysis of large numbers of samples from healthy and diseased individuals, while a smaller number of these studies involve analysis of large numbers of samples from only diseased individuals. The goal of most of these studies is to identify SNPs that serve as genetic markers for a specific disease. In the breast cancer study, the goal is to identify gene expression patterns associated with breast cancer metastasis, which refers to the transmission of cancer cells from their original site to other sites within the body. In addition, Celera Diagnostics is conducting host response studies of SNPs and gene expression patterns in cells from patients infected with the Hepatitis C virus and patients with heart disease. The goal of these studies is to identify responsiveness to one or more forms of treatment.

During our 2004 fiscal year, Celera Diagnostics continued to advance its large-scale studies. They are all ongoing and are at different stages of progression. In the case of the Alzheimer' s disease study, Celera diagnostics is continuing its research pursuant to the collaboration with Merck & Co., Inc. described above in Item 1 of this report under the headings "Celera Diagnostics, a 50/50 Joint Venture between Applied Biosystems and Celera Genomics – Development of Diagnostics Business." A key aspect of Celera Diagnostics' disease study program is to seek validation of results through replication by repeating its analysis on a second population of human tissue and blood samples after the initial analysis is completed. In several studies, Celera Diagnostics has replicated results for particular markers associated with increased risk for disease that it had previously identified. Celera Diagnostics, working in cooperation with Celera Genomics, is evaluating the diagnostic and therapeutic value of the novel markers and potential therapeutic targets found, and is discussing the findings with collaborators, preparing product plans, and making patent filings to seek legal protection for its rights in the new information it has discovered.

Celera Diagnostics and Abbott Laboratories maintain separate research and development organizations and each is pursuing the development of molecular diagnostic products to be manufactured and marketed by their alliance. However, they coordinate their ongoing research and development activities, which coordination includes the sharing of scientific results and collaboration regarding the technology and instrumentation that their alliance products will use. The alliance agreement with Abbott Laboratories permits Celera Diagnostics to form collaborations and relationships with other companies to support its research activities.

Research and development expenses for Celera Diagnostics totaled $39.0 million in our 2002 fiscal year, $49.0 million in our 2003 fiscal year, and $43.8 million in our 2004 fiscal year.

Applera expensed $381.9 million in our 2002 fiscal year, $401.5 million in our 2003 fiscal year, and $377.1 million in our 2004 fiscal year for Applera research, development, and engineering activities.

Collaborations and Other Relationships Supporting Research. Since the beginning of our 2004 fiscal year, Celera Diagnostics has entered into several new research collaboration agreements, including with Merck & Co., Inc. and with General Electric Company. These agreements are described above in Item 1 of this report under the headings "Celera Diagnostics, a 50/50 Joint Venture between Applied Biosystems and Celera Genomics – Development of Diagnostics Business."

Also, Celera Diagnostics has entered into collaboration, research, and material transfer agreements with more than 20 other companies and academic institutions to support its large-scale gene-disease association and host response studies, including ongoing studies as well as studies Celera Diagnostics plans to conduct in the future. Through these relationships, Celera Diagnostics has gained access to over 45,000 samples from human subjects. Following is a description of these relationships that Celera Diagnostics has publicly announced:

an agreement with Bristol-Myers Squibb Company to study genes that may be useful in the diagnosis and treatment of heart disease and diabetes;

a research initiative with the University of California, San Francisco, Comprehensive Cancer Center to develop new diagnostic tools for breast cancer; and

an agreement with Genomics Collaborative, Inc. to support Celera Diagnostics' efforts to identify genetic patterns associated with rheumatoid arthritis.

Product Development Collaborations. If Celera Diagnostics' gene-disease association studies are successful, Celera Diagnostics expects to develop and market reagents that detect the newly discovered genetic markers. Celera Diagnostics has entered into the following research collaborations to support its efforts to develop these products:

a collaboration with Quest Diagnostics Incorporated to establish the clinical utility of laboratory tests based on novel diagnostic markers for heart disease and diabetes; and

a collaboration with Laboratory Corporation of America Holdings to establish the clinical utility of laboratory tests based on novel diagnostic markers for Alzheimer' s disease, breast cancer, and prostate cancer.

Celera Diagnostics' Products

Celera Diagnostics plans to develop products that provide useful genetic information to facilitate disease detection, prediction of disease predisposition, monitoring of disease progression, and disease severity, and determination of patient responsiveness to treatments. These products are expected to include *in vitro* diagnostic test kits, which may be labeled for use in diagnosing specific diseases or other conditions, as well as products referred to as "analyte specific reagents," which may be used by appropriately-licensed clinical laboratories for clinical laboratory testing after they independently establish the performance characteristics of the

reagents but which may not be labeled by Celera Diagnostics for use in diagnosing any specific disease or condition.

While the sale of *in vitro* diagnostic test kits requires clearance or approval by the FDA, analyte specific reagents are a class of products defined by the agency' s regulations which may be sold without any regulatory submission. However, analyte specific reagents must be manufactured and marketed in compliance with the requirements of the agency' s Quality System Regulations, such as Good Manufacturing Practices, and must be sold in compliance with FDA regulations regarding their sale, distribution, and use. These FDA regulations are intended to ensure, among other things, that purchasers are aware that the utilities and performance characteristics of these products have not been established. Because analyte specific reagents are not subject to FDA clearance or approval, Celera Diagnostics believes they can generally be commercialized sooner than diagnostic test kits. However, the regulatory restrictions on the marketing, distribution, and sale of analyte specific reagents, and on its customers' use of these products, would likely affect their marketing and distribution and market acceptance.

Celera Diagnostics is currently offering five products through its alliance with Abbott Laboratories, which is described above in Item 1 of this report under the headings "Celera Diagnostics, a 50/50 Joint Venture between Applied Biosystems and Celera Genomics – Abbott Laboratories Strategic Alliance" and below in Item 1 of this report under the headings "Celera Diagnostics, a 50/50 Joint Venture between Applied Biosystems and Celera Genomics – Marketing and Distribution." Celera Diagnostics is manufacturing all of these products, and except as noted below they are marketed and distributed by Abbott Laboratories.

ViroSeq HIV-1 Genotyping System. The genome of human immunodeficiency virus, commonly known as HIV, undergoes mutations in an infected patient, especially in response to anti-viral drug treatment. Some of the mutations have been shown to render the virus resistant to the action of some drugs, thereby diminishing the effectiveness of the treatment. Therefore, the detection of mutations in HIV that correlate with drug resistance provides useful information to physicians in monitoring the course of treatment and selecting the most effective regimen for each individual HIV-infected patient.

Celera Diagnostics' ViroSeq HIV-1 Genotyping System was developed as an aid to physicians in monitoring and treating HIV-1 infection. HIV-1 is one of the most prevalent strains of HIV. This system is for use in testing human blood samples and was designed to detect specific mutations in the HIV-1 genome that correlate with drug resistance. The product includes reagents for identifying key mutations of the HIV-1 genome designed for use on an Applied Biosystems automated DNA sequencing instrument in conjunction with Celera Diagnostics' ViroSeq® HIV-1 Genotyping System Software. The system currently can be used to test for resistance to up to 19 drugs used to treat HIV-1 infected patients, including the four drugs covered by the February 2004 FDA clearance described in the following paragraph.

Through its alliance with Abbott Laboratories, Celera Diagnostics is marketing the system in the U.S. and the European Union. During our 2002 and 2003 fiscal years, Celera Diagnostics submitted three 510(k) filings to the FDA for the ViroSeq HIV-1 Genotyping System. A 510(k) filing is a pre-market notification to the FDA that Celera Diagnostics intends to market this product as an *in vitro* diagnostic test kit. The product could not be marketed in the U.S. until the FDA provided clearance.

During our 2003 fiscal year, the FDA granted marketing clearances for the system for use on the Applied Biosystems ABI PRISM® 377 DNA Sequencer, 3100 Genetic Analyzer, and 3700 DNA Analyzer. In February 2004, the FDA granted a clearance for expanded claims, clearing the use of the system on the 3100 Genetic Analyzer and the 3700 DNA Analyzer to test for resistance to four additional drugs used to treat HIV-1 infected patients. The model 377, 3100, and 3700 instruments are discussed above in Item 1 of this report under the headings "Applied Biosystems Group Business – Products for the Genomics Market – Genetic Analysis Instruments; Genotyping and Resequencing Systems."

During our 2004 fiscal year, Celera Diagnostics received its CE mark registration of the ViroSeq HIV-1 Genotyping System for use on the ABI PRISM 3100 Genetic Analyzer for marketing in the EU. The system had previously been marketed in several other jurisdictions for research use purposes only, which does not require regulatory clearance or approval. However, this research use only version of the ViroSeq system was discontinued during our 2004 fiscal year.

Additional information regarding the regulation of Celera Diagnostics' products is set forth below in Item 1 of this report under the headings "Celera Diagnostics, a 50/50 Joint Venture between Applied Biosystems and Celera Genomics – Regulation of Diagnostic Products."

Cystic Fibrosis Analyte Specific Reagents. Cystic fibrosis is an inherited genetic disorder that affects children and young adults. It is caused by a number of mutations in the cystic fibrosis gene. The American College of Obstetricians and Gynecologists currently recommends that couples planning a pregnancy or seeking prenatal care be screened for cystic fibrosis gene mutations to help them make informed reproductive decisions. Celera Diagnostics sells analyte specific reagents that can be used by appropriately licensed clinical laboratories to identify mutations in the cystic fibrosis gene. Laboratories using the reagents for this purpose must first independently establish the performance characteristics of any test they develop using Celera Diagnostics' analyte specific reagents.

HLA Sequencing-Based Typing Kits. Transplantation of tissues and organs between genetically-unrelated individuals usually results in rejection of the donor "graft," or tissue, by the recipient. Such rejection is due to differences in some genes between a donor and a recipient. These genes have been mapped to a region of the human genome known as HLA. Analysis of HLA genes to match donor-recipient pairs with minimal differences in these genes has greatly improved the success of transplantation.

Celera Diagnostics' HLA-typing products detect specific DNA sequences in several HLA genes that are known to be involved in transplantation rejection, and thus provide useful information regarding the likelihood of transplant rejection by a recipient. Celera Diagnostics has not sought or received marketing clearance or regulatory approval from the FDA for these products, and does not manufacture these products in accordance with FDA requirements. Accordingly, these products can be sold only for research use and cannot be sold for diagnostic purposes either as diagnostic kits or as analyte specific reagents. Although these products are covered by the Abbott Laboratories alliance, currently Celera Diagnostics is responsible for

sales and marketing in the U.S. because Abbott Laboratories does not specialize in the sale of products to the research market.

Celera Diagnostics intends to discontinue the sale of these products during our 2005 fiscal year, and Abbott Laboratories has contributed a different HLA-typing product to the alliance to replace this product.

Hepatitis C Virus Analyte Specific Reagents. Hepatitis C virus causes a chronic liver disease. Hepatitis C virus infection is currently the leading reason that patients need liver transplants. There are several distinct strains of Hepatitis C virus having different genotypes, and some of these genotypes are more susceptible to currently-available treatments than others. Celera Diagnostics manufactures two analyte specific reagent products for Abbott Laboratories for Hepatitis C virus. One of these products can be used to measure "viral load," which refers to the quantity of the virus found in a tissue sample. The other product can be used to identify the genotypes of the different strains of the Hepatitis C virus. Only appropriately-licensed clinical laboratories can use these analyte specific reagents for these purposes after they independently establish the performance characteristics of any test they develop using Celera Diagnostics' analyte specific reagents.

In addition to the products described above, Celera Diagnostics performs contract manufacturing and technology development services in collaboration with appropriately licensed clinical laboratories. These services are for the development and manufacture of reagents for use by the clinical laboratories in the performance of clinical testing services. Some of these contract manufacturing and technology development services fall outside of Celera Diagnostics' alliance with Abbott Laboratories.

Also, Abbott Laboratories is currently marketing several other nucleic acid diagnostic products that are being manufactured by other companies. Our alliance with Abbott Laboratories, including the economic arrangements, covers all nucleic acid diagnostic products marketed by Abbott Laboratories, including these products.

Regulation of Diagnostic Products

In the U.S. and in other countries, diagnostic products are heavily regulated by governmental agencies. These requirements vary from country to country. Currently, Celera Diagnostics' principal markets are the U.S. and the European Union, and the regulatory requirements in those jurisdictions are described below.

In the U.S., the FDA classifies Celera Diagnostics' *in vitro* diagnostic products as "devices" and the FDA' s Center for Devices and Radiological Health regulates these products. Although some of the products that Celera Diagnostics expects to market may not require regulatory clearance or approval, its current business strategy is to develop and market a number of products that will be "devices" and require this clearance or approval. For Celera Diagnostics to market its *in vitro* diagnostic products with clinical claims in the U.S., Celera Diagnostics or its collaborators generally must first obtain clearance from the FDA pursuant to a process known as 510(k) premarket notification, or must obtain FDA approval through a more demanding premarket approval, or PMA, process.

In order to obtain a 510(k) premarketing clearance, which refers to Section 510(k) of the Federal Food, Drug and Cosmetic Act, or FFDCA, Celera Diagnostics or its collaborators

generally must file a notice with the FDA with clinical data demonstrating that the device subject to the notification and its intended purpose are "substantially equivalent" to a diagnostic device that is already cleared or approved for marketing by the FDA. The 510(k) clearance process usually takes from three to twelve months, but can take longer. For example, the FDA may require further information, including additional clinical data, to make a determination regarding "substantial equivalence" to a legally marketed device. Celera Diagnostics has successfully applied for and received 510(k) clearances for its ViroSeq HIV-1 Genotyping System, and a description of the clearances it has received is set forth above in Item 1 of this report under the headings "Celera Diagnostics, a 50/50 Joint Venture between Applied Biosystems and Celera Genomics – Celera Diagnostics' Products." From time to time, we may publicly refer to "special" 510(k) clearances from the FDA. A special 510(k) clearance is an alternative to the traditional 510(k) method of premarket notification. It is the least burdensome mechanism for reporting significant modifications to a previously cleared diagnostic device and can be used when the modifications do not change the intended use of the previously cleared diagnostic device.

If the "substantially equivalent" standard is not met for a 510(k) premarketing clearance, a PMA application must be filed pursuant to the FFDCA. The PMA process is much more demanding than the 510(k) premarket notification process. A PMA application, which is intended to demonstrate that a device is safe and effective, must be supported by more extensive information than required for a 510(k) notification. The PMA application process is more costly, lengthy, and uncertain and usually takes one to three years, but can take longer.

Following FDA clearance or approval of a device allowing its commercial distribution, numerous regulatory requirements apply, including: the Quality System Regulations, which require manufacturers to follow elaborate design, testing, control, documentation, and other quality assurance procedures during the manufacturing process; labeling regulations; and the Medical Device Reporting regulation, which requires that the manufacturers report to the FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if it were to reoccur.

Failure to comply with the applicable U.S. regulatory requirements for *in vitro* diagnostic products could result in, among other things, warning letters, fines, injunctions, civil penalties, recalls, or seizure of products, total or partial suspension of production, the FDA' s refusal to grant future premarket clearances or approvals, withdrawals of current product applications, and criminal prosecution.

In addition, distribution and sale of all diagnostic products in the European Union are subject to regulatory requirements that became effective on December 7, 2003. Pursuant to these requirements, Celera Diagnostics' *in vitro* diagnostic products exported to the EU must comply with the "In Vitro Diagnostics Directive" and bear the "CE mark." The Directive describes criteria that must be met and steps that must be taken for *in vitro* diagnostic products to be qualified for sale in EU countries. The CE mark is a symbol indicating that products conform to the essential requirements of the Directive, and can be commercially distributed throughout the EU. In order to demonstrate compliance, Celera Diagnostics is required to either self-certify or provide documented evidence to a certification organization referred to as a "Notified Body" that the products to be marketed meet all of the applicable essential requirements. Once Celera Diagnostics has satisfied the compliance requirements, the CE mark may be affixed on the products concerned. However, in order to maintain use of the CE mark for some products, Celera Diagnostics will be subject to continuing review by the Notified Body, if applicable.

During our 2004 fiscal year, Celera Diagnostics received CE mark registration for its ViroSeq HIV-1 Genotyping System for use on the ABI PRISM 3100 Genetic Analyzer, and is in the process of completing, or intends to prepare, required documentation for CE mark registration for some of its other products. However, Celera Diagnostics cannot assure that the CE mark registration will be granted for Celera Diagnostics' other products or that it will maintain its compliance with these requirements. Celera Diagnostics' failure to meet these requirements may prevent it from generating revenue from the sale of diagnostic products in the EU.

Marketing and Distribution

Celera Diagnostics expects that reference laboratories, hospitals, and medical clinics that perform diagnostic testing will be the primary users of its products. Celera Diagnostics does not expect to develop its own marketing and distribution organization for the foreseeable future. Under the terms of its strategic alliance with Abbott Laboratories, Abbott Laboratories will serve as Celera Diagnostics' exclusive worldwide distributor of nucleic acid-based diagnostic products developed under the agreement. The Abbott Laboratories alliance agreement is discussed above in Item 1 of this report under the headings "Celera Diagnostics, a 50/50 Joint Venture between Applied Biosystems and Celera Genomics – Abbott Laboratories Strategic Alliance."

Pursuant to the Abbott Laboratories strategic alliance, on October 1, 2002, Abbott Laboratories commenced the marketing, distribution, and end-user sale of most existing Celera Diagnostic products. Celera Diagnostics expects that most of its nucleic acid testing products for the foreseeable future will be covered by the Abbott Laboratories agreement so long as it remains in effect and will be marketed, distributed, and sold through Abbott Laboratories. However, Celera Diagnostics may develop products not covered by the agreement, in which case Celera Diagnostics would have to develop its own marketing and distribution capability or find other distributors for these products.

Raw Materials

Celera Diagnostics' operations require a variety of raw materials, such as chemical and biochemical materials, and other supplies, some of which are occasionally found to be in short supply. Any interruption in the availability of these materials could adversely affect Celera Diagnostics' operations.

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

Patents, Licenses, and Franchises

Through its internal research programs and collaborative programs, including the Applera Genomics Initiative, Celera Diagnostics anticipates that it will develop an increasing

portfolio of intellectual property. Celera Diagnostics may use such intellectual property in its internal development programs or may license it to third parties or customers for some combination of license fees, milestone payments, and royalty payments.

Celera Diagnostics' products are based on complex, rapidly developing technologies. Some of these technologies are covered by patents owned by Applied Biosystems and Celera Genomics, and other patents are owned by third parties and used by Celera Diagnostics under license.

In addition, Celera Diagnostics' alliance with Abbott Laboratories provides Celera Diagnostics with rights to some intellectual property owned or licensed by Abbott Laboratories that Celera Diagnostics needs for its business and products.

Competition

The diagnostics industry in which Celera Diagnostics operates is competitive and evolving. There is intense competition among healthcare, 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 or its collaborators;

develop diagnostic products which are more effective or more cost-effective than those developed by Celera Diagnostics or its collaborators;

obtain regulatory clearance or approval of their diagnostic products more rapidly than Celera Diagnostics or its collaborators; or

obtain patent protection or other intellectual property rights that would limit Celera Diagnostics' or its collaborators' ability to develop and commercialize, or their customers' ability to use, Celera Diagnostics' and its collaborators' diagnostic products.

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

testing laboratories, including Laboratory Corporation of America Holdings, Quest Diagnostics Inc., and Specialty Laboratories, Inc.

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

Environmental Matters

Celera Diagnostics is subject to federal, state, and local laws and regulations regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, in those jurisdictions where Celera Diagnostics operates or maintains facilities. Celera Diagnostics does not believe that any liability arising under, or compliance with, environmental laws or regulations will have a material effect on its business, and no material capital expenditures are expected for environmental control.

Applera Genomics Initiative

In July 2001, we announced a collaboration among Celera Genomics, Applied Biosystems, and Celera Diagnostics for commercializing products derived from information obtained through analysis of variations in the human genome. This collaboration, which we refer to as the "Applera Genomics Initiative," was commenced primarily to develop a portfolio of validated SNPs to be used as the basis for these products. The Applera Genomics Initiative was completed during our 2003 fiscal year and was jointly funded by all three business segments.

Pursuant to the Applera Genomics Initiative, Celera Genomics prioritized and resequenced approximately 25,000 genes from 39 individuals and a chimpanzee. From this resequencing, Celera Genomics identified over 294,000 SNPs in genes, of which we believe approximately 75% are novel SNPs not previously identified by other researchers. Based on our analysis of the location of these SNPs on the human genome, we believe that over 45,000 of the novel SNPs could affect the amount, stability, or function of proteins. SNPs that have these properties are referred to as "functional" SNPs and may have the greatest biological and medical value. The Applera Genomics Initiative also included Applied Biosystems' SNP validation studies. SNP validation was performed to confirm that publicly available SNPs are true genetic variations rather than sequencing errors, and to determine the frequency of SNPs across multiple racial and ethnic populations to confirm their utility in life science research.

We believe the SNP information that we have generated through the Applera Genomics Initiative will be an important asset for all three of our business segments. Applied Biosystems is incorporating the SNP data into new SNP assay products for the research market. Celera Diagnostics is using this information in disease association studies aimed at identifying new diagnostic markers. Celera Genomics is using the SNP information in its proteomics discovery efforts and may also benefit from therapeutic implications of findings from the disease association studies.

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Employees

As of June 30, 2004, we had approximately 5,360 employees allocated as follows:

Business/Function	Number
Applied Biosystems	4,400
Celera Genomics	530
Celera Diagnostics	220
Corporate Staff	210

Our corporate staff provides accounting, tax, treasury, legal, information technology, human resources, and other internal services for Applied Biosystems, Celera Genomics, and Celera Diagnostics. None of Applied Biosystems' U.S. employees, and none of Celera Genomics' or Celera Diagnostics' employees or our corporate staff employees, are subject to collective bargaining agreements. We generally consider our relations with our employees to be good.

Financial Information About Industry Segments

A summary of net revenues from external customers and operating income (loss) attributable to each of our industry segments for our fiscal years ended June 30, 2002, 2003, and 2004, is incorporated herein by reference to Note 15 on pages 73 through 85 of our 2004 Annual Report. Total assets as of June 30, 2002, 2003, and 2004 were as follows:

June 30, 2002: $1,818.6 million for Applied Biosystems, $1,250.0 million for Celera Genomics, $21.8 million for Celera Diagnostics, and $3,075.4 million for Applera after the effects of ($15.0) million related to intercompany eliminations;

June 30, 2003: $2,126.7 million for Applied Biosystems, $1,122.1 million for Celera Genomics, $35.9 million for Celera Diagnostics, and $3,257.5 million for Applera after the effects of ($27.2) million related to intercompany eliminations; and

June 30, 2004, were $1,947.8 million for Applied Biosystems, $1,017.7 million for Celera Genomics, $36.9 million for Celera Diagnostics, and $2,972.9 million for Applera after the effects of ($29.5) million related to intercompany eliminations.

Celera Diagnostics was first presented as a segment during our 2002 fiscal year.

Financial Information About Geographic Areas

A summary of net revenues from external customers and long-lived assets attributed to each of our geographic areas for our 2002, 2003, and 2004 fiscal years is incorporated herein by reference to Note 15 on pages 73 through 85 of our 2004 Annual Report.

Our consolidated net revenues from external customers in countries other than the U.S. for our 2002, 2003, and 2004 fiscal years were as follows:

$878.6 million, or 51.6% of our consolidated net revenues, for our 2002 fiscal year;

$891.3 million, or 50.2% of our consolidated net revenues, for our 2003 fiscal year; and

$956.7 million, or 52.4% of our consolidated net revenues, for our 2004 fiscal year.

Our manufacturing facilities outside the continental U.S. are located in the United Kingdom, Japan, and Singapore.

Executive Officers of the Registrant

Information concerning our executive officers is incorporated by reference to the description in Part III, Item 10 of this report under the heading "Identification and Business Experience of Executive Officers" on pages 94 and 95 of this report.

Item 2. Properties

Applied Biosystems Group Facilities

Applied Biosystems' headquarters are located in leased facilities in Foster City, California. Applied Biosystems owns or leases various other facilities worldwide for manufacturing, distribution, warehousing, research and development, sales and demonstration, service, and administration. The following is a list of Applied Biosystems' principal and other material operating facilities. Except as otherwise noted below, substantially all of the space in these facilities is used by Applied Biosystems, and these facilities are maintained in good working order. This table does not reflect facilities that are leased by Applied Biosystems, or unused space in facilities leased by Applied Biosystems, that Applied Biosystems is seeking to sublease.

Location (Approximate Floor Area in Sq. Ft.)	Owned or Leased (Expiration Date of Leases)
Foster City, CA (655,000) – several buildings	Leased (several leases expiring 2004-2015)
Hayward, CA (66,000)	Leased (2009)
Pleasanton, CA (149,000) – three buildings	Owned
San Jose, CA (81,000)	Owned
Bedford, MA (104,000) – four buildings	Leased (several leases expiring 2004, 2007, 2011, and 2023)
Framingham, MA (140,000)	Leased (2009)
Houston, TX (50,000)	Leased (2009)
Warrington, United Kingdom (88,000) – two buildings	Owned
Rotterdam, Netherlands (64,000)	Leased (2010)
Singapore (45,000)	Leased (several leases expiring 2005-2006)
Narita, Japan (24,000)	Owned

Applied Biosystems purchased an 80-acre property in Pleasanton, California, in September 2000 on which it could construct facilities of up to 960,000 square feet. Applied Biosystems currently intends to construct new facilities on this property with up to approximately 600,000 square feet for research and development, manufacturing, and administrative purposes as may be required by the future growth of our business. The Pleasanton facilities reflected in the table above include a manufacturing facility, as well as two additional buildings that had been erected to support construction but which Applied Biosystems is currently using for maintenance and warehousing. Applied Biosystems has also completed construction of the shell of a building at the same site comprised of approximately 164,000

square feet. Applied Biosystems intends to construct improvements needed for occupancy in this building as additional space is needed for its operations or possibly the operations of our other businesses.

Applied Biosystems also owns approximately 15 acres of undeveloped land in Vacaville, California.

Celera Genomics Group Facilities

Celera Genomics' business is primarily located in owned facilities in Rockville, Maryland, and leased and owned facilities in South San Francisco, California. The Rockville facilities are used for administrative purposes and to house Celera Genomics' bioinformatics data center and proteomics laboratory. The South San Francisco facilities contain Celera Genomics' therapeutic discovery and development operations and administrative offices. The following is a list of Celera Genomics' principal and other material operating facilities. Except as otherwise noted below, substantially all of the space in these facilities is used by Celera Genomics, and these facilities are maintained in good working order.

Location (Approximate Floor Area in Sq. ft.)	**Owned or Leased (Expiration Date of Leases)**
Rockville, MD (220,000) – two buildings	Owned
South San Francisco, CA (70,000)	Leased (2006)
South San Francisco, CA (44,000)	Owned
South San Francisco, CA (14,000)	Leased (2006)
South San Francisco, CA (24,000)	Leased (2006)

Celera Genomics is using approximately 75% of the space in Rockville, Maryland. The Rockville facilities are located on a parcel of land we own that includes approximately 5 undeveloped acres that are suitable for development. Celera Genomics is seeking to sell this property, and intends to either lease back needed space after any sale or lease facilities in a nearby location depending on the terms of any sale that may occur.

Celera Genomics also leases an 85,000 square foot facility in Pasadena, California. Celera Genomics has vacated most of the space in this facility and a portion of the vacated space has been subleased. Celera Genomics is evaluating its alternatives for the remaining vacated space until the expiration of the lease in 2011.

The owned facility in South San Francisco, California, is located on land we lease under a long-term ground lease.

Celera Diagnostics Facilities

We have leased the following three facilities to serve as the principal facilities for Celera Diagnostics, which Celera Diagnostics is using as its headquarters as well as for research and development, manufacturing, and administrative purposes. These facilities are maintained in good working order.

Location (Approximate Floor Area in Sq. Ft.)	Owned or Leased (Expiration Date of Leases)
Alameda, CA (48,000)	Leased (2006)
Alameda, CA (19,000)	Leased (2006)
Alameda, CA (8,000)	Leased (2006)

Celera Diagnostics is using all of the space in the first facility listed above. Celera Diagnostics is using all of the space in the second facility listed above, but the building containing this facility includes approximately 9,000 more square feet of space that is currently occupied by a sub-tenant and which Celera Diagnostics intends to occupy during the 2005 fiscal year after the sub-tenant leaves the space. The space in the third facility listed above is a portion of a 32,000 square foot facility that was vacated by a defaulting subtenant and occupied by Celera Diagnostics.

Corporate Facilities

Our corporate headquarters is located in a facility in Norwalk, Connecticut, under a lease that expires in 2011. We lease approximately 51,000 square feet at this facility, substantially all of which we use for corporate staff and related support functions. This facility is maintained in good working order.

We also own another facility in Norwalk and Wilton, Connecticut, with an area of approximately 402,000 square feet. This facility was previously used for our corporate headquarters and manufacturing, but is currently vacant. We are holding this facility for sale or long term lease. This facility is expected to remain vacant pending completion of such a sale or lease.

Item 3. Legal Proceedings

We are involved in various legal proceedings from time to time, including actions with respect to commercial, intellectual property, antitrust, environmental, securities, and employment matters. The following is a description of some claims we are currently defending. We believe that we have meritorious defenses against the claims currently asserted against us, including those described below, and intend to defend them vigorously. However, the outcome of litigation is inherently uncertain, and we cannot be sure that we will prevail in any of the cases described below or in our other current litigation. An adverse determination in some of our current litigation, particularly the cases described below under the headings “Securities Litigation,” “MJ Research and Henry Huang,” “Promega,” “Beckman Coulter,” “Genetic Technologies,” “On-Line Technologies,” “Roche,” “Enzo Biochem,” and “Bio-Rad” could have a material adverse effect on us.

U.S. v. Davis

We are a party to the action U.S. v. Davis, pending in the U.S. District Court for the District of Rhode Island. We were brought into the case along with numerous other companies as a result of a third party complaint filed by United Technologies Corporation ("UTC") seeking contribution for environmental cleanup costs imposed by the U.S. government. In December 1998, the District Court found us liable to UTC along with certain, but not all, of the defendants in the case. We believe the amount of such liability to be less than $200,000, which will be determined when all appeals have been concluded. Both UTC and we appealed the District Court' s decision. In August 2001, the U.S. Court of Appeals for the First Circuit affirmed the District Court' s decision and remanded the case to the District Court for further proceedings.

Securities Litigation

Our company and some of our officers were served in five lawsuits between April and May, 2000, purportedly on behalf of purchasers of Applera-Celera stock in our follow-on public offering of Applera-Celera stock completed on March 6, 2000. In the offering, we sold an aggregate of approximately 4.4 million shares of Applera-Celera stock at a public offering price of $225 per share. All of these lawsuits have been consolidated into a single case and are pending in the U.S. District Court for the District of Connecticut, and an amended consolidated complaint was filed on August 21, 2001. The consolidated complaint generally alleges that the prospectus used in connection with the offering was inaccurate or misleading because it failed to adequately disclose the alleged opposition of the Human Genome Project and two of its supporters, the governments of the U.S. and the U.K., to providing patent protection to our genomic-based products. Although Celera Genomics has never sought, or intended to seek, a patent on the basic human genome sequence data, the complaint also alleges that we did not adequately disclose the risk that Celera Genomics 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.

MJ Research and Henry Huang

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

we intend to seek an injunction against MJ Research, which filed for bankruptcy court protection on March 29, 2004. The antitrust phase of the trial has not yet commenced.

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

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

Promega

Promega Corporation filed a patent infringement action against Lifecodes Corporation, Cellmark Diagnostics, Genomics International Corporation, and us in the U.S. District Court for

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

Promega Corporation filed an action against us and some of our affiliates and Roche Molecular Systems, Inc. and Hoffmann-La Roche, Inc. in the U.S. District Court for the Eastern District of Virginia on April 10, 2000. The complaint asserts violations of the federal False Claims Act. On November 12, 2003, the court issued an order to have the complaint, which had previously been sealed, served on us and the other defendants. On February 9, 2004, we waived service of the complaint, which initiated our direct involvement in the case. The complaint alleges that we and Hoffmann-La Roche overcharged the U.S. government for thermal cyclers and PCR reagents. The overcharges are alleged to be the result of a licensing program based in part on U.S. Patent No. 4,889,818. Promega is asserting that U.S. Patent No. 4,889,818 was obtained fraudulently and that the licensing program run by us and Hoffmann-La Roche is the cause of the alleged overcharging. Promega is seeking monetary damages. Promega claims to be suing in the name of the U.S. government although the government has to date declined to participate in the suit. On June 29, 2004, the court granted our motion to dismiss for failure to state a claim upon which relief could be granted, but gave Promega the right to file an amended complaint. Promega filed an amended complaint on July 13, 2004, and we filed another motion to dismiss on August 6, 2004. The court granted our second motion to dismiss on August 20, 2004, but we have not yet received the written court opinion and therefore do not know the full scope of that decision.

Beckman Coulter

Beckman Coulter, Inc. filed a patent infringement action against us in the U.S. District Court for the Central District of California on July 3, 2002. The complaint alleges that we are infringing Beckman Coulter' s U.S. Patent Nos. RE 37,606 and 5,421,980, both entitled "Capillary Electrophoresis Using Replaceable Gels," and U.S. Patent No. 5,552,580, entitled "Heated Cover Device." The allegedly infringing products are Applied Biosystems' capillary electrophoresis sequencing and genetic analysis instruments, and PCR and real-time PCR systems. Since Beckman Coulter filed this claim, U.S. Patent No. 5,421,980 has been reissued as U.S. Patent No. RE 37,941, entitled "Capillary Electrophoresis Using Replaceable Gels." On January 13, 2003, the court permitted Beckman Coulter to make a corresponding amendment to its complaint. Beckman Coulter is seeking monetary damages, costs and expenses, injunctive relief, and other relief as the court deems proper. On February 10, 2003, we filed our answer to Beckman Coulter' s allegations, and counterclaimed for declaratory relief that the Beckman Coulter patents underlying Beckman Coulter' s claim are invalid, unenforceable, and not infringed. We are seeking dismissal of Beckman Coulter' s complaint, costs and expenses, declaratory and injunctive relief, and other relief as the court deems proper.

Genetic Technologies

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

On-Line Technologies

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

Roche

We filed claims against Roche Molecular Systems, Inc., Hoffmann-La Roche, Inc., Roche Probe, Inc., F. Hoffmann-La Roche Ltd., and other potential defendants affiliated with the named defendants ("Roche") in California Superior Court on October 9, 2003. Our complaint asserts, among other things, breach of contract and other contract claims against the defendants arising from agreements relating to polymerase chain reaction, or PCR, technology rights entered into between us and the defendants. Our complaint also asserts various tort claims against the defendants, including breach of trust, breach of fiduciary duty, and unfair competition, relating to our PCR rights. The defendants' acts and omissions that form the basis of the complaint include, among other things, the: (i) defendants' failure to abide by contractual provisions intended to allow us to effectively compete with the defendants with respect to (a) sales of diagnostic PCR products and (b) conveyance of diagnostic PCR rights to third parties; (ii) defendants' failure to pay us requisite royalties for sales by them of thermal cyclers and other products; (iii) defendants' failure to negotiate in good faith new agreements directed at modifying the relationship between the parties in accordance with principles set forth in an existing letter agreement that states the intended framework for the negotiations (the "Letter Agreement"); (iv) defendants' failure to provide us with diagnostic PCR rights on a nondiscriminatory basis as required by a European Union commission decree; (v) defendants' failure to comply with their

agreement to assign ownership to us of some PCR instrument patents and patent applications, and (vi) defendants' mishandling of the prosecution of patent applications that the defendants were obligated to assign to us, in a manner that damaged us and precluded us from obtaining the full potential scope of patent protection for our instrument rights.

Contemporaneously with our filing of this complaint, we also commenced arbitration proceedings with the American Arbitration Association against the defendants asserting, among other things, patent infringement claims (both direct infringement, contributory infringement and infringement by inducing third parties to infringe), breach of contract and other contract claims, and tort claims such as breach of fiduciary duty, breach of trust, and unfair competition. The arbitration is based on our allegation that the defendants (i) have infringed our exclusive rights to PCR patents in fields exclusively licensed to us pursuant to agreements with the defendants; and (ii) by their acts and omissions, have undermined the value of our exclusive PCR rights. In both the legal complaint and the arbitration, we are seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court or arbitrator deems proper.

On December 15, 2003, Roche filed a motion in California Superior Court to compel arbitration of our state court complaint and to stay the litigation. Concurrently with the motion to compel arbitration, Roche also filed with the American Arbitration Association its response to our notice of arbitration in which Roche denied all of our claims against it. Roche' s response included counterclaims asserting, among other things, that our exclusive patent rights under some PCR patents licensed from Roche under an existing distribution agreement were converted into nonexclusive rights by the Letter Agreement, which was entered into subsequent to the distribution agreement. Roche also alleges that (i) we breached our contractual obligation under the Letter Agreement, including our obligation to source certain enzymes exclusively from Roche; and (ii) we failed to pay Roche the full royalties required pursuant to the distribution agreement. In its counterclaim, Roche is seeking a request for declaratory judgment confirming its assertions, interest, costs, and other relief as the arbitrator deems proper.

The claims and counterclaims described above involve PCR rights used by Applied Biosystems and also rights that Applied Biosystems has contributed to Celera Diagnostics.

On March 1, 2004, the Superior Court denied Roche' s motion to compel arbitration, but Roche has appealed the decision and both the arbitration and the litigation have been stayed pending the outcome of the appeal.

Enzo Biochem

Enzo Biochem, Inc., Enzo Life Sciences, Inc., and Yale University filed a patent infringement action against us in the U.S. District Court for the District of Connecticut on June 8, 2004. The complaint alleges that we are infringing six patents. Four of these patents are assigned to Yale University and licensed exclusively to Enzo Biochem, i.e., U.S. Patent No. 4,476,928, entitled "Modified Nucleotides and Polynucleotides and Complexes Formed Therefrom," U.S. Patent No. 5,449,767, entitled "Modified Nucleotides and Polynucleotides and Methods of Preparing Same," U.S. Patent No. 5,328,824 entitled "Methods of Using Labeled Nucleotides," and U.S. Patent No. 4,711,955, entitled "Modified Nucleotides and Polynucleotides and Methods of Preparing and Using Same." The other two patents are assigned to Enzo Life Sciences, i.e., U.S. Patent No. 5,082,830 entitled "End Labeled Nucleotide Probe" and U.S. Patent No. 4,994,373 entitled "Methods and Structures Employing Compoundly‐ Labeled Polynucleotide Probes." The allegedly infringing products include Applied Biosystems'

sequencing reagent kits, its TaqMan® genotyping and gene expression assays, and the gene expression microarrays used with its Expression Array System. Enzo Biochem, Enzo Life Sciences, and Yale University are seeking monitary damages, costs, expenses, injunctive relief, and other relief as the court deems proper.

Bio-Rad

Bio-Rad Laboratories, Inc. filed a patent infringement, trademark infringement, and unfair competition action against us in the U.S. District Court for the Northern District of California on December 26, 2002. The complaint alleges that we are infringing Bio-Rad' s U.S. Pat. No. 5,089,011, entitled "Electrophoretic Sieving in Gel-Free Media with Dissolved Polymers," and infringing Bio-Rad' s "Bio-Rad" trademark. They filed a third amended complaint against us on May 30, 2003. The allegedly infringing products according to the third amended complaint are instruments using, and reagents used for, capillary electrophoresis, and products using the BioCAD name. Bio-Rad submitted its final infringement contentions under the local court rules on April 22, 2004, and the parties held a court-ordered mediation conference on July 19, 2004. Bio-Rad is seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper.

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

Not applicable.

PART II

Item 5. Market for Registrant' s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Information about our Common Stock and its Holders

Market Information

The principal U.S. market where our Applera-Applied Biosystems stock and Applera-Celera stock are traded is the New York Stock Exchange, although our stock is also traded on the Pacific Exchange.

Applera-Applied Biosystems stock is listed on the New York Stock Exchange under the trading symbol "ABI" and is intended to reflect the relative performance of Applied Biosystems. Applera-Celera stock is listed on the New York Stock Exchange under the trading symbol "CRA" and is intended to reflect the relative performance of Celera Genomics. There is no single security that represents our performance 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. Applied Biosystems and Celera Genomics 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 high and low sales prices of Applera-Applied Biosystems stock and Applera-Celera stock for each quarterly period during our 2003 and 2004 fiscal years is incorporated herein by reference to Note 12, page 71, of our 2004 Annual Report.

Holders

On September 3, 2004, the approximate number of holders of Applera-Applied Biosystems stock was 6090, and the approximate number of holders of Applera-Celera stock was 6390. The approximate number of holders is based upon the actual number of holders registered in our records at such date and does not include holders of shares in "street name" or persons, partnerships, associations, corporations, or other entities identified in security position listings maintained by depository trust companies. The calculation of the market value of shares held by non-affiliates shown on the cover of this report was made on the assumption that there were no affiliates other than executive officers and directors as of the date of calculation.

Dividends

Information regarding the amount of quarterly dividends during our 2003 and 2004 fiscal years is incorporated herein by reference to Note 12, page 71, of our 2004 Annual Report.

Sale of Unregistered Securities

We have not sold any securities during our 2004 fiscal year that were not registered under the Securities Act of 1933.

Issuer Purchases of Equity Securities

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

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)(3) (*in millions*)
April 1-30, 2004	197,499	$18.54	175,000	$97
May 1-31, 2004	3,892,298	$18.79	3,889,800	$24
June 1-30, 2004	2,437,576	$20.07	2,426,908	$–
Total	6,527,373	$19.26	6,491,708	$–

(1) The difference between the total number of shares purchased and the total number of shares purchased as part of publicly announced plans or programs consists of shares repurchased from employees in connection with the exercise of employee stock options, the payment of taxes relating to stock option exercises, and the payment of taxes relating to the vesting of restricted stock.

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

(3) On April 5, 2004, we announced a share repurchase authorization from our Board of Directors. Under this authorization, we were authorized to repurchase up to an additional $100 million in Applera-

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Applied Biosystems stock. We completed our repurchases under this authorization during the fourth quarter of our 2004 fiscal year.

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

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2) (*in millions*)
April 1-30, 2004	8,299	$14.21	–	$–
May 1-31, 2004	526	$11.17	–	$–
June 1-30, 2004	3,556	$11.41	–	$–
Total	12,381	$13.28	–	$–

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

(2) We previously announced that our Board of Directors has authorized the repurchase of shares of Applera-Celera stock from time to time to replenish shares issued under our various employee stock benefit plans. This authorization has no set dollar or time limits and delegates to our management discretion to purchase shares at times and prices it deems appropriate through open market or negotiated purchases. Accordingly, the amounts in this column do not reflect this authorization. No shares were purchased under this authorization during the fourth quarter of our 2004 fiscal year.

Forward Looking Statements and Risk Factors

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

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

Also, we note that owners of Applera-Applied Biosystems stock and Applera-Celera stock are subject to risks arising from their ownership of common stock of a corporation with two separate classes of common stock. The risks and uncertainties that arise from our capital structure, particularly our two separate classes of common stock, include, but are not limited to, those described below under the heading "Risks Relating to a Capital Structure with Two Separate Classes of Common Stock."

Factors Relating to Applied Biosystems

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

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

Applied Biosystems 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 Applied Biosystems has contracts with most of these manufacturers and suppliers, there can be no assurance that their operations will not be disrupted. Applied Biosystems 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 Applied Biosystems 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 Applied Biosystems, Applied Biosystems might not be able to satisfy customer demand in a timely manner, and its business could be adversely affected.

A significant portion of sales depends on customers' capital spending policies that may be subject to significant and unexpected decreases.

A significant portion of Applied Biosystems' instrument product sales are capital purchases by its customers. Applied Biosystems' 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 Applied Biosystems' 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 Applied Biosystems' products.

A substantial portion of Applied Biosystems' sales is to customers at universities or research laboratories whose funding is dependent on both the amount and timing of funding from government sources.

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

Applied Biosystems is currently and could in the future be subject to claims for infringement of patents and other intellectual property rights.

Applied Biosystems' 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 Applied Biosystems' 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, Applied Biosystems may from time to time have access to confidential or proprietary information of third parties, and these parties could bring a claim against Applied Biosystems asserting that Applied Biosystems had misappropriated their technologies, which though not patented are protected as trade secrets, and had improperly incorporated such technologies into Applied Biosystems' products. Applied Biosystems has been made a party to litigation regarding intellectual property matters, including the litigation described in the following paragraph and elsewhere in this report, some of which, if determined adversely, could have a material adverse effect on Applied Biosystems. Due to the fact that Applied Biosystems' business depends in large part on rapidly developing and dynamic technologies, there remains a constant risk of intellectual property litigation affecting the group. Applied Biosystems 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 Applied Biosystems cannot be assured that it will be able to obtain these licenses or other rights on commercially reasonable terms.

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

In response to claims by us against MJ Research, Inc., MJ Research filed counterclaims against us including, among others, allegations that we have licensed and enforced some polymerase chain reaction, or "PCR," patents through anticompetitive conduct in violation of federal and state antitrust laws. Subsequently, MJ Research filed a lawsuit against us based on the allegation that four patents underlying Applied Biosystems' DNA sequencing instruments were invalidly obtained because an alleged inventor, whose work was funded in part by the U.S. government, was knowingly omitted from the patent applications. MJ Research claims to be suing in the name of the U.S. government although the government has to date declined to participate in the lawsuit. The case was dismissed but the decision has been appealed by MJ Research.

Promega Corporation has filed a lawsuit against us alleging that Applied Biosystems, along with some other named defendants, is infringing two Promega patents due to the sale of forensic identification and paternity testing kits.

Beckman Coulter, Inc. has filed a lawsuit against us alleging that Applied Biosystems is infringing three Beckman Coulter patents. The allegedly infringing products are Applied Biosystems' capillary electrophoresis sequencing and genetic analysis instruments, and PCR and real-time PCR systems.

Genetic Technologies Limited has filed a lawsuit against us alleging that we are infringing two of its patents due to the sale of cystic fibrosis reagent kits, some of our TaqMan® genotyping and gene expression products and services, and the Celera Discovery System™. Genetic Technologies has also alleged that haplotyping analysis performed by our businesses infringes these patents.

In response to an arbitration claim filed by us against Roche Molecular Systems, Inc., Hoffmann-LaRoche, Inc., Roche Probe, Inc., F. Hoffmann-LaRoche Ltd., and other potential defendants affiliated with those defendants, they have asserted counterclaims against us in the arbitration that could affect our exclusive rights to some PCR patents licensed from them.

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

Bio-Rad Laboratories, Inc. has filed a lawsuit against us alleging that we are infringing one of its patents due to our sale of instruments using, and reagents used for, capillary electrophoresis, and one of its trademarks due to our use of the BioCAD name.

These cases are described in further detail above in Item 3 of this report under the heading "Legal Proceedings." The cost of litigation and the amount of management time associated with these cases is expected to be significant. There can be no assurance that these matters will be resolved favorably; that we will not be enjoined from selling the products or services in question or other products or services as a result; or that any monetary or other damages assessed against us will not have a material adverse effect on the financial condition of our company, Applied Biosystems, Celera Genomics, or Celera Diagnostics.

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

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

Integrating acquired technologies may be costly and may not result in technological advances.

The future growth of Applied Biosystems 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, Applied Biosystems 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.

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

Applied Biosystems' business requires manipulating and analyzing large amounts of data, and communicating the results of the analysis to its internal research personnel and to its customers via the Internet. Also, Applied Biosystems relies on a global enterprise software system to operate and manage its business. Applied Biosystems' business therefore depends on the continuous, effective, reliable, and secure operation of its computer hardware, software, networks, Internet servers, and related infrastructure. To the extent that Applied Biosystems' hardware or software malfunctions or access to Applied Biosystems' data by internal research personnel or customers through the Internet is interrupted, Applied Biosystems' business could suffer. Also, a recent upgrade of our global enterprise software system was performed and we do not believe we will be able to adequately assess the success of the upgrade and the operation of the software until we complete our first quarterly financial close following the upgrade, which close will occur during September 2004. If we encounter difficulties with the upgrade or if we determine that the upgraded software does not operate effectively, these circumstances could interfere with our business operations.

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

Earthquakes could disrupt operations in California.

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

Applera-Applied Biosystems stock price is volatile.

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

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

price and volume fluctuations in the stock market at large which do not relate to Applied Biosystems' 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 Applied Biosystems' 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 Celera Genomics

Celera Genomics has incurred net losses to date and may not achieve profitability.

Celera Genomics has accumulated net losses of approximately $717 million as of June 30, 2004, and expects that it will continue to incur net losses for the foreseeable future. These cumulative losses are expected to increase as Celera Genomics continues to make investments in new technology and product development, including its investments in the discovery and development of therapeutic products, as well as investments in diagnostics through Celera Diagnostics, its joint venture with Applied Biosystems. Celera Genomics will record all initial cash operating losses of Celera Diagnostics up to a maximum of $300 million, after which any additional operating losses would be shared equally by Celera Genomics and Applied Biosystems. However, Applied Biosystems reimburses Celera Genomics for all tax benefits generated by Celera Diagnostics to the extent such tax benefits are used by Applied Biosystems, and the effect of recording Celera Diagnostics' operating losses on Celera Genomics' net losses will be partially offset by this reimbursement. Celera Diagnostics has accumulated cash operating losses of approximately $125 million as of June 30, 2004. As an early stage business, Celera Genomics faces significant challenges in expanding its business operations into the discovery and development of therapeutic products. As a result, there is a high degree of uncertainty that Celera Genomics will be able to achieve profitable operations.

The marketing and distribution agreement with Applied Biosystems may not generate significant royalty payments.

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

Celera Genomics has not sought any new customers for its Celera Discovery System and related information products and services since June 30, 2002, and therefore its future revenues from its sale of these products and services will be limited.

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

Because of the close working relationship between Celera Genomics and Applied Biosystems under the marketing and distribution agreement, it may be difficult to ascertain responsibility for claims, liabilities, or other issues that may arise under Celera Discovery System contracts or the marketing and distribution agreement.

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

Celera Genomics' ability to develop and commercialize proprietary therapeutic products is unproven.

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

Therapeutic product candidates may never result in a commercialized product.

All of Celera Genomics' therapeutic product candidates are in various stages of research and development and will require significant additional research and development efforts by Celera Genomics 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 U.S. Food and Drug Administration, or FDA, and comparable agencies in other countries. Celera Genomics' development of therapeutic products is highly uncertain and subject to a number of significant risks. To date, Celera Genomics has not commercialized a therapeutic product and Celera Genomics 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:

Celera Genomics or its collaborators may not successfully complete any research and development efforts;

Celera Genomics or its collaborators may not successfully build the necessary preclinical and clinical development organizations;

any therapeutic product candidates that Celera Genomics or its collaborators develop may be found during preclinical testing or clinical trials to be ineffective or to cause harmful side effects;

Celera Genomics or its collaborators may fail to obtain required regulatory approvals for products they develop;

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

Celera Genomics or its collaborators may fail to build necessary distribution channels;

Celera Genomics' or its collaborators' products may not be competitive with other existing or future products;

adequate reimbursement for Celera Genomics' or its collaborators products may not be available to healthcare providers and patients from the government or insurance companies; and

Celera Genomics or its collaborators may be unable to obtain necessary intellectual property protection, or third parties may own proprietary rights that prevent Celera Genomics or its collaborators from commercializing their products.

If Celera Genomics 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.

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

If Celera Genomics or its collaborators fail to satisfy regulatory requirements for any therapeutic product candidate, Celera Genomics or its collaborators will be unable to complete the development and commercialization of that product.

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

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

For some of Celera Genomics' research and product development programs, particularly its proteomics efforts, Celera Genomics 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.

Celera Genomics may not be able to obtain or maintain access to these materials and information on acceptable terms, or may not be able to obtain needed consents from individuals providing tissue or other samples. In addition, government regulation in the U.S. and foreign countries could result in restricted access to, or use of, human and other tissue samples. If Celera Genomics 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 Celera Genomics' 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 Celera Genomics or its collaborators;

develop therapeutic products which are more effective as therapeutics, or more cost-effective than those developed by Celera Genomics or its collaborators;

obtain regulatory approvals of their therapeutic products more rapidly than Celera Genomics or its collaborators; or

obtain patent protection or other intellectual property rights that would limit the ability of Celera Genomics or its collaborators to develop and commercialize therapeutic products.

Introduction of new products may expose Celera Genomics to product liability claims.

New products developed by Celera Genomics or its collaborators could expose Celera Genomics 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 Celera Genomics to spend significant time and money in litigation and to pay significant damages. Although Celera Genomics expects to seek and maintain product liability insurance to cover claims relating to the testing and use of therapeutic products, there can be no assurance that such insurance will be available on commercially reasonable terms, if at all, or that the amount of coverage obtained will be adequate to cover losses from any particular claim.

Therapeutics discovery and development is a highly technical field and there is a competitive market for personnel with the expertise needed for the expansion of Celera Genomics' business operations within this field.

Celera Genomics 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. Celera Genomics competes for these personnel with other pharmaceutical and biotechnology companies, academic institutions and government entities. If Celera Genomics is unable to retain and attract qualified scientific and management personnel, the growth of the group' s business operations in the area of therapeutic product discovery and development could be delayed or curtailed.

Celera Genomics could incur liabilities relating to hazardous materials that it uses in its research and development activities.

Celera Genomics' 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, Celera Genomics could be held liable for damages in excess of its resources.

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

Celera Genomics' business requires manipulating and analyzing large amounts of data, and communicating the results of the analysis to its internal research personnel and to its customers via the Internet. Also, Celera Genomics relies on a global enterprise software system to operate and manage its business. Celera Genomics' business therefore depends on the continuous, effective, reliable, and secure operation of its computer hardware, software, networks, Internet servers, and related infrastructure. To the extent that Celera Genomics' hardware or software malfunctions or access to Celera Genomics' data by Celera Genomics' internal research personnel or customers through the Internet is interrupted, the group' s business could suffer. Also, a recent upgrade of our global enterprise software system was performed and we do not believe we will be able to adequately assess the success of the upgrade and the operation of the software until we complete our first quarterly financial close following the upgrade, which close will occur during September 2004. If we encounter difficulties with the upgrade or if we determine that the upgraded software does not operate effectively, these circumstances could interfere with our business operations.

Celera Genomics' computer and communications hardware is protected through physical and software safeguards. However, it is still vulnerable to fire, storm, flood, power loss, earthquakes, telecommunications failures, physical or software break-ins, software viruses, and similar events. In addition, Celera Genomics' 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 Celera Genomics fails to maintain and further develop the necessary computer capacity and data to support its therapeutic products discovery and development programs and its online products, 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 Celera Genomics' business.

Celera Genomics' competitive position depends on maintaining its intellectual property protection and obtaining licenses to intellectual property it may need from others.

Celera Genomics' 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. Celera Genomics' ability to obtain patent protection for the inventions it makes is uncertain. The patentability of biotechnology and pharmaceutical inventions involves complex factual and legal questions. As a result, it is difficult to predict whether patents will issue or the breadth of claims that will be allowed in biotechnology and pharmaceutical patents. This may be particularly true with regard to the patenting of gene sequences, gene functions, and genetic variations. In this regard, the U.S. Patent and Trademark Office has adopted guidelines for use in the review of the utility of inventions, particularly biotechnology inventions. These guidelines increased the amount of evidence required to demonstrate utility in order to obtain a patent in the biotechnology field, making patent protection more difficult to obtain. Although others have been successful in obtaining patents to biotechnology inventions, since the adoption of these guidelines, these patents have been issued with increasingly less frequency. As a result, patents may not issue from patent applications that Celera Genomics may own or license if the applicant is unable to satisfy the new guidelines.

The U.S. Patent and Trademark Office has issued several patents to third parties covering inventions involving single nucleotide polymorphisms or "SNPs," naturally occurring genetic variations that scientists believe can be correlated with susceptibility to disease, disease prognosis, therapeutic efficiency, and therapeutic toxicity. These inventions are subject to the same new guidelines as other biotechnology inventions. In addition, Celera Genomics 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 Celera Genomics on commercially acceptable terms, or at all.

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

Furthermore, lawsuits may be necessary to enforce any patents issued to Celera Genomics 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 Celera Genomics could use a substantial amount of its financial resources in either case. An adverse outcome could subject Celera Genomics to significant liabilities to third parties and require Celera Genomics to license disputed rights from third parties or to cease using the technology.

Celera Genomics 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 Celera Genomics and its customers are able to protect their intellectual property. Accordingly, Celera Genomics is uncertain as to whether it can prevent such copying or resale through copyright law.

Celera Genomics 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. Celera Genomics 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 Genomics may not have adequate remedies for a breach. In addition, Celera Genomics' trade secrets may otherwise become known or be independently developed by competitors. Accordingly, it is uncertain whether Celera Genomics' 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 Genomics' products. In addition, these disputes could require or result in lawsuits or arbitration. Lawsuits and arbitration are time-consuming and expensive. Even if Celera Genomics wins, the cost of these proceedings could adversely affect its business, financial condition and operating results.

Celera Genomics 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 Genomics, are generally uncertain and involve complex legal, scientific and factual questions. Celera Genomics' success in therapeutic product discovery and development may depend, in part, on its ability to operate without infringing the intellectual property rights of others and to prevent others from infringing its intellectual property rights.

There has been substantial litigation regarding patents and other intellectual property rights in the biotechnology, and pharmaceutical, and diagnostic industries. Celera Genomics may become a party to patent litigation or proceedings at the U.S. Patent and Trademark Office to determine its patent rights with respect to third parties. Interference proceedings may be necessary to establish which party was the first to make the invention sought to be patented. Celera Genomics 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 Genomics of any patent litigation or similar proceeding could be substantial, and it may absorb significant management time. If infringement litigation against Celera Genomics is resolved unfavorably to Celera Genomics, Celera Genomics may be enjoined from manufacturing or selling its products or services without a license from a third party. Celera Genomics 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 Celera Genomics' products.

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

Future acquisitions and other transactions may absorb significant resources, may be unsuccessful and could dilute the holders of Applera-Celera stock.

Celera Genomics' 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 Celera Genomics' financial condition and operating results. Acquisitions involve numerous other risks, including:

difficulties integrating acquired technologies and personnel into the business of Celera Genomics;

diversion of management from daily operations;

inability to obtain required financing on favorable terms;

entry into new markets in which Celera Genomics has little previous experience;

potential loss of key employees, key contractual relationships, or key customers of acquired companies or of Celera Genomics; and

assumption of the liabilities and exposure to unforeseen liabilities of acquired companies.

It may be difficult for Celera Genomics to complete these transactions quickly and to integrate these acquired operations efficiently into its current business operations. Any acquisitions, investments or other strategic relationships and alliances by Celera Genomics may ultimately have a negative impact on its business and financial condition. For example, future acquisitions may not be as successful as originally anticipated and may result in special charges. We have incurred special charges in recent years as a result of acquisitions. As a result of Celera Genomics' acquisition of Paracel, Inc., we incurred charges for impairment of goodwill, intangibles and other assets and other charges in the amounts of $69.1 million during our 2001 fiscal year and $25.9 million during our 2002 fiscal year. Similarly, as a result of Applied Biosystems' acquisition of Boston Probes, Inc., we incurred charges for the impairment of patents and acquired technology in the amount of $14.9 million during our 2004 fiscal year.

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

Earthquakes could disrupt operations in California.

Celera Genomics has research and development and administrative facilities in South San Francisco, California. South San Francisco is located near major California earthquake faults. The ultimate impact of earthquakes on Celera Genomics, 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 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 Celera Genomics' 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 Celera Genomics' ability to meet market expectations.

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

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

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

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

Celera Diagnostics' ability to develop and commercialize proprietary diagnostic products is unproven.

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

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 U.S. Food and Drug Administration, or FDA, and comparable agencies in other countries. Celera Diagnostics' development of new diagnostic products is highly uncertain and subject to a number of significant risks. Diagnostic product candidates that appear to be promising at early stages of development may not be developed into commercial products, or may not be successfully marketed, for a number of reasons, including:

Celera Diagnostics or its collaborators may not successfully complete any research and development efforts;

any diagnostic products that Celera Diagnostics or its collaborators develop may be found during clinical trials to have limited medical value;

Celera Diagnostics or its collaborators may fail to obtain required regulatory clearances or approvals for products they develop;

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

any diagnostic products Celera Diagnostics or its collaborators develop may not be competitive with other existing or future products;

adequate reimbursement for Celera Diagnostics' and its collaborators' products may not be available to physicians or patients from the government or insurance companies; and

Celera Diagnostics may be unable to obtain necessary intellectual property protection, or third parties may own proprietary rights that prevent Celera Diagnostics or its collaborators from commercializing their products.

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

Celera Diagnostics is currently developing its capability to move potential products through clinical testing, manufacturing, and the approval processes of the FDA and comparable agencies in other countries. In the U.S., either Celera Diagnostics or its collaborators must show through pre-clinical studies and clinical trials that each of Celera Diagnostics' or its collaborators' diagnostic product candidates is safe and effective for each indication before obtaining regulatory clearance or approval from the FDA for the commercial sale of that product as an *in-vitro* diagnostic product with clinical claims. Outside of the U.S., the regulatory requirements vary from country to country. If Celera Diagnostics or its collaborators fail to adequately show the safety and effectiveness of a diagnostic product, regulatory clearance or approval could be delayed or denied. The results from pre-clinical studies may be different from the results that are obtained in clinical trials. Celera Diagnostics cannot be certain that it or its collaborators will show sufficient safety and effectiveness in its clinical trials to allow them to obtain the needed regulatory clearance or approval. The regulatory review and approval process can take many years and require substantial expense and may not be successful. 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 or its collaborators obtain regulatory clearance or approval for a product, that product will be subject to risks and uncertainties relating to regulatory compliance, including post-clearance or approval clinical studies and inability to meet the compliance requirements of the FDA' s Quality System Regulations. In addition, the occurrence of manufacturing problems could cause subsequent suspension of product manufacture or withdrawal of clearance or approval, or could require reformulation of a diagnostic product, additional testing, or changes in labeling of the product. This could delay or prevent Celera Diagnostics from generating revenues from the sale of that diagnostic product.

Celera Diagnostics' products may not be fully accepted by physicians and laboratories.

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

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

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

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

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

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

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

If Celera Diagnostics fails to maintain its existing collaborative relationships and enter into new collaborative relationships, or if collaborators do not perform under collaboration agreements, development of its diagnostic products could be delayed.

Celera Diagnostics' strategy for the discovery, development, clinical testing, manufacturing and commercialization of most of its diagnostic product candidates includes entering into collaborations with partners. Although Celera Diagnostics has expended, and continues to expend, time and money on internal research and development programs, it may be unsuccessful in creating diagnostic product candidates that would enable it to form additional collaborations.

Celera Diagnostics has entered into a strategic alliance agreement with Abbott Laboratories for the joint discovery, development, manufacturing, and commercialization of nucleic acid-based diagnostic products. Although this is a long-term alliance, the alliance agreement contains provisions that could result in early termination for reasons that include the following: breach by either company; a change in control of either company; either company' s dissatisfaction with the performance of the alliance according to specific timelines for such judgments set forth in the alliance agreement; or by either company if the other party fails to meet performance criteria applicable to the other party set forth in the alliance agreement. In addition, the amount and timing of resources to be devoted to research, development, eventual clinical trials and commercialization activities by Abbott are not within Celera Diagnostics' control. Future collaborations with other third parties are likely to be subject to similar terms and conditions. Celera Diagnostics cannot ensure that its collaborators will perform their obligations as expected. If any of Celera Diagnostics' collaborators terminate or elect to cancel their agreements or otherwise fail to conduct their collaborative activities in a timely manner, the development or commercialization of diagnostics products may be delayed or otherwise adversely affected. If in some cases Celera Diagnostics assumes responsibilities for continuing programs on its own after termination of a collaboration, Celera Diagnostics may be required to devote additional resources to product development and commercialization or Celera Diagnostics may need to cancel some development programs.

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, work with Abbott Laboratories under their current agreement, work with another distributor, or a combination of these alternatives. In jurisdictions where Celera Diagnostics uses third party distributors, its success will depend to a great extent on the efforts of the distributors.

Celera Diagnostics has limited manufacturing capability and may encounter difficulties expanding Celera Diagnostics' operations.

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

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

Celera Diagnostics' manufacturing operations are located in a facility in Alameda, California. Celera Diagnostics expects to operate its manufacturing out of this facility for the foreseeable future, and it does not have alternative production plans in place or alternative facilities available should its existing manufacturing facility cease to function. Accordingly, Celera Diagnostics' business could be adversely affected by unexpected interruptions in manufacturing caused by events such as labor problems, equipment failures, or other factors, and the resulting inability to meet customer orders on a timely basis.

Celera Diagnostics' research and product development depends on access to tissue and blood samples from diseased and healthy individuals, other biological materials, and related clinical and other information, which may be in limited supply.

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

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

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

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

Celera Diagnostics' business requires manipulating and analyzing large amounts of data, and communicating the results of the analysis to its internal research personnel and to its collaborators via the Internet. Also, Celera Diagnostics relies on a global enterprise software system to operate and manage its business. Celera Diagnostics' business therefore depends on the continuous, effective, reliable, and secure operation of its computer hardware, software, networks, Internet servers, and related infrastructure. To the extent that Celera Diagnostics' hardware or software malfunctions or access to Celera Diagnotics' data by Celera Diagnostics' internal research personnel or collaborators through the Internet is interrupted, the group' s business could suffer. Also, a recent upgrade of our global enterprise software system was performed and we do not believe we will be able to adequately assess the success of the upgrade and the operation of the software until we complete our first quarterly financial close following the upgrade, which close will occur during September 2004. If we encounter difficulties with the upgrade or if we determine that the upgraded software does not operate effectively, these circumstances could interfere with our business operations.

Celera Diagnostics' computer and communications hardware is protected through physical and software safeguards. However, it is still vulnerable to fire, storm, flood, power loss, earthquakes, telecommunications failures, physical or software break-ins, software viruses, and similar events. If Celera Diagnostics fails to maintain and further develop the necessary computer capacity and data to support its computational needs, its diagnostic product discovery and research efforts, and Celera Genomics' and its collaborators' therapeutic products discovery and research efforts, it could experience a loss of or delay in revenues. In addition, any sustained disruption in Internet access provided by third parties could adversely affect Celera Diagnostics' business.

Celera Diagnostics' competitive position depends on maintaining its intellectual property protection and obtaining licenses to intellectual property it may need from others.

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

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

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

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

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

Celera Diagnostics may infringe the intellectual property rights of third parties and may become involved in expensive intellectual property litigation.

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

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

Introduction of new products may expose Celera Diagnostics to product liability claims.

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

The diagnostics industry is intensely competitive and evolving.

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

develop new diagnostic products in advance of Celera Diagnostics or its collaborators;

develop diagnostic products which are more effective or more cost-effective than those developed by Celera Diagnostics or its collaborators;

obtain regulatory clearances or approvals of their diagnostic products more rapidly than Celera Diagnostics or its collaborators; or

obtain patent protection or other intellectual property rights that would limit Celera Diagnostics' or its collaborators' ability to develop and commercialize, or their customers' ability to use, Celera Diagnostics' or its collaborators' diagnostic products.

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

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

Earthquakes could disrupt operations in California.

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

Risks Relating to a Capital Structure with Two Separate Classes of Common Stock

Stockholders of Applera Corporation are stockholders of one company and, therefore, financial effects on one group could adversely affect the other.

Applied Biosystems and Celera Genomics are not separate legal entities. As a result, stockholders will continue to be subject to all of the risks of an investment in Applera Corporation, including Applied Biosystems and Celera Genomics. The risks and uncertainties that may affect the operations, performance, development, and results of the businesses of Applied Biosystems and Celera Genomics are described above. The assets attributed to one group could be subject to the liabilities of the other group, even if these liabilities arise from lawsuits, contracts, or indebtedness that we attribute to the other group. If we are unable to satisfy one group' s liabilities out of the assets attributed to it, we may be required to satisfy those liabilities with assets attributed to the other group.

Financial effects from one group that affect our consolidated results of operations or financial condition could, if significant, affect the results of operations or financial condition of the other group and the market price of the common stock relating to the other group. In addition, net losses of either group and dividends or distributions on, or repurchases of, either class of common stock or repurchases of preferred stock will reduce the funds we can pay as dividends on each class of common stock under Delaware law. For these reasons, stockholders should read the consolidated financial information with the financial information we provide for each group.

The market price of either class of our common stock may not reflect the separate performance of the group related to that common stock.

The market price of Applera-Applied Biosystems stock and Applera-Celera stock may not reflect the separate performance of the business of the group relating to that class of common stock. The market price of either class of common stock could simply reflect our performance as a whole, or the market price of either class of common stock could move independently of the performance of the business of either group. Investors may discount the value of either class of common stock because it is part of a common enterprise rather than a stand-alone company.

The market price of either class of our common stock may be affected by factors that do not affect traditional common stock.

The complex nature of the terms of Applera-Applied Biosystems stock and Applera-Celera stock may adversely affect the market price of either class of common stock. The complex nature of the terms of the two classes of common stock, such as the convertibility of Applera-Applied Biosystems stock into Applera-Celera stock, or vice versa, and the potential difficulties investors may have understanding these terms, may adversely affect the market price of either class of common stock.

The market price of Applera-Applied Biosystems stock or Applera-Celera stock may be adversely affected by the fact that holders have limited legal interests in the group relating to the class of common stock held as a separate legal entity. For example, as described in greater detail in the subsequent risk factors, holders of either class of common stock generally do not have separate class voting rights with respect to significant matters affecting either group. In addition, upon our liquidation or dissolution, holders of either class of common stock will not have specific rights to the assets of the group relating to the class of common stock held and will not be entitled to receive proceeds that are proportional to the relative performance of that group.

The market price of Applera-Applied Biosystems stock or Applera-Celera stock may be adversely affected by events involving the group relating to the other class of common stock or the performance of the class of common stock relating to that group. Events, such as earnings announcements or other developments concerning one group that the market does not view favorably and which thus adversely affect the market price of the class of common stock relating to that group, may adversely affect the market price of the class of common stock relating to the other group. Because both classes of common stock are common stock of Applera Corporation, an adverse market reaction to one class of common stock may, by association, cause an adverse reaction to the other class of common stock. This reaction may occur even if the triggering event was not material to us as a whole.

Limits exist on the voting power of group common stock.

Applera-Celera stock may not have any influence on the outcome of stockholder voting. Applera-Applied Biosystems stock currently has a substantial majority of the voting power of our common stock and had approximately 82.6% of the voting power as of August 30, 2004, the record date for our 2004 annual meeting of stockholders. Except in limited circumstances where there is separate class voting, the relative voting power of the two classes of common stock fluctuates based on their relative market values. Therefore, except in cases of separate class voting, either class of common stock that is entitled to more than the number of votes required to approve any stockholder action could control the outcome of the vote even if the matter involves a divergence or conflict of the interests of the holders of Applera-Applied Biosystems stock and Applera-Celera stock. These matters may include mergers and other extraordinary transactions.

A class of group common stock with less than majority voting power can block action if a class vote is required. If Delaware law, stock exchange rules, or our Board of Directors requires a separate vote on a matter by the holders of either Applera-Applied Biosystems stock or Applera-Celera stock, those holders could prevent approval of the matter even if the holders of a majority of the total number of votes cast or entitled to be cast, voting together as a class, were to vote in favor of it. As a result, in cases where holders of Applera-Applied Biosystems stock or Applera-Celera stock vote as separate classes on a proposal, the affirmative vote of shares representing a majority of one class of common stock will not prevent the holders of the other class of common stock from defeating the proposal.

Holders of only one class of common stock cannot ensure that their voting power will be sufficient to protect their interests. Since the relative voting power per share of Applera-Applied Biosystems stock and Applera-Celera stock will fluctuate based on the market values of the two classes of common stock, the relative voting power of a class of common stock could decrease. As a result, holders of shares of only one of the two classes of common stock cannot ensure that their voting power will be sufficient to protect their interests.

Stockholders of either class of common stock will not have some of the stockholder rights traditionally associated with common stock. Neither Applied Biosystems nor Celera Genomics will have a separate board of directors to represent solely the interests of either class of common stock as holders of that class. Consequently, there will be no board of directors that owes any separate duties to holders of one class of common stock as holders of that class. Our Board of Directors will act in accordance with its good faith business judgment of our best interests, taking into consideration the interests of all common stockholders regardless of class or series, which may be detrimental to holders of one class of common stock has holders of that class.

Stockholders may not have any remedies for breach of fiduciary duties if any action by directors or officers has a disadvantageous effect on either class of common stock.

Stockholders may not have any remedies if any action or decision of our Board of Directors or officers has a disadvantageous effect on Applera-Applied Biosystems stock or Applera-Celera stock compared to the other class of common stock. Cases in Delaware involving tracking stocks have established that decisions by directors or officers involving differing treatment of tracking stocks are judged under the principle known as the "business judgment rule" unless self-interest is shown.

In addition, principles of Delaware law established in cases involving differing treatment of two classes of common stock or two groups of holders of the same class of common stock provide that a board of directors owes an equal duty to all stockholders regardless of class or series. Absent abuse of discretion, a good faith business decision made by a disinterested and adequately informed Applera Corporation Board of Directors, Board of Directors' committee, or officer with respect to any matter having different effects on holders of Applera-Applied Biosystems stock and holders of Applera-Celera stock would be a defense to any challenge to the determination made by or on behalf of the holders of either class of common stock.

Stock ownership could cause directors and officers to favor one group over the other.

As a policy, our Board of Directors periodically monitors the ownership of shares of Applera-Applied Biosystems stock and Applera-Celera stock by our directors and senior officers as well as their option holdings and other benefits so that their interests are not misaligned with the two classes of common stock and with their duty to act in the best interests of us and our stockholders as a whole. However, because the actual stock market value of their interests in Applera-Applied Biosystems stock and Applera-Celera stock could vary significantly, it is possible that they could favor one group over the other as a result of their common stock holdings, options and other benefits. As of August 30, 2004, our directors and executive officers held shares of Applera-Applied Biosystems stock and Applera-Celera stock representing approximately equal percentages of the total shares outstanding of Applera-Applied Biosystems stock and Applera-Celera stock. The stock market value of these shares will vary with fluctuations in the market price of Applera-Applied Biosystems stock and Applera-Celera stock. However, the market capitalization of Applied Biosystems is substantially greater than that of Celera Genomics and, therefore, the market value of Applera-Applied Biosystems stock held by our directors and senior officers was significantly higher than the market value of Applera-Celera stock held by them on that date.

Numerous potential conflicts of interest exist between the classes of common stock that may be difficult to resolve by our Board of Directors or that may be resolved adversely to one of the classes.

Allocation of corporate opportunities could favor one group over the other. Our Board of Directors may be required to allocate corporate opportunities between Applied Biosystems and Celera Genomics. In some cases, our directors could determine that a corporate opportunity, such as a business that we are acquiring or a new business, should be shared by the groups or be allocated to one group over the other. Any decisions could favor one group to the detriment of the other.

Applied Biosystems and Celera Genomics may compete with each other to the detriment of their businesses. The existence of two separate classes of common stock will not prevent Applied Biosystems and Celera Genomics from competing with each other. Any competition between Applied Biosystems and Celera Genomics could be detrimental to the businesses of either or both of the groups. Under a Board of Directors' policy, the groups will generally not engage in the principal businesses of the other, except for joint transactions with each other. However, our Chief Executive Officer or Board of Directors will permit indirect competition between the groups, such as one group doing business with a competitor of the other group, based on his or its good faith business judgment that the competition is in our best interests and the best interests of all of our stockholders as a whole. In addition, the groups may compete in a business that is not a principal business of the other group.

Our Board of Directors may pay more or less dividends on group common stock than if that group were a separate company. Subject to the limitations referred to below, our Board of Directors has the authority to declare and pay dividends on Applera-Applied Biosystems stock and Applera-Celera stock in any amount and could, in its sole discretion, declare and pay dividends exclusively on Applera-Applied Biosystems stock, exclusively on Applera-Celera stock, or on both, in equal or unequal amounts. Our Board of Directors is not required to consider the amount of dividends previously declared on each class, the respective voting or liquidation rights of each class, or any other factor. The performance of one group may cause our Board of Directors to pay more or less dividends on the common stock relating to the other group than if that other group were a stand-alone company. In addition, Delaware law and our certificate of incorporation impose limitations on the amount of dividends that may be paid on each class of common stock.

Proceeds of mergers or consolidations may be allocated unfavorably. Our Board of Directors will determine how consideration to be received by holders of common stock in connection with a merger or consolidation involving us is to be allocated among holders of each class of common stock. This percentage may be materially more or less than that which might have been allocated to the holders had our Board of Directors chosen a different method of allocation.

Holders of either class of common stock may be adversely affected by a conversion of group common stock. Our Board of Directors could, in its sole discretion and without stockholder approval, determine to convert shares of Applera-Applied Biosystems stock into shares of Applera-Celera stock, or vice versa, at any time, including when either or both classes of common stock may be considered to be overvalued or undervalued. If our Board of Directors chose to issue Applera-Celera stock in exchange for Applera-Applied Biosystems stock, or vice versa, the conversion would dilute the interests in us of the holders of the class of common stock being issued in the conversion. If our Board of Directors were to choose to issue Applera-Celera stock in exchange for Applera-Applied Biosystems stock, or vice versa, the conversion could give holders of shares of the class of common stock being converted a greater or lesser premium than any premium that was paid or might be paid by a third-party buyer of all or substantially all of the assets of the group whose stock is converted.

Cash proceeds of newly issued Applera-Celera stock in the future could be allocated to Applied Biosystems. If and to the extent Applied Biosystems holds "Celera Genomics Designated Shares" at the time of any future sale of Applera-Celera stock, our Board of Directors could allocate some or all of the proceeds of that sale to Applied Biosystems in consideration of a reduction in the number of these shares. Celera Genomics Designated Shares are a type of authorized shares of Applera-Celera stock. Any decision could favor one group over the other group. For example, the decision to allocate the proceeds of that sale to Applied Biosystems could adversely affect Celera Genomics' ability to obtain funds to finance its growth strategies. Applied Biosystems does not hold any Celera Genomics Designated Shares as of the date of this report. Celera Genomics Designated Shares could be issued in the future if our Board of Directors determines that Celera Genomics requires additional capital to finance its business and that Applied Biosystems should supply that capital.

Our Board of Directors may change its management and allocation policies without stockholder approval to the detriment of either group.

Our Board of Directors may modify or rescind our policies with respect to the allocation of corporate overhead, taxes, debt, interest, and other matters, or may adopt additional policies, in its sole discretion without stockholder approval. A decision to modify or rescind these policies, or adopt additional policies, could have different effects on holders of Applera-Applied Biosystems stock and holders of Applera-Celera stock or could result in a benefit or detriment to one class of stockholders compared to the other class. Our Board of Directors will make any decision in accordance with its good faith business judgment that the decision is in our best interests and the best interests of all of our stockholders as a whole.

Either Applied Biosystems or Celera Genomics may finance the other group on terms unfavorable to either group.

From time to time, we anticipate that we will transfer cash and other property between groups to finance their business activities. When this occurs, the group providing the financing will be subject to the risks relating to the group receiving the financing. We will account for those transfers in one of the following ways:

as a reallocation of pooled debt or preferred stock;

as a short-term or long-term loan between groups or as a repayment of a previous borrowing;

as an increase or decrease in Celera Genomics Designated Shares; or

as a sale of assets between groups.

Our Board of Directors has not adopted specific criteria for determining when it will account for the transfer of cash or other property as a reallocation of pooled debt or preferred stock, a loan or repayment, an increase or decrease in Celera Genomics Designated Shares, or a sale of assets. These determinations, including the terms of any transactions accounted for as debt, may be unfavorable to either the group transferring or receiving the cash or other property. Our Board of Directors expects to make these determinations, either in specific instances or by setting generally applicable policies, after considering the financing requirements and objectives of the receiving group, the investment objectives of the transferring group, and the availability, cost, and time associated with alternative financing sources, prevailing interest rates, and general economic conditions.

We cannot assure stockholders that any terms that we fix for debt will approximate those that could have been obtained by the borrowing group if it were a stand-alone company.

Celera Genomics could incur a higher tax liability than if it were a stand-alone taxpayer.

Our tax allocation policy provides that some tax benefits that cannot be used by the group generating those benefits but can be used on a consolidated basis are to be transferred, without reimbursement, to the group that can use the benefits. Any tax benefits that are transferred from Celera Genomics to Applied Biosystems will not be carried forward to reduce Celera Genomics' future tax liability. As a result of this policy, Celera Genomics generated tax benefits of $19.0 million in our 2002 fiscal year, $28.1 million in our 2003 fiscal year, and $12.3 million in our 2004 fiscal year that were utilized by Applied Biosystems with no reimbursement to Celera Genomics. This and future use by Applied Biosystems, without reimbursement, of tax benefits generated by Celera Genomics could result in Celera Genomics paying a greater portion of the total corporate tax liability over time than would have been the case if Celera Genomics were a stand-alone taxpayer.

Holders of group common stock may receive less consideration upon a sale of assets than if the group were a separate company.

Our certificate of incorporation provides that if a disposition of all or substantially all of the assets of either group occurs, we must, subject to some exceptions:

distribute to holders of the class of common stock relating to that group an amount equal to the net proceeds of such disposition; or

convert at a 10% premium the common stock relating to that group into shares of the class of common stock relating to the other group.

If the group subject to the disposition were a separate, independent company and its shares were acquired by another person, some of the costs of that disposition, including corporate level taxes, might not be payable in connection with that acquisition. As a result, if the group subject to the disposition were a stand-alone company, stockholders of that group might receive a greater amount than the net proceeds that would be received by those stockholders if the assets of that group were sold and the proceeds distributed to those stockholders. In addition, we cannot assure stockholders that the net proceeds per share of the common stock relating to that group will be equal to or more than the market value per share of that common stock prior to or after announcement of a disposition.

Our capital structure and variable vote per share may discourage acquisitions of a group or a class of common stock.

A potential acquirer could acquire control of us by acquiring shares of common stock having a majority of the voting power of all shares of common stock outstanding. This majority could be obtained by acquiring a sufficient number of shares of both classes of common stock or, if one class of common stock has a majority of the voting power, only shares of that class since the relative aggregate voting power of the two classes of common stock fluctuates based on their relative aggregate market values. Currently, Applera-Applied Biosystems stock has a substantial majority of the voting power. As a result, it might be possible for an acquirer to obtain control by purchasing only shares of Applera-Applied Biosystems stock.

Decisions by our Board of Directors and officers that affect market values could adversely affect voting and conversion rights.

The relative voting power per share of each class of common stock and the number of shares of one class of common stock issuable upon the conversion of the other class of common stock will vary depending upon the relative market values of Applera-Applied Biosystems stock and Applera-Celera stock. The market value of either or both classes of common stock could be adversely affected by market reaction to decisions by our Board of Directors or management that investors perceive as affecting differently one class of common stock compared to the other. These decisions could involve changes to our management and allocation policies, transfers of assets between groups, allocations of corporate opportunities and financing resources between groups, and changes in dividend policies.

Provisions governing common stock could discourage a change of control and the payment of a premium for stockholders' shares.

Our stockholder rights plan could prevent stockholders from profiting from an increase in the market value of their shares as a result of a change in control of us by delaying or preventing a change in control. The existence of two classes of common stock could also present complexities and may pose obstacles, financial and otherwise, to an acquiring person. In addition, provisions of Delaware law and our certificate of incorporation and bylaws may also deter hostile takeover attempts.

Item 6. Selected Financial Data

We incorporate herein by reference pages 17 and 18 of our 2004 Annual Report.

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Item 7. Management' s Discussion and Analysis of Financial Condition and Results of Operations

We incorporate herein by reference pages 19 through 40 of our 2004 Annual Report. However, we note that the statements contained under the heading "Outlook" on pages 38 through 40 of our 2004 Annual Report were made as of the date of our 2004 Annual Report. Our incorporation of those statements into this report does not constitute, and should not be read as, an affirmation or republication of those statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We incorporate herein by reference page 38 of our 2004 Annual Report.

Item 8. Financial Statements and Supplementary Data

The following financial statements and the supplementary financial information included in our 2004 Annual Report are incorporated herein by reference: the Consolidated Financial Statements and the report thereon of PricewaterhouseCoopers LLP dated July 28, 2004, on pages 41 through 86 of our 2004 Annual Report, including Note 12, page 71, which contains unaudited quarterly financial information.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that the information required to be disclosed in the reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission' s rules and forms. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of these disclosure controls and procedures as of the end of our 2004 fiscal year, the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to achieve their stated purpose. However, there is no assurance that our disclosure controls and procedures will operate effectively under all circumstances.

Internal Control Over Financial Reporting

No changes were made to our internal control over financial reporting during the fourth fiscal quarter of our 2004 fiscal year that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Not applicable.

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PART III

Item 10. Directors and Executive Officers of the Registrant

Identification and Business Experience of Directors

With respect to the identification and business experience of our directors and persons nominated to become directors, we incorporate herein by reference the information contained in our 2004 Proxy Statement under the heading "Proposal 1 – Election of Directors."

Identification and Business Experience of Executive Officers

The following is a list of our executive officers, identifying as of September 9, 2004, their: ages; corporate offices presently held and year first elected to those offices; and other positions currently held.

Name	Age	Present Corporate Offices (Year First Elected)	Other Positions Currently Held
Robert F.G. Booth	50	Vice President (2002)	Chief Scientific Officer, Celera Genomics Group
Catherine M. Burzik	53	Senior Vice President, and President, Applied Biosystems Group (2004)	Not applicable
Ugo D. DeBlasi	42	Vice President and Controller (2003)	Not applicable
Vikram Jog	48	Vice President (2003)	Vice President, Finance, Celera Genomics and Celera Diagnostics
Barbara J. Kerr	58	Vice President, Human Resources (2000)	Not applicable
Sandeep Nayyar	44	Assistant Controller (2002)	Vice President, Finance, Applied Biosystems Group
Kathy P. Ordoñez	53	Senior Vice President, and President, Celera Genomics Group and Celera Diagnostics (2002)	Not applicable
William B. Sawch	49	Senior Vice President (1997) and General Counsel (1993)	Not applicable
Tony L. White	58	Chairman, President, and Chief Executive Officer (1995)	Not applicable
Dennis L. Winger	56	Senior Vice President and Chief Financial Officer (1997)	Not applicable

Each of the executive officers identified above was most recently elected to the corporate offices identified above by our Board of Directors in August 2004. The term of each officer will continue until their successors have been duly elected or, if earlier, their death, resignation, or removal. Each of the executive officers has been employed by us or a subsidiary in one or more executive or managerial capacities for at least the past five years, with the exception of Dr. Booth, Ms. Burzik, Ms. Kerr, Mr. Nayyar, and Ms. Ordoñez.

Dr. Booth was elected Vice President on August 15, 2002. Prior to our employment of him in August 2002, Dr. Booth was employed by Hoffmann-La Roche, a leading international healthcare company, where he held a series of executive positions over 13 years, including most recently as Senior Vice President responsible for all research and early development of inflammatory, viral, respiratory, and bone disease products from January 1996 to August 2002.

Ms. Burzik was first elected as Vice President on September 2, 2003, and was elected to her current position of Senior Vice President, and President, Applied Biosystems Group, on August 20, 2004. Prior to our employment of her in September 2003, she was employed by Johnson & Johnson, a leading international provider of health care products, where she was President of its Ortho-Clinical Diagnostics, Inc. subsidiary from 1998 to 2003, and General Manager of its Critikon, Inc. business from 1997 to 1998. Prior to that, Ms. Burzik was employed by Eastman Kodak Company, a leading international provider of imaging products and services, where she held various operations and marketing positions over 20 years. These positions included most recently Vice President, Corporate Marketing from 1996 to 1997, and Chief Executive Officer and President of its former subsidiary Kodak Health Imaging Systems, Inc.

Ms. Kerr was elected Vice President, Human Resources on September 5, 2000. Prior to our employment of her in September 2000, Ms. Kerr served as a principal of iQuantic, Inc., a human resources and compensation consulting firm. Prior to that, Ms. Kerr was employed by Chiron Corporation, which conducts research and development in the fields of biological proteins, gene therapy, and combinatorial chemistry, where she was Vice President, Human Resources from 1990 to 1997.

Mr. Nayyar was elected Assistant Controller on April 5, 2002. Prior to our employment of him in October 2001, Mr. Nayyar was employed by Quantum Corporation, a data storage company, where he was Vice President of Finance for the Hard Disk Drive Group from 2000 to 2001, Vice President, Finance for the High-end Storage Division from 1998 to 2000, Director of Finance for the Corporate Finance Group from 1997 to 1998, and Controller for the High Capacity Storage Group from 1994 to 1997.

Ms. Ordoñez was first elected to serve as a corporate officer on December 1, 2000, and was elected to her current position of Senior Vice President, and President, Celera Genomics Group and Celera Diagnostics on August 15, 2002. Prior to our employment of her in December 2000, Ms. Ordoñez was employed by Hoffmann-La Roche, a leading international healthcare company, where she was President and Chief Executive Officer of Roche Molecular Systems from 1991 to 2000.

Family Relationships

To the best of our knowledge and belief, there is no family relationship between any of our directors, executive officers, or persons nominated or chosen by us to become a director or an executive officer.

Involvement in Certain Legal Proceedings

To the best of our knowledge and belief, none of our directors, persons nominated to become directors, or executive officers has been involved in any proceedings during the past five years that are material to an evaluation of the ability or integrity of such persons to be our directors or executive officers.

Audit Committee and Audit Committee Financial Expert

We have a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. We have named that committee our "Audit/Finance Committee." The members of that committee as of the date of this report are Richard H. Ayers (co-chairman), Robert H. Hayes, Theodore E. Martin (co-chairman), and James R. Tobin. Our Board of Directors has determined that our Audit/Finance Committee has three "audit committee financial experts" as that term has been defined by the Securities and Exchange Commission in Item 401(h) of its Regulation S-K, including all of its members except for Robert H. Hayes. The designation of members of our Audit/Finance Committee as "audit committee financial experts" does not impose on those members any duties, obligations, or liabilities that are greater than are generally imposed on them as members of our Audit/Finance Committee and Board of Directors, and does not affect the duties, obligations, or liabilities of any other member of our Audit/Finance Committee or Board of Directors. All of the members of our Audit/Finance Committee, including those that our Board of Directors have determined are audit committee financial experts, are "independent" as that term has been defined by the SEC in Item 7(d)(3)(iv) of Schedule 14A. Additional information regarding our Audit/ Finance Committee is incorporated by reference to the information contained in our 2004 Proxy Statement under the headings "Board of Directors and Committees – Audit/Finance Committee."

Recommendation of Nominees to our Board of Directors

Information concerning our procedures by which security holders may recommend nominees to our Board of Directors is incorporated herein by reference to the information contained in our 2004 Proxy Statement under the headings "Board of Directors and Committees – Board Committees – Nominating/Corporate Governance Committee."

Section 16(a) Beneficial Ownership Reporting Compliance

Information concerning compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated herein by reference to the information contained in our 2004 Proxy Statement under the headings "Ownership of Company Stock – Section 16(a) Beneficial Ownership Reporting Compliance."

Code of Ethics

We have adopted a code of ethics that applies to our officers, directors, and employees. Our code of ethics, which we refer to as our "Code of Business Conduct and Ethics," was designed to comply with the definition of "code of ethics" adopted by the Securities and Exchange Commission as applicable to our Chief Executive Officer (our principal executive officer), our Chief Financial Officer (our principal financial officer), and our Controller (our principal accounting officer). This definition is contained in Item 406(b) of the SEC' s Regulation S-K. Our code of ethics was also designed to meet the code of business conduct and ethics requirements promulgated by the New York Stock Exchange, which requirements are set forth in Section 303A.10 of the NYSE Listed Company Manual.

Our Code of Business Conduct and Ethics is posted on our Applera, Applied Biosystems, and Celera Genomics Internet websites. Also, we intend to post any amendments to or waivers from the code that are applicable to our officers or directors on these Internet websites as

required to satisfy SEC and New York Stock Exchange disclosure requirements applicable to amendments and waivers. This information can be accessed on our websites free of charge as described in Part I of this report on page 2 under the headings "Company Overview – Available Information." In addition, you can obtain this information free of charge by calling our corporate Secretary at 203-840-2000 or by making a request in writing mailed to: Applera Corporation, Attention: Secretary, Applera Corporation, 301 Merritt 7, P.O. Box 5435, Norwalk, CT 06856-5435.

Item 11. Executive Compensation

We incorporate herein by reference the information contained in our 2004 Proxy Statement under the heading "Executive Compensation."

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Securities Authorized for Issuance Under Equity Compensation Plans

Information concerning securities authorized for issuance under equity compensation plans as of the end of our 2004 fiscal year is incorporated herein by reference to the information contained in our 2004 Proxy Statement under the headings "Proposals 4 and 5 – Approval of the Applera Corporation/Applied Biosystems Group Amended and Restated 1999 Stock Incentive Plan and the Applera Corporation/Celera Genomics Group Amended and Restated 1999 Stock Incentive Plan – Equity Compensation Plan Information."

Security Ownership of Certain Beneficial Owners

Information concerning the security ownership of certain beneficial owners is incorporated herein by reference to the information contained in our 2004 Proxy Statement under the headings "Ownership of Company Stock – Greater than 5% Beneficial Owners."

Security Ownership of Management

Information concerning the security ownership of management is incorporated herein by reference to the information contained in our 2004 Proxy Statement under the headings "Ownership of Company Stock – Directors and Executive Officers."

Changes in Control

We know of no arrangements, including any pledge by any person of our securities, the operation of which may at a subsequent date result in a change in control of Applera.

Item 13. Certain Relationships and Related Transactions

Information concerning certain relationships and related transactions is incorporated herein by reference to the information contained in our 2004 Proxy Statement under the headings "Executive Compensatin – Employment Agreements and Other Relationships."

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Item 14. Principal Accountant Fees and Services

Information concerning fees billed by PricewaterhouseCoopers LLP, our independent registered public accounting firm, during our 2003 and 2004 fiscal years, and information concerning the pre-approval policies and procedures of the Audit/Finance Committee of our Board of Directors, is incorporated herein by reference to the information contained in our 2004 Proxy Statement under the heading "Proposal 2 – Ratification of the Selection of Independent Registered Public Accounting Firm."

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) 1. Financial Statements

The following financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated July 28, 2004, appearing in our 2004 Annual Report, are incorporated by reference in this report. With the exception of the aforementioned information and that which is specifically incorporated in Parts I and II of this report, our 2004 Annual Report is not to be deemed filed as part of this report.

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Consolidated Statements of Operations Fiscal years 2002, 2003, and 2004	41
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(a) 2. Financial Statement Schedule

The following additional financial data should be read in conjunction with the consolidated financial statements in our 2004 Annual Report. Schedules not included with this additional financial data have been omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

(a) 3. Exhibits

Exhibit No.	
2.1	Agreement and Plan of Merger dated March 10, 1999, among The Perkin-Elmer Corporation, a New York corporation, The Perkin-Elmer Corporation, a Delaware corporation, and PE Merger Corp., a New York corporation (incorporated by reference to Exhibit 2.1 to our Registration Statement on Form S-4 (No. 333-67797)).
2.2	Agreement and Plan of Merger dated as of June 12, 2001, among Applera Corporation, a Delaware corporation, Angel Acquisition Sub, Inc., a Delaware corporation, and Axys Pharmaceuticals, Inc., a Delaware corporation (incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K dated June 12, 2001 (Commission file number 1-4389)).
3.1.1	Restated Certificate of Incorporation of Applera (incorporated by reference to Exhibit 3(i) to our Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2000 (Commission file number 1-4389)).
3.1.2	Certificate of Designations of Series A Participating Junior Preferred Stock and Series B Participating Junior Preferred Stock (incorporated by reference to Exhibit A to Exhibit 4.1 to our Registration Statement on Form S-4 (No. 333-67797)).
3.2	By-laws of Applera (incorporated by reference to Exhibit 3.2 to our Registration Statement on Form S-4 (No. 333-67797)).
4.1	Stockholder Protection Rights Agreement dated as of April 28, 1999, between Applera and BankBoston, N.A. (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form S-4 (No. 333-67797)).
4.2	Amendment to Rights Agreement dated as of April 17, 2002, among BankBoston, N.A., EquiServe Trust Company, N.A., and Applera (incorporated by reference to Exhibit 4.2 to our Annual Report on Form 10-K for the fiscal year ended June 30, 2002 (Commission file number 1-4389)).
4.3	Credit Agreement dated as of April 20, 2000, among The Perkin-Elmer Corporation, Applera, the lenders party thereto, Salomon Smith Barney Inc., Wachovia Bank, N.A., The Chase Manhattan Bank, and Citibank, N.A. (incorporated by reference to Exhibit 4(2) to our Annual Report on Form 10-K for the fiscal year ended June 30, 2000 (Commission file number 1-4389)).
4.4	Letter dated February 5, 2003, from Applera to Citibank, N.A. regarding the Credit Agreement dated as of April 20, 2000 (incorporated by reference to Exhibit 4.4 to our Annual Report on Form 10-K for the fiscal year ended June 30, 2003 (Commission file number 1-4389)).

4.5	Indenture dated as of September 22, 2000, between U.S. Bank Trust National Association and Axys Pharmaceuticals, Inc. (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K of Axys Pharmaceuticals, Inc. filed September 28, 2000 (Commission file number 0-22788)).

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4.6	First Supplemental Indenture dated as of September 22, 2000, between U.S. Bank Trust National Association and Axys Pharmaceuticals, Inc. (incorporated by reference to Exhibit 4.2 to Current Report on Form 8-K of Axys Pharmaceuticals, Inc. filed September 28, 2000 (Commission file number 0-22788)).
10.1	The Perkin-Elmer Corporation 1993 Stock Incentive Plan for Key Employees (incorporated by reference to Exhibit 99 to our Registration Statement on Form S-8 (No. 33-50847)).*
10.2	The Perkin-Elmer Corporation 1996 Stock Incentive Plan (incorporated by reference to Exhibit 99 to our Registration Statement on Form S-8 (No. 333-15189)).*
10.3	The Perkin-Elmer Corporation 1996 Employee Stock Purchase Plan, as amended October 15, 1998 (incorporated by reference to Exhibit A to our Proxy Statement for our 1998 Annual Meeting of Stockholders (Commission file number 1-4389)).*
10.4	The Perkin-Elmer Corporation 1997 Stock Incentive Plan (incorporated by reference to Exhibit 99 to our Registration Statement on Form S-8 (No. 333-38713)).*
10.5	The Perkin-Elmer Corporation 1998 Stock Incentive Plan (incorporated by reference to Exhibit B to our Proxy Statement for our 1998 Annual Meeting of Stockholders (Commission file number 1-4389)).*
10.6	Applera Corporation 1999 Employee Stock Purchase Plan, as amended October 17, 2002 (incorporated by reference to Appendix A to Schedule 14A, filed September 6, 2002, containing our Proxy Statement for our 2002 Annual Meeting of Stockholders (Commission file number 1-4389)).*
10.7	Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan, as amended through August 21, 2003 (incorporated by reference to Exhibit 10.7 to our Annual Report on Form 10-K for the fiscal year ended June 30, 2003 (Commission file number 1-4389)).*
10.8	Applera Corporation/Celera Genomics Group 1999 Stock Incentive Plan, as amended through August 21, 2003 (incorporated by reference to Exhibit 10.8 to our Annual Report on Form 10-K for the fiscal year ended June 30, 2003 (Commission file number 1-4389)).*
10.9	The Perkin-Elmer Corporation Supplemental Retirement Plan effective as of August 1, 1979, as amended through October 1, 1996 (incorporated by reference to Exhibit 10(22) to our Annual Report on Form 10-K for the fiscal year ended June 30, 2000 (Commission file number 1-4389)).*
10.10	The Excess Benefit Plan of Applera Corporation, as amended and restated effective July 1, 2004.*
10.11	1993 Director Stock Purchase and Deferred Compensation Plan, as amended through March 17, 2000 (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2000 (Commission file number 1-4389)).*
10.12	Applera Corporation Performance Unit Bonus Plan, as amended through August 21, 2003 (incorporated by reference to Exhibit 10.14 to our Annual Report on Form 10-K for the fiscal year ended June 30, 2003 (Commission file number 1-4389)).*
10.13	The Estate Enhancement Plan of The Perkin-Elmer Corporation (incorporated by reference to Exhibit 10(22) to our Annual Report on Form 10-K for the fiscal year ended June 30, 1997 (Commission file number 1-4389)).*

10.14	Applera Corporation Deferred Compensation Plan, as amended and restated effective as of January 1, 2002 (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarter ended December 31, 2001 (Commission file number 1-4389)).*
10.15	PerSeptive Biosystems, Inc. 1992 Stock Plan, as amended January 20, 1997 (incorporated by reference to Exhibit 4.1 to the Quarterly Report on Form 10-Q of PerSeptive Biosystems, Inc. for the fiscal quarter ended March 29, 1997 (Commission file No. 0-20032)).*
10.16	PerSeptive Biosystems, Inc. 1997 Non-Qualified Stock Option Plan, as amended August 21, 1997 (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-8 of PerSeptive Biosystems, Inc. (No. 333-38989)).*
10.17	Molecular Informatics, Inc. 1997 Equity Ownership Plan (incorporated by reference to Exhibit 99 to our Registration Statement on Form S-8 (No. 333-42683)).*
10.18	Paracel, Inc. Stock Option Plan (incorporated by reference to Exhibit 10.22 to our Annual Report on Form 10-K for the fiscal year ended June 30, 2002 (Commission file number 1-4389)).*
10.19	Axys Pharmaceuticals, Inc. 1989 Stock Plan, as amended through May 21, 1997 (incorporated by reference to Exhibit 10.2 to Annual Report on Form 10-K of Axys Pharmaceuticals, Inc. for the fiscal year ended December 31, 1996 (Commission file number 0-22788)). *

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10.20	Axys Pharmaceuticals, Inc. 1997 Equity Incentive Plan, as amended through May 14, 2001 (incorporated by reference to Exhibit 10.30 to our Registration Statement on Form S-8 (No. 333-73980)).*
10.21	Axys Pharmaceuticals, Inc. 1997 Non-Officer Equity Incentive Plan, as amended through October 16, 1998 (incorporated by reference to Exhibit 10.31 to our Registration Statement on Form S-8 (No. 33-73980)).*
10.22	Employment Agreement dated as of September 12, 1995, between Applera and Tony L. White (incorporated by reference to Exhibit 10(21) to our Annual Report on Form 10-K for the fiscal year ended June 30, 1995 (Commission file number 1-4389)).*
10.23	Amendment dated August 17, 2001, to Employment Agreement dated as of September 12, 1995, between Applera and Tony L. White (incorporated by reference to Exhibit 10.l4 to our Annual Report on Form 10-K for the fiscal year ended June 30, 2001 (Commission file number 1-4389)).*
10.24	Change of Control Agreement dated as of September 12, 1995, between Applera and Tony L. White (incorporated by reference to Exhibit 10(16) to our Annual Report on Form 10-K for the fiscal year ended June 30, 1995 (Commission file number 1-4389)).*
10.25	Employment Agreement dated as of November 16, 1995, between Applera and Michael W. Hunkapiller (incorporated by reference to Exhibit 10(11) to our Annual Report on Form 10-K for the fiscal year ended June 30, 1996 (Commission file number 1-4389)).*
10.26	Deferred Compensation Contract dated as of September 15, 1994, between Applera and Michael W. Hunkapiller (incorporated by reference to Exhibit 10(7) to our Annual Report on Form 10-K for the fiscal year ended June 30, 1995 (Commission file number 1-4389)).*
10.27	Employment Agreement dated as of November 16, 1995, between Applera and William B. Sawch (incorporated by reference to Exhibit 10(16) to our Annual Report on Form 10-K for fiscal year ended June 30, 1998 (Commission file number 1-4389)).*
10.28	Deferred Compensation Contract dated as of July 15, 1993, between Applera and William B. Sawch (incorporated by reference to Exhibit 10(19) to our Annual Report on Form 10-K for the fiscal year ended June 30, 1998 (Commission file number 1-4389)).*
10.29	Letter Agreement dated June 24, 1997, between Applera and Dennis L. Winger (incorporated by reference to Exhibit 10(18) to our Annual Report on Form 10-K for the fiscal year ended June 30, 1998 (Commission file number 1-4389)) *
10.30	Employment Agreement dated as of September 25, 1997, between Applera and Dennis L. Winger (incorporated by reference to Exhibit 10(17) to our Annual Report on Form 10-K for the fiscal year ended June 30, 1998 (Commission file number 1-4389)).*
10.31	Letter dated August 21, 2003, from Applera to Dennis L. Winger regarding the Letter Agreement dated June 24, 1997, between Applera and Dennis L. Winger (incorporated by reference to Exhibit 10.33 to our Annual Report on Form 10-K for the fiscal year ended June 30, 2003 (Commission file number 1-4389)).*
10.32	Employment Agreement dated as of December 1, 2000, between Applera and Kathy P. Ordoñez (incorporated by reference to Exhibit 10.35 to our Annual Report on Form 10-K for the fiscal year ended June 30, 2002 (Commission file number 1-4389)).*
10.33	Celera Diagnostics Joint Venture Agreement dated as of April 1, 2001, among Applera, its Applied Biosystems Group, its Celera Genomics Group, Foster City Holdings, LLC, and Rockville Holdings, LLC (incorporated by reference to Exhibit 10.36 to our Annual Report on Form 10-K for the fiscal year ended June 30, 2002 (Commission file number 1-4389)).

10.34	Amendment, dated as of June 22, 2004, to Celera Diagnostics Joint Venture Agreement dated as of April 1, 2001, among Applera, its Applied Biosystems Group, its Celera Genomics Group, Foster City Holdings, LLC, and Rockville Holdings, LLC.
10.35	Celera Genomics/Applied Biosystems Marketing and Distribution Agreement dated as of February 27, 2003, and effective as of April 1, 2002 (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 (Commission file no. 1-4389)).
10.36	Amended and Restated Celera Genomics/Applied Biosystems Marketing and Distribution Agreement dated as of June 22, 2004.
11	Computation of Net Income (Loss) per Share for the three years ended June 30, 2004 (incorporated by reference to Note 1 to Consolidated Financial Statements of Annual Report to Stockholders for the fiscal year ended June 30, 2004).

13	Annual Report to Stockholders for the fiscal year ended June 30, 2004 (to the extent incorporated herein by reference).
21	List of Subsidiaries.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Management plan or compensatory plan or arrangement

(b) Reports on Form 8-K

During the fourth quarter of our 2004 fiscal year, we filed (i) a Current Report on Form 8-K dated April 5, 2004, to disclose under Item 5 thereof our April 5, 2004, press release regarding our Board of Directors' authorization of the repurchase of up to $100 million of Applera-Applied Biosystems stock following the repurchase of $200 million of Applera-Applied Biosystems stock previously authorized by the Board of Directors, (ii) a Current Report on Form 8-K dated April 27, 2004, to disclose under Item 12 thereof our April 27, 2004, press releases setting forth the financial results of Applera and Applied Biosystems and Celera Genomics for the third quarter of our 2004 fiscal year, and (iii) a Current Report on Form 8-K dated June 2, 2004, to disclose under Item 11 thereof information regarding a trading blackout period under Section 306 of the Sarbanes-Oxley Act of 2002 and Rule 104 of the Securities and Exchange Commission' s Regulation BTR.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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/ William B. Sawch

William B. Sawch
Senior Vice President and General Counsel

Date: September 9, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Tony L. White — September 9, 2004

Tony L. White
Chairman of the Board of Directors, President
and Chief Executive Officer
(Principal Executive Officer)

/s/ Dennis L. Winger — September 9, 2004

Dennis L. Winger
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ Ugo D. DeBlasi — September 9, 2004

Ugo D. DeBlasi
Vice President and Controller
(Principal Accounting Officer)

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/s/ Richard H. Ayers — September 9, 2004

Richard H. Ayers
Director

/s/ Jean-Luc Bélingard — September 9, 2004

Jean-Luc Bélingard
Director

September __, 2004

Robert H. Hayes
Director

September __, 2004

Arnold J. Levine
Director

/s/ William H. Longfield — September 9, 2004

William H. Longfield
Director

/s/ Theodore E. Martin — September 9, 2004

Theodore E. Martin
Director

/s/ Carolyn W. Slayman — September 9, 2004

Carolyn W. Slayman
Director

/s/ Orin R. Smith — September 9, 2004

Orin R. Smith
Director

/s/ James R. Tobin — September 9, 2004

James R. Tobin
Director

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENT SCHEDULE

To the Stockholders and Board of
Directors of Applera Corporation

Our audits of the consolidated financial statements referred to in our report dated July 28, 2004, appearing in the 2004 Annual Report to Stockholders of Applera Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP

Stamford, Connecticut
July 28, 2004

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APPLERA CORPORATION
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
FOR THE FISCAL YEARS ENDED JUNE 30, 2002, 2003, and 2004

	ALLOWANCE FOR DOUBTFUL ACCOUNTS
	(Amounts in thousands)
Balance at June 30, 2001	$5,070
Charged to income in fiscal year 2002	8,858
Deductions from reserve in fiscal year 2002	(2,978)
Balance at June 30, 2002	10,950
Charged to income in fiscal year 2003	4,288
Deductions from reserve in fiscal year 2003	(4,731)
Balance at June 30, 2003 (1)	10,507
Charged to income in fiscal year 2004	2,866
Deductions from reserve in fiscal year 2004	(4,425)
Balance at June 30, 2004 (1)	$8,948

(1) Deducted in the Consolidated Statements of Financial Position from accounts receivable.

SCHEDULE II

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EXHIBIT INDEX

Exhibit Number	
10.10	The Excess Benefit Plan of Applera Corporation, as amended and restated effective July 1, 2004.
10.34	Amendment, dated as of June 22, 2004, to Celera Diagnostics Joint Venture Agreement dated as of April 1, 2001, among Applera, its Applied Biosystems Group, its Celera Genomics Group, Foster City Holdings, LLC, and Rockville Holdings, LLC.
10.36	Amended and Restated Celera Genomics/Applied Biosystems Marketing and Distribution Agreement dated as of June 22, 2004.
13	Annual Report to Stockholders for the fiscal year ended June 30, 2004 (to the extent incorporated herein by reference).
21	List of Subsidiaries.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EXHIBIT 10.10

THE EXCESS BENEFIT PLAN

OF

APPLERA CORPORATION

Amended and Restated

Effective July 1, 2004

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THE EXCESS BENEFIT PLAN

OF

APPLERA CORPORATION

Applera Corporation, a Delaware corporation having its principal place of business in Norwalk, Connecticut, hereby restates as of July 1, 2004, The Excess Benefit Plan of Applera Corporation, which was effective as of August 1, 1984.

ARTICLE 1
Definitions

The words and phrases defined hereinafter shall have the following meaning:

Section 1.1 - Act. The Employee Retirement Income Security Act of 1974.

Section 1.2 - Beneficiary. The person or persons named under the provisions of Section 4.4 of this Plan.

Section 1.3 - Board of Directors. The Board of Directors of the Company.

Section 1.4 - Change in Control. Shall mean an event that would be required to be reported (assuming such event has not been "previously reported") in response to Item 1(a) of the Current Report on Form 8-K, as in effect on the effective date hereof, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended; provided, however, that, without limitation, such a Change in Control shall be deemed to have occurred at such time as (a) any "person" within the meaning of Section 14(d) of the Securities Exchange Act of 1934, as amended, becomes the "beneficial owner" as defined in Rule 13d-3 thereunder, directly or indirectly, of more than 25% of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors; (b) during any two-year period, individuals who constitute the Board (the "Incumbent Board") as of the beginning of the period cease for any reason to constitute at least a majority thereof, provided that any person becoming a director during such period whose election or nomination for election by the Company' s stockholders was approved by a vote of at least three-quarters of the Incumbent Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director without objection to such nomination, other than in response to an actual or threatened Change in Control or proxy contest) shall be, for

purposes of this clause (b), considered as though such person were a member of the Incumbent Board; or (c) the approval by the Company' s stockholders of the sale of all or substantially all of the stock or assets of the Company.

Section 1.5 - Code. The Internal Revenue Code of 1986, as amended, or as it may be amended from time to time.

Section 1.6 - Company. Applera Corporation, a Delaware corporation, or any successor to it in ownership of all or substantially all of its assets.

Section 1.7 - Committee. The Committee as appointed by the Board of Directors and shall be the same Committee as constituted under Article XII of The Employee Pension Plan of Applera Corporation.

Section 1.8 - Defined Contribution Account- Shall mean the book account which reflects the credits under Section 4.1(b) and the investments gains or losses under Article 5 to the book account.

Section 1.9 - Defined Contribution Credit- Shall mean the credit to a Participant' s Defined Contribution Account under Section 4.1(b) of the Plan.

Section 1.10 - Effective Date. August 1, 1984. The effective date of this restatement is July 1, 2004.

Section 1.11 - Employee. Any person, including any officer or director who is employed in the service of the Company and who is a participant in the Pension Plan or the Savings Plan.

Section 1.12 - Measurement Funds. A Participant may elect one or more of the Measurement Funds selected by the Committee for the purpose of crediting additional amounts to his or her Defined Contribution Account. The Committee may, in its sole discretion, discontinue, substitute or add a Measurement Fund on a prospective basis at any time and in any manner it deems appropriate.

Section 1.13- Pension Plan. The Employee Pension Plan of Applera Corporation.

Section 1.14 - Plan. The Excess Benefit Plan of Applera Corporation.

Section 1.15 - Plan Year. The period August 1, 1992 through June 30, 1993 shall constitute a short Plan Year. Thereafter, a Plan Year shall mean each twelve (12) consecutive month period from July 1 to the next succeeding June 30.

Section 1.16 - Savings Plan. The Employee 401(k) Savings Plan of Applera Corporation.

Any word or phrase that is not a defined term in this section, which is a defined word or term in either the Savings Plan or Pension Plan and is used in this Plan, shall have the same meaning as it does in the Plan in which it appears.

ARTICLE 2
Purpose of Plan

Section 2.1 - Purpose. This Plan is designed to provide retirement benefits payable out of the general assets of the Company where benefits cannot be paid under the Pension Plan and/or contributions are limited under the Savings Plan because of the application of Code Section 415 and Code Section 401(a)(17) and the provisions of the Pension Plan and/or the Savings Plan which implement such sections.

ARTICLE 3
Eligibility

Section 3.1 - Eligibility. Participation in the Plan shall be limited to a select group of management or highly compensated Employees of the Company, as determined by the Committee in its sole discretion. From that group, the Committee shall select in its sole discretion, Employees to participate in the Plan.

ARTICLE 4
Benefits

Section 4.1 - Amount of Benefits. The benefit payable under this Plan shall be equal to the sum of the following amounts:

a) the benefit, if any, which, when calculated under the Pension Plan without taking into account the provisions of the Pension Plan dealing with limits on pensions imposed by Code Section 415 and Code Section 401(a)(17), is in excess of the benefit payable to or on behalf of the Employee under the Pension Plan after taking into account such provisions; and

b) an amount equal to the Company Matching Contributions which would have been allocated on behalf of the Employee under Article III of the Savings Plan if the limitations of Code Sections 401(a)(17) and 415 were inapplicable, adjusted to take into account investment income and gain or loss experienced by the Measurement Funds as selected by the Participant.

In order to receive a Defined Contribution Credit under this Plan, the Employee must make a Voluntary Tax Deferred Contribution to the Savings Plan equal to the Section 402(g) of the Code limitation. The amount of the Defined Contribution Credit under this Plan shall be equal to the lesser of (i) six percent (6%) of the Employee' s gross compensation before pre-tax reductions or (ii) the Section 402(g) of the Code limitation offset by the Company Matching Contribution in the Savings Plan.

Prior to July 1, 2004, the Plan also provided credits for Automatic Company Contributions and Additional Automatic Company Contributions which were impacted by the limitations described in the above paragraph.

Section 4.2 - Form of Benefit Payment. Benefits payable to or on behalf of an Employee or his Beneficiary resulting from the provisions of Section 4.1 shall be payable as follows:

a) A benefit payable under Section 4.1(a) shall be paid in monthly installments after adjustment in accordance with the optional form of benefits elected under the Pension Plan. The Beneficiary under this Section 4.1(a) shall be

the same as the Pension Plan. Notwithstanding, if the lump sum present value of an Employee' s benefit at time of payment is equal to or less than $5,000, such benefit shall be paid in a lump sum.

b) The form of a benefit payable under Section 4.1(b) shall be subject to the discretion of the Committee. It may be paid in the form of a lump sum, a term certain annuity, single life annuity, joint and survivor annuity or by a combination of such methods. Notwithstanding, if the Employee' s Defined Contribution at time of payment is equal to or less than $5,000, such Defined Contribution Account shall be paid in a lump sum.

Section 4.3 - Time of Benefit Payments. Benefits due under this Plan shall be paid at such time or times following the Employee' s termination, retirement or death as the Committee in its discretion determines.

Section 4.4 - Beneficiary in the Event of Death.

a) Each Employer shall have the right, at any time, to designate his Beneficiary for purposes of the Section 4.1(b) Defined Contribution Account to receive any benefits payable under the Plan upon his death. The Beneficiary designated under the Plan may be the same as or different from the Beneficiary designation under any other plan of the Company in which the Employee participates.

b) An Employee shall designate his Beneficiary in the form and manner specified by the Committee. An Employee shall have the right to change his Beneficiary by complying with the terms of the Committee' s rules and procedures, as in effect from time to time. If a married Participant names someone other than his spouse as a Beneficiary, a spousal consent, in the form designated by the Committee, must be signed by that Participant' s spouse and returned to the Committee. Upon the acceptance by the Committee of a new Beneficiary designation, all Beneficiary designations previously made shall be canceled. The Committee shall be entitled to rely on the last Beneficiary designation made by the Employee and accepted by the Committee prior to his death.

c) No designation or change in designation of a Beneficiary shall be effective until received and acknowledged in writing by the Committee or its

designated agent.

d) Upon the death of an Employee, any remaining benefits due under this Plan to an Employee other than benefits resulting from subsection 4.1(a) shall be distributed to (i) the Beneficiary designated by the Employee under this Plan, or if none, (ii) the Beneficiary designated by the Employee under the Pension Plan, or if none, (iii) the Beneficiary designated by the Employee under the Savings Plan, or if none, (iv) the estate of the deceased Employee.

Section 4.5 - Benefits Unfunded. Benefits payable under this Plan shall be paid by the Company each year out of its general assets and shall not be funded in any manner.

Section 4.6 - Vesting. An Employee shall not have a right to a benefit under this Plan unless:

a) for purposes of the Section 4.1(a) benefit, he has five (5) years of vesting service under the Pension Plan; and

b) for purposes of the Section 4.1(b) benefit, he has completed years of vesting service under the Savings Plan in accordance with the following schedule:

Years of Vesting Service	Vested Percentage
Less than 1	0 %
1 but less than 2	25 %
2 but less than 3	50 %
3 but less than 4	75 %
4 or more	100 %

ARTICLE 5
Investment Direction

Section 5.1 - Investment of Defined Contribution Credit. A Participant shall elect, in such form and manner as the Committee may direct or permit, the percentage of his or her Defined Contribution Credit that will be deemed invested in each Measurement Fund. An initial investment election of a Participant shall be made as of July 1, 2004 for existing Participants and for new Participants, the date the Participant commences or recommences participation in the Plan. The Participant may make changes to such investment elections at such times and in such manner as the Committee may permit, and such elections shall apply to his or her Defined Contribution Credit from and after the effective date of such election. Any investment election timely and properly made pursuant to this Section 5.1 with respect to a Participant' s Defined Contribution Credit shall remain in effect until changed by the Participant. The Committee shall have complete discretion to adopt and revise procedures to be followed in making investment elections.

Section 5.2 - Investment of Existing Defined Contribution Account. A Participant, in connection with his or initial Defined Contribution Credit election in accordance with Section 5.1 above, shall elect, in such form and manner as the Committee may direct or permit, the percentage of his or her exiting Defined Contribution Account that will be deemed invested in each Measurement Fund. The Participant may make changes to such investment elections at such times and in such manner as the Committee may permit, and such elections shall apply to his or her Defined Contribution Account from after the effective date of such election. Any investment election timely and properly made pursuant to this Section 5.2 with respect to a Participant' s Defined Contribution Account shall remain in effect until changed by the Participant. The Committee shall have complete discretion to adopt and revise procedures to be followed in making investment elections.

Section 5.3 - Proportionate Allocation. In making any election described in Sections 5.1 and 5.2 above, the Participant shall specify, in any whole percentage, the percentage of his or her Defined Contribution Credit and/or Defined Contribution Account to be allocated to a Measurement Fund (as if the Participant was making an investment in that Measurement Fund with that portion of his or her Defined Contribution Credit or Defined Contribution Account as the case may be). Such election shall be made in such form and manner as the Committee shall direct or permit.

Section 5.4 - Crediting or Debiting Method. The performance of each Measurement Fund (either positive or negative) will be determined by the Committee, in its reasonable discretion, based on the performance of the Measurement Funds themselves. A Participant' s Defined Contribution Account shall be credited or debited on a daily basis based on the performance of each Measurement Fund selected by the Participant, as determined by the Committee in its sole discretion, as though (a) a Participant' s Defined Contribution Account was invested in the Measurement Fund(s) selected by the Participant, in the percentages applicable as of the close of business on such date and at the closing price on such date; (b) the portion of the Defined Contribution Credit that was credited was invested in the Measurement Fund(s) selected by the Participant, in the percentages applicable as of the close of business on the business day on which such amounts were credited to the Defined Contribution Account at the closing price on such date; and (c) any distribution made to a Participant that decreases such Participant' s Defined Contribution Account ceased being invested in the Measurement Fund(s), in the percentages applicable, as of the business day prior to the distribution, at the closing price on such date.

Section 5.5 - No Actual Investment. Notwithstanding any other provision of the Plan that may be interpreted to the contrary, the Measurement Funds are to be used for measurement purposes only, and a Participant' s election of any such Measurement Fund, the allocation of his or her Defined Contribution Credit and/or defined Contribution Account thereto, the calculation of additional amounts and the crediting or debiting of such amounts to a Participant' s Defined Contribution shall not be considered or construed in any manner as an actual investment of, or as a requirement or direction to actually invest, his or her Defined Contribution Credit or Defined Contribution Account in any such Measurement Fund. In the event that the Company or the trustee of the Trust, in its own discretion, decides to invest funds in any or all of the Measurement Funds, no Participant shall have any rights in or to such investments themselves. Without limiting the foregoing, a Participant' s Defined Contribution Account shall at all times be a bookkeeping entry only and shall not represent any investment made on his or her behalf of the Company or the Trust. The Participant shall at all times remain an unsecured creditor of the Company.

ARTICLE 6
Administration

Section 6.1 - Committee Duties**.** The Plan shall be administered by a Committee which shall be appointed by the Board of Directors and shall be the same Committee as constituted under Article XII of The Employee Pension Plan of Applera Corporation. Members of the Committee may be participants under the Plan. The Committee shall also have the absolute discretion and authority to (a) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of the Plan and (b) decide or resolve any and all questions, including interpretations of the Plan, as may arise in connection with the Plan. Any individual serving on the Committee who is a participant shall not vote or act on any matter relating solely to himself. When making a determination or calculation, the Committee shall be entitled to rely on information furnished by an Employee or the Company.

Section 6.2 - Agents. In the administration of the Plan, the Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit (including acting through a duly appointed representative) and may from time to time consult with counsel who may be counsel to the Company.

Section 6.3 - Binding Effect of Decisions**.** The decision or action of the Committee with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.

Section 6.4 - Indemnity of Committee**.** The Company shall indemnify and hold harmless the members of the Committee and any Employee to whom the duties of the Committee may be delegated against any and all claims, losses, damages, expenses, or liabilities arising from any action or failure to act with respect to the Plan, except in the case of willful misconduct by the Committee or any of its members or any such Employee.

Section 6.5 - Claims Procedure

(a) A claim for benefits under the Plan must be made to the Committee in writing. The Committee shall have the absolute power, authority and discretion to adjudicate claims. The applicant shall be notified in writing of any adverse decision with

respect to his claim within ninety (90) days after its submission. The notice shall be written in a manner calculated to be understood by the applicant and shall include:

(1) the specific reason or reasons for the denial;

(2) specific references to the pertinent Plan provisions on which the denial is based;

(3) a description of any additional material or information necessary for the applicant to perfect the claim and an explanation why such material or information is necessary;

(4) an explanation of the Plan' s claim review procedures; and

(5) a statement of the applicant' s right to bring civil action under ERISA.

If special circumstances require an extension of time for processing the initial claim, a written notice of the extension and the reason therefor shall be furnished to the applicant before the end of the initial ninety (90) day period. In no event shall such extension exceed ninety (90) days.

(b) In the event a claim for benefit is denied, the applicant or his duly authorized representative, at the applicant' s expense, may appeal the denial to the Committee within sixty (60) days of the receipt of written notice of denial. In pursuing such appeal, the applicant or his duly authorized representative may:

(1) request in writing that the Committee review the denial;

(2) review all relevant documents, records, and other information relevant to the claim; and

(3) submit issues and comments in writing.

The decision on review shall be made within sixty (60) days of receipt of the request for review, unless special circumstances require an extension of time for processing, in which case a decision shall be rendered as soon as possible, but not later than one hundred twenty (120) days after receipt of a request for review. If such an extension of time is

required, written notice of the extension shall be furnished to the applicant before the end of the original sixty (60) day period which explains the reasons for the extension and the date a decision is expected. The decision on review shall be written in a manner calculated to be understood by the applicant, and shall include specific references to the pertinent Plan provisions on which such denial is based, a statement that applicants can receive free of charge copies of all documents, records, and other information relevant to the claim; a statement describing the applicant' s right to bring civil action under ERISA; and a description of voluntary appeals procedures, if any, offered by the Plan.

Compliance with the forgoing provisions of Section 6.5 is a mandatory prerequisite to the Employee' s or Beneficiary' s right to commence any legal action with respect for benefits under the Plan.

ARTICLE 7
Amendment and Termination

Section 7.1 - Amendment and Termination. While the Company intends to maintain this Plan in conjunction with the Pension Plan and the Savings Plan for as long as necessary, the Company acting through its Board, reserves the right to amend and/or terminate it at any time for whatever reasons it may deem appropriate.

Section 7.2 - Committee and Amendment of Plan. Notwithstanding Section 7.1 above, the Committee shall be authorized to amend the Plan without the approval of the Board. However, the Committee shall not have the authority to amend the Plan if such amendment shall have a financial impact to the Company of one million dollars or more.

ARTICLE 8
Trust

Section 8.1 - Establishment of the Trust Notwithstanding the Unfunded Status of the Plan. The Company may establish a grantor Trust, and may transfer over to the Trust such assets as the Company determines, in its sole discretion, are necessary to provide, on a present value basis, for its respective future liabilities created with respect to the Defined Contribution Account.

Section 8.2 - Interrelationship of the Plan and the Trust. The provisions of the Plan and the Plan Agreement shall govern the rights of a Participant to receive distributions pursuant to the Plan. The provisions of the Trust shall govern the rights of the Company, Participants, and the creditors of the Company to the assets transferred to the Trust.

Section 8.3 - Distributions From the Trust. The Company' s obligations under the Plan may be satisfied with Trust assets distributed pursuant to the terms of the Trust, and any such distribution shall reduce the Company' s obligations under the Plan.

ARTICLE 9
Miscellaneous

Section 9.1 - Status of Plan. The Plan is intended to be a plan that is not qualified within the meaning of Code Section 401(a) and that "is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of ERISA Sections 201(2), 301(a)(3), and 401(a)(1). The Plan shall be administered and interpreted to the extent possible in a manner consistent with that intent.

Section 9.2 - Unsecured General Creditor. Participants and their Beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, interests, or claims in any property or assets of the Company. For purposes of the payment of benefits under the Plan, any and all of the Company' s assets shall be, and remain, the general, unpledged unrestricted assets of the Company. The Company' s obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.

Section 9.3 - Company' s Liability. This Plan supersedes and shall be in lieu of all prior plans, arrangements, or understandings regarding the benefits provided by the Plan, whether written or oral.

Section 9.4 - Nonassignability. Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage, or otherwise encumber, transfer, hypothecate, alienate, or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are expressly declared to be, unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure, attachment, garnishment, or sequestration for the payment of any debts, judgments, alimony, or separate maintenance owed by a Participant or any other person, be transferable by operation of law in the event of a Participant' s or any other person' s bankruptcy or insolvency, or be transferable to a spouse as a result of a property settlement or otherwise.

Section 9.5 - Not a Contract of Employment. The terms and conditions of the Plan shall not be deemed to constitute a contract of employment between the Company and a Participant. Such employment is hereby acknowledged to be an "at will" employment relationship that can be terminated at any time for any reason, or no reason, with or without cause, and with or without notice, except as otherwise expressly provided in a written employment agreement. Nothing in the Plan shall be deemed to give a

Participant the right to be retained in the service of the Company as an Employee or to interfere with the right of any Employer to discipline or discharge the Participant at any time.

Section 9.6 - Furnishing Information. A Participant or his or her Beneficiary shall cooperate with the Committee by furnishing any and all information requested by the Committee and take such other actions as may be requested in order to facilitate the administration of the Plan and the payments of benefits hereunder, including but not limited to taking such physical examinations as the Committee may deem necessary.

Section 9.7 - Terms. Whenever any words are used herein in the masculine, they shall be construed as though they were in the feminine in all cases where they would so apply; and whenever any words are used herein in the singular or in the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply.

Section 9.8 - Captions. The captions of the articles, sections, and paragraphs of the Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

Section 9.9 - Governing Law. The provisions of the Plan shall be construed and interpreted according to the internal laws of the State of Connecticut without regard to its conflicts of laws principles.

Section 9.10 - Notice. Any notice or filing required or permitted to be given to the Committee under the Plan shall be sufficient if in writing and hand-delivered, or sent by registered or certified mail, to the address below:

Applera Corporation
301 Merritt 7
Norwalk, CT 06851-1070
Attn: Vice President – Human Resources

Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

Any notice or filing required or permitted to be given to a Participant under the Plan shall be sufficient if in writing and hand-delivered, or sent by mail, to the last known address of the Participant.

Section 9.11 - Successors. The provisions of the Plan shall bind and inure to the benefit of the Participant' s Company and its successors and assigns and the Participant and the Participant' s designated Beneficiaries.

Section 9.12 - Spouse' s Interest. The interest in the benefits hereunder of a spouse of a Participant who has predeceased the Participant shall automatically pass to the Participant and, except as otherwise provided in Section 9.15, shall not be transferable by such spouse in any manner, including but not limited to such spouse' s will, nor shall such interest pass under the laws of intestate succession.

Section 9.13 - Validity. In case any provision of the Plan shall be determined to be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but the Plan shall be construed and enforced as if such illegal or invalid provision had never been inserted herein.

Section 9.14 - Incompetency. If the Committee determines in its discretion that a benefit under the Plan is to be paid to a minor, a person declared incompetent, or to a person incapable of handling the disposition of that person' s property, the Committee may direct payment of such benefit to the guardian, legal representative, or person having the care and custody of such minor, incompetent, or incapable person. The Committee may require proof of minority, incompetence, incapacity, or guardianship, as it may deem appropriate, prior to distribution of the benefit. Any payment of a benefit shall be a payment for the account of the Participant and the Participant' s Beneficiary, as the case may be, and shall be a complete discharge of any liability under the Plan for such payment amount.

Section 9.15 - Legal Fees to Enforce Rights After Change in Control. The Company is aware that upon the occurrence of a Change in Control, the Board or (which might then be composed of new members) or a shareholder of the Company, or of any successor corporation might then cause or attempt to cause the Company or such successor to refuse to comply with its obligations under the Plan and might cause or attempt to cause the Company to institute, or may institute, litigation seeking to deny Participants the benefits intended under the Plan. In these circumstances, the purpose of the Plan could be frustrated. Accordingly, if, following a Change in Control, it should

appear to any participant that the Company, or any successor corporation has failed to comply with any of its obligations under the Plan or any agreement thereunder or, if the Company, or any other person takes any action to declare the Plan void or unenforceable or institutes any litigation or other legal action designed to deny, diminish, or to recover from any participant the benefits intended to be provided, then the Company irrevocably authorize such participant to retain counsel of his or her choice at the expense of the Company to represent such participant in connection with the initiation or defense of any litigation or other legal action, whether by or against the Company or any director, officer, shareholder, or other person affiliated with the Company or any successor thereto in any jurisdiction.

Section 9.16 - Tax Withholding. The Company or the trustee of the Trust shall withhold, in such manner as determined by the Company or the trustee (as the case may be) in its sole discretion, from any payments made to a Participant under the Plan such amount or amounts as may be required to comply with all federal, state, and local income, employment, and other withholding obligations.

Section 9.17 - Effect on Other Employee Benefit Plans. Any benefit paid or payable under this Plan shall not be included in a Participant' s compensation for purposes of computing benefits under any employee benefit plan maintained or contributed to by an Employer except as may otherwise be required under the terms of such employee benefit plan.

The information contained herein has been provided by Applera Corporation and is the sole responsibility of Applera Corporation.

EXHIBIT 10.34

AMENDMENT TO

CELERA DIAGNOSTICS

JOINT VENTURE AGREEMENT

AS OF JUNE 22, 2004

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AMENDMENT TO JOINT VENTURE AGREEMENT

AMENDMENT TO JOINT VENTURE AGREEMENT (this "**Amendment**"), dated as of the 22nd day of June, 2004, is by and among Applera Corporation ("**Applera**"), the Applied Biosystems Group of Applera ("**ABI**"), the Celera Genomics Group of Applera ("**CRA**"), Foster City Holdings, LLC ("**ABI LLC**"**)**, and Rockville Holdings, LLC ("**CRA LLC**").

RECITALS

WHEREAS, the parties have entered into a Joint Venture Agreement dated as of April 1, 2001 (the "**JV Agreement**");

WHEREAS, the parties have proposed the amendments to the JV Agreement reflected herein to align certain procedural provisions of the JV Agreement with Applera practices, and those amendments have been approved by the Inter-Group Policy Committee as defined in, and required by, by the JV Agreement.

NOW, THEREFORE, the parties hereto agree to the following amendments to the JV Agreement:

1. The last paragraph of Section 2.3 of Annex E to the JV Agreement is hereby amended and restated in its entirety to read as follows:

> The JV Board shall review and approve the JV Company business plan and corresponding budget (including fixed and working capital requirements) for each of its fiscal years consistent with the timing of the Applera annual budgeting and planning processes, and at such other times as the JV Board determines from time to time.

2. The following sentence is hereby added to the end of Section 4.1(b) of Annex E to the JV Agreement: "Notwithstanding anything to the contrary contained herein, the approval of any matters by members of the JV Board at Applera Executive Committee or other meetings shall be deemed approval by them in their capacity as members of the JV Board, and therefore approval by the JV Board, without the need to call a separate JV Board meeting, provided that the quorum provisions of this paragraph shall have been met at any such meeting."

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IN WITNESS WHEREOF, the parties agree to the foregoing as of the date first written above.

APPLERA CORPORATION

By: /s/ Tony L. White
Name: Tony L. White
Title: Chairman, President and
Chief Executive Officer

APPLIED BIOSYSTEMS GROUP OF
APPLERA CORPORATION

By: /s/ Catherine M. Burzik
Name: Catherine M. Burzik
Title: President

CELERA GENOMICS GROUP OF
APPLERA CORPORATION

By: /s/ Kathy Ordoñez
Name: Kathy Ordoñez
Title: President

FOSTER CITY HOLDINGS, LLC

By: Applera Corporation, acting through the
Applied Biosystems Group, as the sole member
of Foster City Holdings, LLC

By: /s/ Catherine M. Burzik_
Name: Catherine M. Burzik
Title: President

ROCKVILLE HOLDINGS, LLC

By: Applera Corporation, acting through the
Celera Genomics Group, as the sole member
of Rockville Holdings, LLC

By: /s/ Kathy Ordoñez
Name: Kathy Ordoñez
Title: President

EXHIBIT 10.36

CELERA GENOMICS/APPLIED BIOSYSTEMS

MARKETING

AND

DISTRIBUTION AGREEMENT

EFFECTIVE AS OF APRIL 1, 2002

AMENDED AND RESTATED AS OF JUNE 22, 2004

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AMENDED AND RESTATED
MARKETING AND DISTRIBUTION AGREEMENT

AMENDED AND RESTATED MARKETING AND DISTRIBUTION AGREEMENT (this "Agreement"), dated as of June 22, 2004, by and among Applera Corporation ("Applera"), the Applied Biosystems Group of Applera ("AB"), and the Celera Genomics Group of Applera ("Celera").

WHEREAS, the parties hereto entered into a Marketing and Distribution Agreement (the "Original Agreement") dated as of February 27, 2003, and effective as of the 1st day of April, 2002 (the "Effective Date"), relating to the business that had been developed by Celera based on the generation and sale of human genomic and other biological and medical information (the "Online/Information Business," which term does not include Celera' s proteomics efforts or facilities); and

WHEREAS, since the parties entered into the Original Agreement, AB has consummated organizational changes that have resulted in, among other things, the elimination of its Knowledge Business (as defined in the Original Agreement); and

WHEREAS, the parties desire to amend and restate the Original Agreement as set forth herein to reflect the aforementioned organizational changes within AB, and in particular to ensure that those organizational changes do not alter in any material respect the substantive terms and conditions of the transaction intended by the Original Agreement; and

WHEREAS, the changes proposed by the parties and reflected herein have been approved by the Inter-Group Policy Committee (as defined herein) as required by the Original Agreement.

NOW, THEREFORE, the parties hereto agree to the Terms and Conditions described in Annex A attached hereto, with the changes to the Original Agreement reflected in such annex being effective as of the date hereof.

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IN WITNESS WHEREOF, the parties agree to the foregoing as of the date written above.

APPLERA CORPORATION

By: /s/ Tony L. White
Name: Tony L. White
Title: Chairman, President and
Chief Executive Officer

APPLIED BIOSYSTEMS GROUP OF
APPLERA CORPORATION

By: /s/ Catherine M. Burzik
Name: Catherine M. Burzik
Title: President

CELERA GENOMICS GROUP OF
APPLERA CORPORATION

By: /s/ Kathy Ordoñez
Name: Kathy Ordoñez
Title: President

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ANNEX A

TERMS AND CONDITIONS OF
MARKETING AND DISTRIBUTION AGREEMENT

1. Principles.

1.1 Knowledge Products. AB is developing new products comprising genomic and biological content, assays, reagents for use in combination with oligonucleotide arrays, services, experimental protocols, algorithms, and software (collectively, "Knowledge Products"). As part of this new class of products, AB has begun to develop and implement a portal for the integration, delivery, and presentation of biological information and products to enable scientific discovery by life sciences customers (the "Portal"). The Portal incorporates Celera' s existing Celera Discovery System ("CDS") infrastructure.

1.2 Products. This Agreement covers AB' s development, marketing, and distribution of the following products ("Covered Products"):

(a) CDS and the datasets of Celera' s Online/Information Business, in all formats, and including all analysis tools, software, and related information provided to former or current customers of the Online/Information Business, including any future versions or updates to such that are required by Committed Contracts, as that term is defined in Section 3.1 below ("Existing Information Products");

(b) Probes, primer sets, or oligonucleotide arrays, each that are designed with reference to information included within the Online/ Information Business, and new Portal subscription business marketed by AB ("Related Products") (for the avoidance of doubt, Portal subscriptions which do not constitute Committed Contracts under Section 3.1 or 3.2, and which are not renewals or modifications of Committed Contracts under Section 3.3, shall constitute new Portal subscription business); and

(c) Other Knowledge Products developed at AB' s expense after the Effective Date ("Future Products").

(1) AB and Celera shall collaborate with respect to the development of Future Products; and

(2) AB and Celera shall agree on the budget for new research and development initiatives, and unless otherwise agreed, the costs shall be borne by AB.

1.3 AB' s Access to Celera IP. Subject to Section 6 below, AB shall have unrestricted and exclusive access to and use of the intellectual property associated with Existing Information Products for the development and marketing of Knowledge Products, provided that such access shall be on an "as is" basis with no recourse to Celera.

1.4 Ownership of Existing Online/Information Business Assets. Celera shall retain ownership of the assets, including intellectual property, relating to Existing Information Products.

1.5 Ownership of Improvements. Improvements to Existing Information Products shall be owned by the party funding such improvements, provided that at the end of the Term of this Agreement Celera shall have the right to purchase any such improvements owned by AB at fair value as determined by the Board of Directors of Applera (the "Applera Board"). Celera shall have 6 months following the end of the Term to exercise such right.

1.6 Competition. Consistent with Applera' s tracking stock principles, neither AB nor Celera shall engage in each other' s principal business except to the extent provided herein.

2. Conduct and Relationship of the Parties.

2.1 Cooperation between AB and Celera. The parties believe that the successful implementation of this Agreement will require close cooperation between AB and Celera. In particular, the parties expect that the relationship established by this Agreement will benefit from the application of both AB' s and Celera' s respective resources and expertise relating to Knowledge Products. However, the parties also acknowledge that Celera nonetheless must continue to have sufficient resources dedicated to the performance of its obligations under this Agreement, including particularly its obligations in respect of Committed Contracts (as defined below). Therefore, AB and Celera shall cooperate and use reasonable commercial efforts to ensure that their resources and expertise are applied in a manner that effectively achieves the purposes of this Agreement without interfering with the respective businesses of AB and Celera and their other obligations under this Agreement (the "Cooperation Guidelines").

2.2 Online/Information Business Personnel. The parties believe that the development of Knowledge Products will benefit from the unique expertise that certain Celera personnel have developed from their involvement with the Online/Information Business. Accordingly, the parties anticipate that the cooperation referred to in Section 2.1 will involve, among other things, the dedication of some or all of the time of various Online/Information Business personnel to Knowledge Products. The cost of such personnel shall be paid by AB as contemplated by Section 4.2. In performing services for Knowledge Products, the Online/Information Business personnel may report to, and be subject to the supervision of, AB personnel responsible for Knowledge Products. However, such Online/Information Business Personnel and services shall at all times remain subject to the Cooperation Guidelines.

2.3 Operating Procedures. The parties acknowledge and agree that it may be appropriate from time to time to establish specific operating procedures with respect to the allocation of resources contemplated by Section 2.1 and the activities of the Online/Information Business personnel contemplated by Section 2.2. Accordingly, the Inter-Group Policy Committee (as defined in Section 8), working with AB and Celera, shall periodically (and upon request of a party) evaluate the need for, and if applicable adopt (and amend as necessary), operating procedures for the relationship established by this Agreement consistent with its terms (including specifically the Cooperation Guidelines).

2.4 Use of Celera Name. AB' s use of the "Celera" name in the marketing and distribution by AB of Knowledge Products shall be subject to Celera' s approval.

3. Committed Contracts.

3.1 Committed Contracts. Celera shall continue to be responsible for the performance of its obligations under all contracts relating to Existing Information Products in effect as of the Effective Date (the "Committed Contracts"), and shall receive all revenues and other benefits under, and be responsible for all costs and expenses associated with, such Committed Contracts.

3.2 Transition Period. Notwithstanding anything to the contrary contained in this Agreement, commencing as of the Effective Date and continuing for a period of three months thereafter (the "Transition Period"), all revenues and other benefits under, and all costs and expenses associated with, any contract for Existing Information Products entered into during the Transition Period shall be allocated to Celera, and Celera shall be responsible for the performance thereof. Any such contract entered into during the Transition Period shall be deemed a Committed Contract for purposes of this Agreement. Notwithstanding Section 1.3 above, during the Transition Period Celera shall be permitted to market Existing Information Products and associated services.

3.3 Renewals of and Modifications to Committed Contracts. All revenues and other benefits under, and all costs and expenses associated with, any renewals of and/or modifications to Committed Contracts shall be allocated to Celera, and Celera shall be responsible for the performance thereof. All such renewals of and modifications to Committed Contracts shall be deemed Committed Contracts for purposes of this Agreement. For these purposes:

(a) Contractual arrangements with a Committed Contracts customer entered into after June 30, 2002, will be treated as a renewal of and/or modification to the original Committed Contract with that customer, rather than a new AB contract for Knowledge Products, only if the nature of the subsequent contractual arrangement with the customer is substantially the same as the nature of the original Committed Contract.

(b) Without limitation, if (i) a renewal or modification of a Committed Contract is entered into as a result of AB' s marketing efforts, and (ii) such renewal or modification involves the addition of new subscribers to CDS, then the nature of the subsequent contractual arrangement with the customer shall be deemed different from the nature of the original Committed Contract, and the renewed or modified contract shall not constitute a Committed Contract hereunder as of effectiveness of such renewal or modification.

(c) Any question regarding the application of this Section 3 shall be subject to interpretation and resolution in accordance with Section 8. The interpretation of the guidelines set forth above and their application to specific factual circumstances shall be guided by the general principle that Celera or AB, as the case may be, should receive attribution for business actually generated. In furtherance of this general principle, the Inter-Group Policy Committee (or the Applera Chief Executive Officer or Applera Board, as applicable) may determine that a particular contract may have both a Committed Contract component and new Knowledge Product contract component.

3.4 EBITDA From Committed Contracts. AB shall reimburse Celera for any shortfall in Celera' s projected total cumulative EBITDA of $62.5 million from Committed Contracts for fiscal years 2003 through 2006 (the "EBITDA Projection") caused by (i) any actions taken by AB in connection with Knowledge Products or (ii) actual changes to Celera' s current strategy for marketing and distribution of Existing Information Products requested by AB, subject to the following terms, conditions, and limitations:

(a) AB' s reimbursement obligation under this Section 3.4 shall be limited to $62.5 million in the aggregate;

(b) AB' s reimbursement obligation under this Section 3.4 shall be subject to the condition that Celera shall perform all of its obligations under the Committed Contracts, except where its failure to perform is due to (i) actions taken or changes requested by AB as provided above, or (ii) the breach or non-performance by the other party to such Committed Contract as a result of any actions taken or changes requested by AB as provided above;

(c) For purposes of making determinations under this Section 3.4, no less frequently than annually the parties shall review and, as necessary, revise the 4 year forecast for EBITDA from Committed Contracts (though no such revision to the EBITDA forecast shall affect the EBITDA Projection on which AB' s obligations are based under this Section 3.4);

(d) Reimbursements by AB shall be made at the end of any quarter if it is determined, and agreed to by AB and Celera, that AB would have to recognize a reimbursement obligation on its financial statements for that quarter; and

(e) Determinations and interpretations under this Section 3.4 shall be made pursuant to Section 8 and shall be consistent with the financial model presented to the Applera Board that corresponds to the EBITDA Projection.

4. Financial Provisions Applicable to Related Products.

4.1 Royalty to Celera for Covered Products.

(a) In exchange for marketing and distribution rights for Covered Products as described in Section 1 above, AB shall pay Celera a royalty quarterly through AB' s 2012 fiscal year based on revenues from Related Products. The royalty shall be as heretofore approved by the Applera Board, subject to such amendments as the Applera Board shall from time to time approve.

(b) The royalty arrangement contemplated by Section 4.1(a) is based on the mutual understanding that AB does not currently intend to bundle Covered Products with other products and services. If such bundling occurs, then the Inter-Group Policy Committee shall approve an alternative financial arrangement for such bundled Covered Products designed, to the maximum extent possible, to give to Celera substantially the same economic benefit from those Covered Products as was originally intended by the parties, and to minimize any adverse financial impact to Celera as a result of such bundling of products.

4.2 Reimbursement of Costs. AB shall reimburse Celera for all costs relating to Knowledge Products (i.e., of the type or nature identified in the financial model referred to in Section 3.4(e)) in excess of the costs associated with Committed Contracts in a manner consistent with Applera' s tracking stock principles.

5. Shared Services. Celera and AB shall provide each other with access to information technology, informatics, and other shared resources in a manner consistent with Applera' s tracking stock principles, as determined by the Inter-Group Policy Committee (as defined in, and subject to the provisions of, Section 8 below), to ensure the availability of these resources as needed for purposes of this Agreement.

6. Effect on Other Operations/Arrangements.

6.1 Celera.

(a) Celera shall continue to have unrestricted access to:

(1) data (i.e., subscription content as well as underlying data related to Covered Products) and other intellectual property associated with Knowledge Products for internal therapeutics uses (including for collaborations with third parties), as well as for other uses where AB declines interest, without royalty or other payment obligations; and

(2) therapeutic targets identified through AB funded research and development consistent with Applera' s tracking stock principles.

(b) Celera shall remain obligated to comply with obligations pursuant to existing collaborations, subject to future modification and amendment.

6.2 AB.

Access to Celera proteomics data shall be at the discretion of Celera.

6.3 Celera Diagnostics.
This Agreement shall not have any effect on the rights or obligations of Celera Diagnostics within Applera. Celera Diagnostics shall continue to have access to the intellectual property of Celera and AB for human in-vitro diagnostics as set forth in the Celera Diagnostics Joint Venture Agreement.

6.4 Third Party Obligations. Notwithstanding anything to the contrary contained herein, the provisions of this Agreement are subject to any now existing or future obligations of Celera or AB to third parties regarding the intellectual property or other data or information of such third parties.

7. Term of Agreement; Right of First Refusal.

7.1 Term. This Agreement shall become effective as of the Effective Date and shall terminate as of the close of business on June 30, 2012 (the "Term"), provided, however, that (a) any amounts payable by AB to Celera as of the termination date shall continue to be payable in accordance with the terms of this Agreement and (b) Section 7.2 below shall survive such termination.

7.2 Right of First Refusal. If, at any time during the 5 years following the termination or expiration of this Agreement, Celera desires to sell, liquidate, or otherwise dispose of all or a portion of the assets associated with the Online/Information Business, it shall first offer to sell such assets to AB. Thereafter, if AB desires to purchase such assets, Celera and AB shall negotiate in good faith such sale for a period of not less than 60 days. In the event that Celera and AB are unable to reach agreement on the sale of such assets within such time period, Celera may, within 60 days following the conclusion of negotiations with AB, sell all of such assets proposed to be sold to a third party on terms no less favorable to Celera in the aggregate than the terms last proposed by AB, if any.

8. Interpretation of Agreement; Resolution of Disputes.

Subject to Section 10 below, it is the intent of the parties that all questions, concerns, disputes, or other issues that may arise relating to this Agreement, including interpretation of the Agreement, be subject to the same procedures and processes currently used to resolve issues between AB and Celera within Applera. These procedures and processes include the Applera Inter-Group Policy Committee (the "Inter-Group Policy Committee," which term includes any processes or procedures for resolution of issues between AB and Celera as may be applicable from time to time, and any successor committees, processes, or procedures). The Inter-Group Policy Committee shall also have such other specific responsibilities in relation to this Agreement as are expressly set forth in the other provisions of this Agreement. Any dispute, disagreement, deadlock, or other issue or matter relating to this Agreement which cannot be so resolved or addressed by the Inter-Group Policy Committee may be referred by the Applera Chief Executive Officer to the Applera Board, and any resulting determination by the Applera Board shall be binding on the parties. Without limitation of the foregoing, the parties anticipate that the Inter-Group Policy Committee is the most appropriate management committee to ensure compliance with the Cooperation Guidelines, and they therefore expect such committee to have an active role in evaluating such compliance and responding to any questions or concerns that may be raised regarding same (and, if it deems appropriate, implementing procedures as contemplated by Section 2.3 in response to those questions or concerns).

9. Amendment and Waiver.

Subject to Section 10 below, the terms and conditions contained in this Agreement may be amended, and the conduct of the parties may deviate from such terms and conditions, with the approval of the Inter-Group Policy Committee; provided, however, that any amendment to this Agreement, upon receiving the necessary approval, shall be in a written instrument signed by (a) AB, (b) Celera, and (c) the Applera Chief Executive Officer.

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10. Role of Applera Board.

Notwithstanding anything to the contrary contained herein, all matters relating to this Agreement shall at all times remain within the purview of the Applera Board, which shall have the authority to review such matters on its own initiative. In addition, the Applera Chief Executive Officer may refer matters relating to this Agreement to the Applera Board as he deems appropriate.

11. Transaction Expenses.

All out-of-pocket costs and expenses incurred by Applera or its affiliates in connection with the negotiation and implementation of the arrangements provided for herein shall be borne equally by AB and Celera.

Applera is enabling and leading a revolution in the understanding of biology. As a premier systems provider for life science research and an innovator in the discovery and development of novel diagnostic and drug products based on the new science of genomics and proteomics, Applera is working to bring about a new age of targeted medicine.

Applera Mission

Our mission is to improve human health and society by understanding and applying the power of biology to develop breakthrough research technologies, diagnostic products, and drugs.

Cover: A therapeutic antibody, engineered to target specific cell-surface proteins in order to disrupt disease processes.

Applera Corporation

consists of the following three businesses:

Applied Biosystems

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

Celera Genomics

Celera Genomics is discovering and developing targeted therapeutics for cancer, autoimmune and inflammatory diseases. Celera is leveraging proteomics, bioinformatics, and genomics to identify and validate drug targets and to discover and develop small molecule therapeutics. It intends to advance therapeutic antibody and other selected programs through strategic collaborations.

Celera Diagnostics

Celera Diagnostics, **a joint venture between Applied Biosystems and Celera Genomics,** focuses on discovering markers for disease and configuring these into new gene and protein-based diagnostic tests to predict, characterize, monitor and select therapy for cardiovascular disease,

auto-immunity, central nervous system disorders, and cancer.

Applera Corporation has two classes of common stock. Applera Corporation – Applied Biosystems Group Common 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 – Celera Genomics Group Common 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. Holders of Applera-Applied Biosystems stock and Applera-Celera Genomics stock are stockholders of a single company, Applera Corporation.

To Our Stockholders,

During the past year, Applera Corporation continued to innovate at the forefront of biomedical research, both to facilitate and to make discoveries that may lead to breakthrough drug and diagnostic products. At the same time, we remained focused on building economic value for stockholders.

At Applied Biosystems, we introduced cutting-edge products that unite traditional laboratory research and computer-based science to address the emerging research trend known as systems biology or *Integrated Science*. At Celera Genomics, we leveraged our broad scientific assets and therapeutic discovery capabilities to identify and validate new therapeutic targets in cancer and to advance our novel small molecule drug candidates. At Celera Diagnostics, a joint venture between Applied Biosystems and Celera Genomics, we expanded our commercial product portfolio in infectious diseases and discovered new genetic markers associated with common, complex diseases − discoveries that we are working to convert into "constellations of markers" for use in new diagnostic products.

Driving Discoveries The Celera Diagnostics discoveries in heart disease, rheumatoid arthritis, and other medical conditions provide evidence of the value of Applera technology and validate our complementary visions of *Integrated Science* and *Targeted Medicine*. Additional discoveries by Applied Biosystems customers during the year also point in the same direction. In 2003, scientists used Applied Biosystems genomic and proteomic research tools to rapidly identify and understand the SARS virus in order to develop a diagnostic test and begin work on a potential vaccine. In April 2004, *The New England Journal of Medicine* and *Science* published articles highlighting progress toward more targeted therapies. These articles describe how researchers using Applied Biosystems tools, in the first case, identified genetic patterns that appear to predict which patients are more likely to respond to a new drug for lung

cancer and, in the second case, to identify a genetic signature associated with improved survival in lymphoma patients. While preliminary, these exciting findings could eventually help physicians tailor cancer treatments to specific individuals.

Applied Biosystems introduced major new products for DNA analysis in the past fiscal year to meet the growing demand from scientists for tools to understand the function of DNA encoded in the structural blueprint that is the human genome. Chief among them was the first fully integrated platform for gene expression analysis that permits researchers to link, in real-time, experimental results with the vast amounts of biological data from Applied Biosystems' proprietary bioinformatics platform. In addition, Applied Biosystems' unique new mass spectrometry system for small molecule and protein analysis was rapidly adopted by customers. The Group also saw strong demand for its human identification products used in forensics, one of several applied markets into which it is expanding. These areas − functional genomics, mass spectrometry, and applied markets − have been solid growth markets for several years, and we expect they will remain investment priorities for Applied Biosystems.

Applied Biosystems in fiscal 2004 generated income from continuing operations of $172.3 million and $289.3 million in operating cash flow. A challenging operating environment put pressure on growth, but the fiscal year ended on an encouraging note, as fourth quarter revenue increased 6 percent compared to the prior year and earnings per share increased 17 percent, excluding special items. During fiscal 2004, growth in public-sector life science funding − the funding source that supports approximately 50 percent of Applied Biosystems revenues − was constrained in the United States and Europe, as well as in Japan, where changes in the process of university funding have also disrupted customer purchasing patterns. In addition, sales to the several large DNA sequencing genome centers declined following very substantial capital equipment purchases during the prior year.

Your management team is taking a series of measures to improve performance at Applied Biosystems. Catherine Burzik joined the Group in September 2003 in the new position of Executive Vice President. Formerly president of Ortho-Clinical Diagnostics, Cathy has managed commercial operations and led a rigorous review of the product portfolio, R&D investments, and business processes in order to identify opportunities for greater growth and operational efficiency. In July 2004, the Group announced a pending reorganization into four divisions, each with profit-and-loss responsibility and integrated sales, R&D, manufacturing, and marketing teams. In addition, new units are being created to increase attention to strategic planning and the incubation of new businesses. Implementation of other decisions stemming from the review are expected during fiscal 2005. In August, Cathy became President of Applied Biosystems following Mike Hunkapiller' s decision to retire. The Company is indebted to Mike for his leadership and many pioneering contributions over the past two decades. Although Mike will be missed, he leaves a strong legacy, and we expect a smooth transition as Cathy assumes full responsibility for Applied Biosystems.

During fiscal 2004, Applied Biosystems used a portion of its cash flow to purchase $325 million of Applera Corporation-Applied Biosystems common stock. Net of the share buybacks, Applied Biosystems ended the fiscal year with $505 million in cash and cash equivalents and without any debt. The Group' s financial condition provides flexibility to fund internal initiatives as well as potential acquisitions.

Celera Genomics last year expanded its development capabilities and progressed toward its goal of generating a clinical pipeline of high-potential small molecule compounds in inflammation and cancer. Guided by Applera' s vision of Targeted Medicine, Celera Genomics is applying its strengths in genomics, proteomics and bioinformatics, along with its close relationship with Celera Diagnostics, to identify and validate novel drug targets and to develop novel therapeutics against validated targets.

Celera Genomics has recently established several complementary relationships intended to convert the targets and markers identified through its cancer-focused proteomics program into products and value. In July 2004, the Celera Group announced therapeutic co-development partnerships with Abbott Laboratories for therapeutic antibodies and small molecule drugs, and with Seattle Genetics for monoclonal antibodies and antibody-drug conjugates (ADCs). In addition, Celera Genomics and Celera Diagnostics entered into a broad research agreement with General Electric, under which the first project will focus on diagnostic imaging agents for cancer that would target cell surface proteins identified by Celera Genomics as associated with cancer.

Applera Management Executive Committee

left to right:

Kathy Ordoñez
William Sawch
Dennis Winger
Tony White
Barbara Kerr
Cathy Burzik

In the small molecule area, Celera Genomics is evaluating in late-stage preclinical testing development candidates for treating cancer and preventing deep vein thrombosis. To support preclinical and future clinical programs, Celera has grown its development organization to over 50 people and is carefully managing its financial assets − $746 million in cash and short-term securities at fiscal year end.

Celera Diagnostics is meeting major scientific and commercial milestones. In the past year, company scientists or collaborators reported the identification of meaningful new genetic markers in six association studies, providing new insight into disease risk and progression in common, complex disorders, including heart attack, stroke, rheumatoid arthritis, and breast cancer. In the case of myocardial infarction (MI), or heart attack, Celera Diagnostics has undertaken medical utility studies with Quest Diagnostics, the nation' s largest clinical reference laboratory, to identify the most informative constellation of markers associated with MI. Quest may use these findings to identify patients, including those without conventional risk factors such as high cholesterol, who carry a genetic predisposition for MI and who could benefit from lifestyle changes or treatment. At the same time, Celera Genomics is exploring the therapeutic utility of selected markers.

Celera Diagnostics' long-term strategic alliance with Abbott is producing strong revenue growth and moving the business closer to profitability. Formed two years ago to develop, manufacture, and market molecular diagnostics, this alliance sells a variety of *in vitro* diagnostic tests and analyte specific reagents manufactured by Celera Diagnostics, as well as products manufactured by Abbott and other parties. With key alliances in place, an expanded product portfolio, and promising discoveries feeding its product pipeline, Celera Diagnostics is moving steadily toward its goal of developing differentiated products for improving the diagnosis and detection of disease and for developing and selecting patient treatments.

We look forward to the coming year with confidence that the direction of the Applera businesses is aligned with the direction of the fields of biology and medicine. We are invigorated by the recent scientific studies validating our vision of *Targeted Medicine* and the formation of systems biology research centers at major universities confirming our emphasis on *Integrated Science*, or *iScience*. While mindful of the challenges ahead, we are proud of our accomplishments, grateful to the employees who made them possible, and committed to developing products that help translate a better understanding of biology into clinical reality, for the benefit of patients, physicians, customers and stockholders.

Tony L. White
Chairman, President and Chief Executive Officer
Applera Corporation
August 30, 2004

Highlights

Applied Biosystems

- Entered the gene expression array market with an Expression Array System that complements its leadership in quantitative gene expression, and commenced shipments of its novel hybrid mass spectrometer, the 4000 QTRAP®, for drug development and proteomics.
- Generated $289 million in operating cash flow, which helped fund repurchases of $325 million of Applera-Applied Biosystems shares.
- Conducted a strategic and operating review designed to enhance operational effectiveness and financial performance. Changes include rebalancing R&D investments and restructuring operations into four divisions, each with integrated resources.

Celera Genomics

- Identified and validated new therapeutic targets in cancer and advanced its most promising small molecule drug candidates toward human clinical trials.
- Established therapeutic collaborations with Abbott Laboratories and Seattle Genetics to create drug candidates to cancer targets identified primarily through its proteomic research.
- Expanded internal development capabilities and ended the fiscal year with $746 million in cash and short-term securities.

Celera Diagnostics

- With strategic partner Abbott Molecular Diagnostics, introduced new infectious disease tests and significantly increased end-user sales.
- In pioneering disease association studies, identified and validated new genetic markers in multiple common, complex diseases, including myocardial infarction (heart attack), stroke, rheumatoid arthritis, and breast cancer.
- Initiated medical utility studies with partner Quest Diagnostics, the nation' s largest clinical reference laboratory, related to genetic markers associated with myocardial infarction.

Systems Biology Institutions & Initiatives:

Institute for Systems Biology; 2000

Bio-X Stanford; 2000

University of Queensland: Institute for Molecular Bioscience; 2000

The Broad Institute; 2003
research collaboration between Whitehead Institute, Harvard Medical School and MIT

qb3: California Institute for Quantitative Biomedical Research; 2003

The National Institutes of Health (NIH) Roadmap Initiatives; 2003

Dublin Molecular Medicine Center (DMMC); 2004

Collaborations:

General Electric: *Integrating medical imaging, protein-based markers and therapeutics toward the detection, prevention and management of disease.*

Abbott Laboratories: *Discovery and development of targeted therapies for cancer, including therapeutic antibodies and small molecule drugs.*

Seattle Genetics: *Discovery and co-development of targeted antibody therapies for cancer based on monoclonal antibodies and antibody-drug-conjugates.*

Merck: *Discovery of novel genetic markers for Alzheimer's disease, potentially leading to new therapeutics and diagnostics.*

For more information on these collaborations, please see pages 12-15.

Applied
Biosystems

Enabling the Next Generation of Life Science Research

The global effort to sequence the human genome, predominantly using Applied Biosystems DNA analyzers and reagents, was described at the time as a "race to the starting line" for understanding biology at a deeper level. Today, three years following publication of the draft human sequence, scientists are sprinting out of the gate toward making exciting new associations between genetics, disease, and drug response.

Applied Biosystems DNA sequencing tools, as well as real-time PCR products, are again playing an important enabling role. Its DNA sequencing systems have been used to identify genetic variations associated with drug response in lung cancer patients taking the new drug IRESSA®, while its real-time PCR systems have been used to help scientists discover novel genetic patterns that may have the potential to predict survival in B-cell lymphoma. These studies are among the examples of how Applied Biosystems is serving biomedical discovery and development by leveraging its broad, multi-disciplinary expertise to provide new tools and strategies for

Addressing a Global Health Threat

When Severe Acute Respiratory Syndrome (SARS) emerged as a new public health threat in 2003, life science researchers worldwide responded immediately, collaborating to combine gene and protein information to identify and understand the new virus. Using Applied Biosystems automated sequencing, real-time PCR, and protein identification systems, they sequenced the SARS virus, developed the basis for diagnostic tests, and identified key viral proteins as potential vaccine and drug targets – all in about three months – showing that iScience technologies make it possible to address a global health concern quickly.

helping scientists understand the complex interactions among genes, proteins and small molecules involved in human health and disease.

In the area of *iScience*, Applied Biosystems is offering a growing number of whole-product solutions that integrate biological content with technological advances to streamline workflows in scientific discovery. Several Applied Biosystems mass spectrometers for protein analysis, including the successful 4000 QTRAP® LC/MS/MS System first shipped in early 2004, provide customers with *iScience* benefits by enabling them to link experimental data with relevant gene-based information from Applied Biosystems proprietary bioinformatics platform.

In spring 2004, the company launched the first fully integrated system for whole genome gene expression analysis to accelerate the identification of genes involved in various biological processes or diseases and in drug response. The Expression Array System marks Applied Biosystems' entry into the microarray market and complements its leadership in quantitative real-time PCR for gene expression. The Expression Array System, available for the human, mouse, and soon for the rat genome, features highly sensitive chemiluminescent detection and incorporates an improved probe design. These technical innovations make it possible for researchers to find more expressed genes and to use less sample. To accelerate decision-making, this *iScience* solution links to the online bioinformatics platform and to easy ordering of ready-to-use, relevant TaqMan® Gene Expression Assays for validating candidate genes identified by microarray analysis.

Applied Biosystems also began full commercial sales in fiscal 2004 of two other major products for functional genomics that extend the utility of its popular DNA sequencing systems. The SNPlex™ Genotyping System is a software and reagent product that provides a flexible and cost-effective solution for conducting high-throughput association studies to find disease-associated genes. The VariantSEQr™ Resequencing System addresses the growing practice of resequencing specific genes or gene regions to discover genetic variations that correlate with disease processes or drug response.

The industry's most comprehensive and integrated portfolio of life-science tools

DISCOVERY RESEARCH

PHARMACEUTICAL DEVELOPMENT

APPLIED MARKETS

biology

ADVANCING KNOWLEDGE IS MAKING IT POSSIBLE TO ASK AND ANSWER NEW QUESTIONS:

WHAT IS THE NORMAL FUNCTION OF GENES IDENTIFIED BY HUMAN GENOME SEQUENCING?

WHICH OF THESE GENES ARE INVOLVED IN DISEASES? WHICH PROTEINS?

HOW DO NETWORKS OF GENES AND PROTEINS INTERACT WITH ONE ANOTHER IN HEALTHY AND DISEASED TISSUE?

WHAT PROTEIN AND SMALL MOLECULE BIOMARKERS ARE INVOLVED WITH DISEASE DIAGNOSIS, PROGNOSIS, AND TREATMENT?

WHAT IS THE CONNECTION BETWEEN GENETIC VARIATIONS AMONG INDIVIDUALS AND RISK AND ONSET OF DISEASES?

HOW CAN AN UNDERSTANDING OF GENETIC VARIATIONS HELP DEVELOP DIAGNOSTIC TESTS AND MORE TARGETED DRUGS?

Therapeutic Collaborations with Industry Leaders

In July 2004, Celera Genomics entered into two strategic alliances focused on developing new cancer therapies directed against cell-surface proteins associated with cancer and validated as therapeutic targets through three years of extensive proteomics research. The relationship with Abbott Laboratories encompasses therapeutic antibodies and small molecule drugs, while the alliance with Seattle Genetics centers on monoclonal antibodies and antibody-drug conjugates (ADCs). In both alliances, Celera Genomics and its partner will equally share funding of clinical development and would then share any financial returns resulting from commercialization.

Building a Portfolio of Targeted Therapeutics

Celera Genomics is integrating proven and cutting-edge technologies to discover and develop new high-value, targeted therapeutics for cancer, autoimmune, and inflammatory diseases. To reach its goal, Celera Genomics is leveraging three areas of competitive advantage: **first**, its ability to identify targets and study disease using a variety of large-scale proteomics and genomics platforms powered by proprietary bioinformatics; **second**, its small molecule research and development capabilities; and **third**, its access to discoveries from Celera Diagnostics, which provide molecular insights into disease and the potential for companion diagnostic products.

In fiscal 2004, Celera Genomics focused its competitive strengths on three activities: identifying therapeutic targets, creating strategic alliances, and advancing small molecule and protein therapeutic programs. Celera Genomics' primary sources of targets include its proteomics program, which involves the use of industrial-scale

studies to identify overexpressed cell-surface proteins associated with cancer that are potential targets for therapeutic antibodies or small molecule drugs, and the ongoing disease association studies conducted by Celera Diagnostics. In the past year, Celera Genomics validated more than a dozen potential pancreatic cancer targets and identified additional differentially expressed proteins in pancreatic, lung, colon, and breast cancer that will be further evaluated.

To capitalize on the success of its proteomics research, Celera Genomics announced the formation of key strategic collaborations with Abbott Laboratories and Seattle Genetics in July 2004 to develop new cancer therapeutics against a number of its protein targets. *(See inset.)* Also in July, Celera Genomics and Celera Diagnostics entered into a broad research collaboration with General Electric intended to accelerate the discovery and development of new products for targeted medicine. The first collaboration project focuses on the development of novel imaging agents for cancer that selectively target cell-surface proteins that Celera Genomics has identified to be associated with cancer. This novel partnership integrates medical imaging, protein-based markers and therapeutics in a new strategy for detecting, preventing, and managing disease.

In its small molecule programs, Celera Genomics is evaluating development candidates in late-stage preclinical testing. A program in oncology has demonstrated reduced tumor growth in xenograft models of cancer. A second program is focused on treating blood clotting problems such as deep vein thrombosis. To support the progress in its pipeline, Celera Genomics substantially expanded its preclinical and clinical development staff in the past year.

Converting Discoveries into Actionable Diagnostics

Celera Diagnostics is applying a full range of discovery and commercialization capabilities to develop tests that it believes will enable physicians to better diagnose, monitor, and treat disease. In fiscal 2004, Celera Diagnostics increased end-user sales through its alliance with Abbott Laboratories, reported meaningful discoveries from its large-scale disease association studies, expanded the Abbott alliance product portfolio, and added new partnerships to advance its implementation of targeted medicine.

Celera Diagnostics is growing toward profitability, as end-user sales generated by its strategic marketing and manufacturing alliance with Abbott continue to increase. In fiscal 2004, the portfolio of products sold through the collaboration expanded to include a variety of infectious disease and genetic tests manufactured by Celera Diagnostics, Abbott, and other companies. These include updates to its ViroSeq™ HIV-1 Genotyping System, which was granted CE mark certification in Europe, as well as expanded claims from the FDA.

Targeting HIV Drug Resistance

Just as the human immunodeficiency virus (HIV-1) continues to mutate and develop resistance to new drug therapies, the genotyping tests for detecting these mutations must change to meet current needs. The ViroSeq HIV-1 Genotyping System continues to evolve, and in the last year gained FDA clearance for expanded claims, including an updated software algorithm that analyzes information regarding known and newly identified mutations in HIV-1, 19 anti-retroviral drugs, and reported drug resistance patterns. The ViroSeq System also received CE mark certification in the European Union, paving the way for sales in its 18 member states.

Celera Diagnostics' discovery programs are the basis for its future success and for new products that will enable Targeted Medicine. In the past year, the company made strong progress in its industrial-scale disease association studies to link genetic markers to common, complex diseases. These studies compare genotype and gene expression profiles in samples from healthy and diseased populations to identify and validate markers that provide insight into disease risk, progression and treatment response for the development of new molecular diagnostics. In fiscal 2004, Celera Diagnostics scientists and collaborators reported the identification of new markers in six studies, including heart attack, stroke, rheumatoid arthritis, metastatic risk in breast cancer, Alzheimer's disease, and interferon response in hepatitis C patients.

In the case of myocardial infarction, or heart attack, researchers described the identification of multiple novel genetic markers, called single nucleotide polymorphisms (SNPs), in a number of genes associated with an increased risk for heart attack. In rheumatoid arthritis (RA), Celera Diagnostics reported data linking variation in a single gene to a two-fold increase in risk for RA, opening a new window for studying the causes of autoimmune diseases. Celera Diagnostics is working with its collaborators to determine the medical utility of these and other genetic markers emerging from its discovery programs. In addition, Celera Genomics is evaluating the therapeutic potential of these findings.

A collaboration with Merck & Co, Inc. announced in July 2004 to identify novel targets for drug discovery and diagnostic markers related to Alzheimer's disease provides another opportunity to leverage the power of the Celera Diagnostics disease association platform. To better understand and differentiate disease at the molecular level, Celera Diagnostics and Celera Genomics entered into a broad research collaboration with General Electric to further advance the concept of Targeted Medicine.

(Dollar amounts in thousands except per share amounts)

Fiscal years ended June 30,	2000	2001	2002	2003	**2004**
Financial Operations					
Net revenues					
Applied Biosystems group	$1,388,100	$1,619,495	$1,604,019	$1,682,943	**$1,741,098**
Celera Genomics group	42,747	89,385	120,886	88,264	**60,126**
Celera Diagnostics		1,587	9,206	20,763	**36,702**
Eliminations	(59,812)	(66,341)	(32,893)	(14,738)	**(12,733)**
Applera Corporation	1,371,035	1,644,126	1,701,218	1,777,232	**1,825,193**
Income (loss) from continuing operations					
Applied Biosystems group	$186,247	$212,391	$168,481	$199,617	**$172,253**
Celera Genomics group	(92,737)	(186,229)	(211,772)	(81,929)	**(57,476)**
Celera Diagnostics		(4,960)	(44,763)	(51,237)	**(41,968)**
Eliminations	1,986	6,032	47,473	52,029	**42,144**
Applera Corporation	95,496	27,234	(40,581)	118,480	**114,953**
Per Share Information					
Applied Biosystems Group					
Income per share from continuing operations					
Basic	$0.90	$1.01	$0.80	$0.96	**$0.84**
Diluted	$0.86	$0.96	$0.78	$0.95	**$0.83**
Dividends declared per share	$0.17	$0.17	$0.17	$0.17	**$0.17**
Celera Genomics Group					
Net loss per share					
Basic and diluted	$(1.73)	$(3.07)	$(3.21)	$(1.15)	**$(0.79)**
Other Information					
Cash and cash equivalents and short-term investments					
Applied Biosystems group	$394,608	$392,459	$470,981	$601,666	**$504,947**
Celera Genomics group	1,111,034	995,558	888,922	802,402	**745,794**
Applera Corporation	1,505,642	1,388,017	1,359,903	1,404,068	**1,250,741**
Total assets					
Applied Biosystems group	$1,698,156	$1,677,887	$1,818,582	$2,126,715	**$1,947,760**
Celera Genomics group	1,413,257	1,220,136	1,250,044	1,122,066	**1,017,714**
Celera Diagnostics		14,164	21,826	35,902	**36,903**
Eliminations	(28,098)	(24,329)	(15,053)	(27,191)	**(29,526)**
Applera Corporation	3,083,315	2,887,858	3,075,399	3,257,492	**2,972,851**
Long-term debt					

Applied Biosystems group	$36,115	$–	$–	$–	$–
Celera Genomics group	46,000		17,983	17,101	
Applera Corporation	82,115		17,983	17,101	

Selected financial data provides five years of financial information for Applera Corporation. This table includes commonly used key financial metrics that facilitate comparisons with other companies. We include information on our business units in the above selected consolidating financial data to facilitate the understanding of our business and our financial statements. Our board of directors approves the method of allocating earnings to each class of our common stock for purposes of calculating earnings per share. This determination is generally based on net income or loss amounts of the Applied Biosystems group and Celera Genomics group calculated in accordance with accounting principles generally accepted in the United States of America, or GAAP, consistently applied. See Note 15 to our consolidated financial statements for a detailed description of our segments and the management and allocation policies applicable to the attribution of assets, liabilities, revenues and expenses. You should read this selected financial data in conjunction with our consolidated financial statements and related notes.

As part of our recapitalization on May 6, 1999, we issued two new classes of common stock called Applera Corporation- Applied Biosystems Group Common Stock and Applera Corporation- Celera Genomics Group Common Stock.

The Applied Biosystems group per share data and the Celera Genomics group per share data reflect all stock splits.

We established Celera Diagnostics in 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 diagnostic products. The loss from Celera Diagnostics does not include the tax benefit recorded by the Celera Genomics group associated with such loss, as the Celera Genomics group recorded 100% of Celera Diagnostics' losses from fiscal 2001 through 2004.

A number of items, shown below, impact the comparability of our data from continuing operations. All amounts are pre-tax, with the exception of the tax liability and valuation allowance reduction recorded as a tax benefit in fiscal 2003.

(Dollar amounts in millions)

Fiscal years ended June 30,	2000	2001	2002	2003	**2004**
Applied Biosystems Group					
Net gains/(losses) on investments	$48.6	$15.0	$(8.2)	$–	**$11.2**
Acceleration of long-term compensation charges as a result of attainment of performance targets	(45.0)				
Gain on sale of real estate	8.2				
Employee-related charges, asset impairments and other	(2.1)			(29.5)	**(25.0)**
Acquired in-process research and development charge			(2.2)		
Tax liability and valuation allowance reductions				27.8	
Net gains on litigation settlements				25.8	**6.7**
Celera Genomics Group					
Employee-related charges, asset impairments and other	$–	$(69.1)	$(28.7)	$(15.1)	**$(18.1)**
Net gains/(losses) on investments			(6.0)		**24.8**
Acquired in-process research and development charge			(99.0)		

Discussion 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. Historical results and percentage relationships are not necessarily indicative of operating results for future periods. When used in this management discussion, the terms "Applera," "Company," "we," "us," or "our" mean Applera Corporation and its subsidiaries.

Overview

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

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

The Celera Genomics group is engaged principally in the discovery and development of targeted therapeutics for cancer, autoimmune and inflammatory diseases. The Celera Genomics group is leveraging its proteomic, bioinformatic, and genomic capabilities to identify and validate drug targets, and to discover and develop small molecule therapeutics. It is also seeking to advance therapeutic antibody and selected small molecule drug programs in collaboration with global technology and market leaders.

Celera Diagnostics is a 50/50 joint venture between the Applied Biosystems group and the Celera Genomics group and the Celera Genomics group are not separate legal entities, and holders of these stocks are stockholders of a single company, Applera. As a result, holders of these stocks are subject to all of the risks associated with an investment in Applera and all of its businesses, assets, and liabilities. The Applied Biosystems group and the Celera Genomics group do not have separate boards of directors. Applera has one board of directors, which will make any decision in accordance with its good faith business judgment that the decision is in the best interests of Applera and all of its stockholders as a whole.

More information about the risks relating to our capital structure, particularly our two classes of capital stock, is contained in our Form 10-K Annual Report for fiscal 2004.

Our fiscal year ends on June 30. The financial information for each segment is presented in Note 15 to our consolidated financial statements, Segment, Geographic, Customer and Consolidating Information. Management' s discussion and analysis addresses the consolidated financial results followed by the discussions of our three segments.

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

Applied Biosystems Group

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

In February 2004, the Applied Biosystems group announced the availability of two new real-time PCR systems, the Applied Biosystems 7300 Real-Time PCR System and the Applied Biosystems 7500 Real-Time

group. This venture is focused on the discovery, development, and commercialization of diagnostic products.

In fiscal 1999, as part of a recapitalization of our Company, we created two classes of common stock referred to as "tracking" stocks. Tracking stock is a class of stock of a corporation intended to "track" or reflect the 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 holders of Applera- Celera stock are stockholders of Applera. The Applied

PCR System, for the detection and quantification of nucleic acid sequences.

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

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

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

In April 2004, the Applied Biosystems group announced the commercial availability of the Applied Biosystems Expression Array System. The product combines highly sensitive gene detection capabilities with easy integration to the Applied Biosystems group' s complementary gene expression

products. Together, these systems provide a comprehensive and streamlined solution for studies of human gene expression.

On April 19, 2004, the Applied Biosystems group announced a favorable decision in a patent infringement lawsuit brought by Applera Corporation and Roche Molecular Systems, Inc. against MJ Research, Inc. and

recognized disease pathway associated with myocardial infarction risk.

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

its principals. Damages were awarded in the amount of $19.8 million to the Applied Biosystems group and Roche Molecular Systems. The Applied Biosystems group intends to seek, with Roche Molecular Systems, an enhancement of damages, and an injunction against MJ Research. MJ Research filed for bankruptcy court protection in March 2004. Please refer to Note 10 to our consolidated financial statements for more information.

In June 2004, the Applied Biosystems group announced an expansion of its TaqMan® Gene Expression Assays and TaqMan® SNP Genotyping Assays for functional genomics research.

The Applied Biosystems group has engaged a leading strategy consulting firm to assist management in an in-depth review of its entire product portfolio. The purpose of this review is to identify opportunities for growth, increased profitability, and shareholder value creation. During the first and second phases of the project, which have been completed, the Applied Biosystems group conducted a fact-based analysis of its current product portfolio, evaluated its R&D investments in an attempt to achieve optimum alignment with future growth opportunities, and examined its business processes with a goal to improving operational efficiency and productivity. As a result of these actions, we have strengthened our R&D investments in those product areas where we see the opportunity to increase our organic growth and are implementing a new organization structure with four divisions in fiscal 2005.

Celera Genomics Group

In July 2004, the Celera Genomics group announced the formation of a strategic collaboration with Abbott Laboratories to discover, develop and commercialize therapies for the treatment of cancer.

Also in July 2004, the Celera Genomics group announced the formation of a strategic collaboration with Seattle Genetics, Inc. to jointly discover and develop antibody-based therapies for cancer.

Also in July 2004, the Celera Genomics group received a milestone payment from Merck & Co. Inc. under a Cathepsin K inhibitor collaboration agreement. This payment recognizes Merck' s advancement of a Cathepsin K inhibitor into a Phase I clinical trial as a potential treatment for osteoporosis.

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

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

In July 2004, Celera Diagnostics announced it has entered into a collaboration with Merck & Co., Inc. to identify novel targets for drug discovery and diagnostic markers related to Alzheimer' s disease.

Other

In June 2004, the Applied Biosystems group and Celera Diagnostics announced a patent license agreement with Cepheid relating to real-time thermal cycler instruments for research, diagnostics and other applications.

In July 2004, the Celera Genomics group and Celera Diagnostics announced a joint research collaboration with General Electric Company intended to accelerate the discovery and development of new products for personalized, or targeted, medicine.

Critical Accounting Policies

Our financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, or GAAP. In preparing these statements, we are required to use estimates and assumptions. While we believe we have considered all available information, actual results could affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. We believe that, of the significant accounting policies discussed in Note 1 to our consolidated financial statements, the following accounting policies require our most difficult, subjective or complex judgments:

Revenue recognition;

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

Asset impairment and valuation allowances;

Pension benefits;

Allocation of purchase price to acquired assets and liabilities in business combinations;

Restructuring; and

Allocations to the Applied Biosystems group, the Celera Genomics group, and Celera Diagnostics.

Revenue Recognition

The following describes only the areas that are most subject to our judgment. Please refer to Note 1, Accounting Policies and Practices, to our consolidated financial statements for a more detailed discussion of our revenue recognition policy.

In the normal course of business, we enter into arrangements whereby revenues are derived from multiple deliverables. In these revenue arrangements, we record revenue as the separate elements are delivered to the customer if the delivered item is determined to represent a separate earnings process, there is objective and reliable evidence of the fair value of the undeliverable item, and delivery or performance of the undelivered item is probable and substantially in our control. For certain instruments where installation is determined to be a separate earnings process, the portion of the sales price allocable to the fair value of the installation is deferred and recognized when installation is complete. We determine the fair value of the installation process based on technician labor billing rates, the expected number of hours to install the instrument based on historical experience, and amounts charged by third parties. We continually monitor the level of effort required for the installation of our instruments to ensure that appropriate fair values have been determined.

We recognize royalty revenues when earned over the term of the agreement in exchange for the grant of licenses to use our products or certain technologies for which we hold patents. We recognize revenue for estimates of royalties earned during the applicable period, based on historical activity, and make revisions for actual royalties received in the following quarter. Historically, these revisions have not been material to our consolidated financial statements. For those arrangements where royalties cannot be reasonably estimated, we recognize revenue upon the receipt of cash or royalty statements from our licensees.

Asset Impairment and Valuation Allowances

Deferred tax assets

Deferred taxes represent the difference between the tax bases of assets or liabilities, calculated under tax laws, and the reported amounts in our financials statements. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax return in future years for which we have already recorded the tax benefit in our statement of operations. We record a valuation allowance against deferred tax assets if it is more likely than not that we will not be able to utilize these assets to offset future taxes. This valuation allowance is based on estimates of future taxable profits and losses and tax planning strategies. Subsequent revisions to estimates of future taxable profits and losses and tax planning strategies could change the amount of the deferred tax asset we would be able to realize in the future, and therefore could increase or decrease the valuation allowance.

Long-lived assets, including goodwill

We test goodwill for impairment using a fair value approach at the reporting unit level annually, or earlier if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. A reporting unit can be an operating segment or a business if discrete financial information is prepared and reviewed by management. Under the impairment test, if a reporting unit' s carrying amount exceeds its estimated fair value, goodwill impairment is recognized to the extent that the reporting unit' s carrying amount of goodwill exceeds the implied fair value of the goodwill. The fair value of reporting units were estimated using discounted cash flows, market multiples, and other valuation techniques.

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

Inventory

Inventories are stated at the lower of cost (on a first-in, first-out basis) or market. Reserves for obsolescence and excess inventory are provided based on historical experience and estimates of future product demand. If actual demand is less favorable than our estimates, inventory write-downs may be required.

Investments

Publicly traded minority equity investments are recorded at fair value, with the difference between cost and fair value recorded to other comprehensive income (loss) within stockholders' equity. When the fair value of these investments declines below cost, and the decline is viewed as other-than-temporary, the cost basis is written down to fair value which becomes the new cost basis, and the write-down is included in current earnings. We determine whether a decline in fair value is other-than-temporary based on the extent to which cost exceeds fair value, the duration of the market decline, the intent to hold the investment, and the financial health of, and specific prospects for, the investee.

operations and positive cash flow in future periods, a decision to change the manner in which an asset is used, a physical change to the asset or a change in business climate. We calculate estimated future undiscounted cash flows, before interest and taxes, resulting from the use of the asset and its estimated value at disposal and compare it to its carrying value in determining whether impairment potentially exists. If a potential impairment exists, a calculation is performed to determine the fair value of the long-lived asset. This calculation is based on a valuation model and discount rate commensurate with the risks involved. Third party appraised values may also be used in determining whether impairment potentially exists.

We may be required to record an impairment charge in the future for adverse changes in market conditions or poor operating results of a related reporting unit.

Pension Benefits

Pension plan expense and the requirements for funding our major pension plans are determined based on a number of actuarial assumptions. These assumptions include the expected rate of return on pension plan assets, the discount rate applied to pension plan obligations, and the rate of compensation

increase of plan participants. Our most significant pension plan is our U.S. pension plan, which constituted over 95 percent of our consolidated pension plan assets and projected benefit obligations as of the end of fiscal 2004. The accrual of future service benefits for participants in our U.S. pension plan terminated as of June 30, 2004.

including the use of independent appraisers, present value models, and estimation of current selling prices and replacement values. Amounts recorded as intangible assets, including acquired in-process research and development, or IPR&D, are based on assumptions and estimates regarding the amount and timing of projected

The effect of this termination is expected to decrease our pension expense by approximately $7 million in fiscal 2005. Please refer to Note 5 to our consolidated financial statements for information regarding our pension plans, expense recorded under our plans, and the actuarial assumptions used to determine those expenses and the corresponding liabilities.

The expected rate of return on assets is determined based on the historical results of the portfolio, the expected investment mix of the plans' assets, and estimates of future long-term investment returns. Our assumption for the expected rate of return on assets in our U.S. pension plan ranges from 6.5% to 8.5% for fiscal 2005, compared to our fiscal 2004 range of 6.25% to 8.5%. The discount rate used is based on rates available on high-quality fixed income debt instruments that have the same duration as our plan's liabilities. At June 30, 2004, we calculated our U.S. pension obligation using a 6.5% discount rate, a 25 basis point increase from the June 30, 2003 rate of 6.25%. For the determination of the expected rate of return on assets and the discount rate, we take into consideration external actuarial advice. The expected rate of compensation increase was 4.0% at both June 30, 2004 and 2003. Commencing in fiscal 2005, the expected rate of compensation increase will no longer factor into the determination of our net periodic pension cost due to the termination of the accrual for future service benefits.

The increase in our discount rate assumption is expected to decrease our net periodic pension cost for our U.S. pension plan by approximately $0.5 million in fiscal 2005 compared to fiscal 2004. A one percentage point increase or decrease in the discount rate for fiscal 2005 would decrease or increase our net periodic pension cost by approximately $2 million. A one percentage point increase or decrease in the expected rate of return on our pension assets for fiscal 2005 would also decrease or increase our net periodic pension cost by approximately $2 million. We do not generally fund pension plans when our contributions would not be tax deductible. In fiscal 2004, we made contributions of $51.4 million to the U.S. plan. As of June 30, 2004, we did not expect to fund the U.S. plan in fiscal 2005 as no contributions are expected to be required under the Employee Retirement Income Security Act regulations due to the level of contributions made in fiscal 2004. Our estimate of annual contributions is based on significant assumptions, such as pension plan benefit revenues and costs, appropriate risk-adjusted discount rates, as well as assessing the competition' s ability to commercialize products before we can. Also, upon acquisition, we determine the estimated economic lives of the acquired intangible assets for amortization purposes. Actual results may vary from projected results.

Restructuring

From time to time, we may undertake actions to improve profitability and cash flow performance, as appropriate. We record a liability for costs associated with an exit or disposal activity when the liability is incurred, as required under Statement of Financial Accounting Standards ("SFAS") No. 146, "Accounting for Exit or Disposal Activities." Prior to adoption of SFAS No. 146 in January 2003, we expensed costs related to a restructuring plan that did not benefit future periods upon approval of the plan by management. Costs incurred under an exit or disposal activity could include estimates of severance and termination benefits, facility-related expenses, elimination or reduction of product lines, asset-related write-offs, and termination of contractual obligations, among other items. We will periodically review these cost estimates and adjust the restructuring liability, as appropriate.

Allocations to the Applied Biosystems Group, the Celera Genomics Group, and Celera Diagnostics

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

It is not practical to specifically identify the overhead portion of corporate expenses attributable to each of the businesses. As a result, we allocate these corporate overhead expenses primarily based on headcount, total expenses, or revenues attributable to each business.

Our board of directors approves the method of allocating earnings to each class of common stock for purposes of calculating earnings per share. This determination is generally based on the net income or loss amounts of the

levels, tax deductibility, interest rate levels and the amount and timing of asset returns. Actual contributions could differ from this estimate.

Allocation of Purchase Price to Acquired Assets and Liabilities in Business Combinations

The cost of an acquired business is assigned to the tangible and identifiable intangible assets acquired and liabilities assumed on the basis of their fair values at the date of acquisition. We assess fair value using a variety of methods,

corresponding group calculated in accordance with GAAP, consistently applied.

The Applied Biosystems group contributed, among other things, its molecular diagnostics business to Celera Diagnostics as part of its initial contribution to the joint venture. The Celera Genomics group contributed, among other things, access to its genome databases. The Celera Genomics group and the Applied Biosystems group account for their

investments in Celera Diagnostics under the equity method of accounting, with the Celera Genomics group recording 100 percent of the initial losses, up to $300 million, in its statement of operations as loss from joint venture. The Celera Genomics group and the Applied Biosystems group will share losses incurred by Celera Diagnostics in excess of $300 million equally. Celera Diagnostics has accumulated cash operating losses of approximately $125 million through June 30, 2004. Celera Diagnostics' profits, if any, will be shared in the ratio of 65 percent to the Celera Genomics group and 35 percent to the Applied Biosystems group until the cumulative profits of Celera Diagnostics equal the initial losses. Once cumulative profits exceed initial losses up to $300 million, Celera Diagnostics' profits will be shared equally between the groups. Refer to Note 15 to our consolidated financial statements for more information regarding Celera Diagnostics.

Our board of directors may modify, rescind, or adopt additional management and allocation policies applicable to the attribution of assets, liabilities, revenues and expenses to the businesses at its sole discretion at any time without stockholder approval. Our board of directors would make any decision in accordance with its good faith business judgment that its decision is in the best interests of Applera and all of its stockholders as a whole.

A decision to modify or rescind the management and allocation policies, or adopt additional policies, could have different effects on holders of Applera- Applied Biosystems stock and holders of Applera- Celera stock or could result in a benefit or detriment to one class of stockholders compared to the other class.

Events Impacting Comparability

We are providing the following information on some actions taken by us or events that occurred in the periods indicated. We describe the effect of these items on our reported earnings for the purpose of providing you with a better understanding of our on-going operations. You relating 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 amounts attributed to acquired IPR&D were developed using an income approach. The in-process technologies were valued using a discounted cash flow model on a project-by-project basis, as more fully described in Note 3 to our consolidated financial statements.

We identified eight acquired IPR&D projects at the time of the Axys acquisition, which are either in various stages of research and development or are no longer being pursued. The Cathepsin S and Cathepsin K projects are collaborations with pharmaceutical companies, where our portion of the collaboration was completed prior to fiscal 2004. The Celera Genomics group' s partners will make clinical development decisions with respect to these partnered compounds. In July 2004, the Celera Genomics group received a milestone payment from Merck & Co., Inc. for the advancement of a Cathepsin K inhibitor into a Phase I clinical trial as a potential treatment for osteoporosis. The Factor VIIa program, a proprietary project for the development of therapeutics for blood clotting disorders, is expected to move forward as appropriate toward clinical trials. The costs to complete the Factor VIIa project depends on the success in the discovery and development efforts related to the project and how the Celera Genomics group decides to pursue the project, including whether to partner the project, and at what stage to partner. With regard to the Tryptase project, the lead compound series reacquired from Bayer in October 2002, is no longer being pursued. We are continuing to evaluate proprietary oral tryptase inhibitors for the treatment of asthma. The four remaining acquired projects are no longer being pursued.

The continuing projects will require additional research and development efforts by the Celera Genomics group or its collaborators before any products can be marketed, if

should consider these items when making comparisons to past performance and assessing prospects for future results.

Acquisitions and Investments

We acquired Axys Pharmaceuticals, Inc. and Boston Probes, Inc. during fiscal 2002. The results of operations of these acquired businesses, which were accounted for under the purchase method of accounting, have been included in the consolidated financial statements since the acquisition dates. We allocated the net assets and results of operations of Axys to the Celera Genomics group. We allocated the net assets and results of operations of Boston Probes to the Applied Biosystems group.

A discussion of significant acquisitions and investments is provided in Note 3 to our consolidated financial statements.

Acquired Research and Development

During fiscal 2002, we recorded charges to write-off the value of acquired IPR&D in connection with the Axys and Boston Probes acquisitions. The Applied Biosystems group recorded a charge of $2.2 million relating to Boston Probes, and the Celera Genomics group recorded a charge of $99.0 million

ever. These efforts include extensive pre-clinical and clinical testing and are subject to lengthy regulatory review and clearance or approval by the FDA. The nature and timing of these remaining efforts are dependent on successful testing and clearance or approval of the products as well as maintaining 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 process could be delayed or abandoned.

The Celera Genomics group has in the past reviewed and continues to review its proprietary pre-clinical projects. These reviews may lead to revised prioritization, resourcing and strategies to move toward clinical trials. As a result of these actions, actual results for some programs have varied, and for others in the future may vary, from the valuation assumptions outlined in Note 3 to our consolidated financial statements.

Employee-Related Charges, Asset and Goodwill Impairments, and Other

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

of the carrying amount of the facility to its current estimated market value less estimated costs to sell. The estimated market value was determined based on a third-party appraisal. After an analysis, the Celera Genomics group decided during the fourth quarter of fiscal 2004 that

Fiscal 2004 Charges

During fiscal 2004, the Applied Biosystems group recorded pre-tax charges of $6.3 million for the termination of approximately 110 employees, mainly in the U.S. The savings resulting from this action are expected to be used to support the businesses that are driving the Applied Biosystems group' s revenue growth, including through the hiring of additional appropriately-skilled employees. As of June 30, 2004, the majority of the affected employees had been terminated and we had made cash payments of $5.3 million. The cash payments were funded primarily from cash provided by operating activities. The remaining cash payments are expected to be made in fiscal 2005.

In the fourth quarter of fiscal 2004, the Applied Biosystems group recorded pre-tax charges of $14.9 million for the impairment of patents and acquired technology related to Boston Probes. As a result of a strategic and operational review, we determined, during the fourth quarter of fiscal 2004, that the intellectual property was not expected to lead to feasible commercialization of the products that we had originally envisioned when we purchased Boston Probes. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the impairment charge represented the amount by which the carrying amount of the assets exceeded their fair value. The fair value was based on estimated undiscounted future cash flows relating to the existing service potential of those assets.

Additionally in the fourth quarter of fiscal 2004, the Applied Biosystems group recorded pre-tax charges of $4.4 million for asset write-downs and other expenses related to the decision to transfer the 8500 Affinity Chip Analyzer product line to HTS Biosystems, Inc., its development partner for this product line. The $4.4 million charge consisted of $3.2 million for write-downs of fixed assets and other charges and $1.2 million for the impairment of inventory recorded in cost of sales. The Applied Biosystems group had entered into a collaboration and commercialization agreement for this product line with HTS Biosystems in fiscal 2002. As a result of a change in strategic direction and focus at the Applied Biosystems group, as determined during the previously mentioned review, we determined that the inventory and fixed assets related to this product line have no net realizable value. Additionally, we wrote off a loan selling the facility and leasing space is the preferred option to meet its space requirements in Maryland.

Fiscal 2003 Charges

During 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 the Applied Biosystems group' s overall strategy to return research and development investment to more traditional levels. The $33.8 million charge consisted of $24.3 million in employee-related charges, asset impairments and other, of which $22.9 million was for severance and benefits costs and $1.4 million was for office closures. The Applied Biosystems group also recorded $9.5 million for the impairment of assets in cost of sales. The Applied Biosystems group recorded pre-tax benefits of $4.3 million in the fourth quarter of fiscal 2003 and $0.6 million in the second quarter of fiscal 2004 in employee-related charges, asset impairments and other for reductions in anticipated employee-related costs associated with this program. These reductions were associated with lower than expected costs being incurred as the actions for this program were implemented.

The severance and benefits charge related to the termination of approximately 400 employees worldwide. Positions impacted, mainly in the U.S. and Europe, were 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. These actions made funds available for new research and development programs and marketing initiatives.

The following table details the major components of the fiscal 2003 special charges:

(Dollar amounts in millions)	Employee-Related Charges	Asset Impairment	Office Closures	Total

and accrued the final payments based on our decision to terminate the agreement with HTS Biosystems.

During the fourth quarter of fiscal 2004, the Celera Genomics group decided to pursue the sale of its Rockville, MD facility. As a result of this decision, we have classified the related assets as assets held for sale within prepaid expenses and other current assets. In connection with the decision to sell the Rockville facility, the Celera Genomics group recorded a pre-tax impairment charge of $18.1 million during the fourth quarter of fiscal 2004. This charge represented the write-down

Total charges	$22.9	$9.5	$1.4	$33.8
Cash payments	14.2		0.2	14.4
Non-cash charges		9.5	0.5	10.0
Reduction of expected costs	4.3			4.3
Balance at June 30, 2003	4.4	–	0.7	5.1
Cash payments	**3.0**		**0.5**	**3.5**
Reduction of expected costs	**0.6**			**0.6**
Balance at June 30, 2004	$ **0.8**	$ –	$**0.2**	**$1.0**

Substantially all cash payments were made by June 30, 2004. These payments were funded primarily from cash provided by

operating activities. The majority of the remaining cash payments are expected to be made in fiscal 2005.

Fiscal 2002 Charges

In fiscal 2002, the Celera Genomics group recorded a before-tax charge of $2.8 million related to the restructuring of its organization to focus on drug discovery and development. The charge related to a workforce reduction. All actions under this plan were taken as of June 30, 2002, and all cash payments were made by March 31, 2003.

Additionally, during fiscal 2002, the Celera Genomics group recorded a before-tax charge of $25.9 million related to Paracel, Inc., a business we acquired in fiscal 2000. This charge was primarily comprised of $12.7 million recorded for asset impairments, and provisions of $10.1 million for the estimated cost of excess lease space and $0.2 million for severance costs. This charge also included $2.9 million recorded in cost of sales for impairment of Paracel inventory. The asset impairment charges were for the write-off of the remaining goodwill of $12.1 million, recorded in goodwill impairment, other intangible assets of $0.5 million, and leasehold improvements of $0.1 million. At June 30, 2004, approximately $6.0 million remained of the provision for excess lease space. These charges resulted from Paracel' s unfavorable performance against the lowered profitability outlook for the business established during fiscal 2001, and our decision during the third quarter of fiscal 2002 to redirect the business away from hardware and focus more on software products. In accordance with the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," we estimated Paracel' s fair value using discounted cash flows, and compared it to its carrying value in determining whether impairment potentially existed. The calculation was based on a valuation model and discount rate that was commensurate with the risks involved. We recognized the goodwill impairment to the extent that Paracel' s carrying

million of before-tax charges for other-than-temporary impairments of minority equity investments, net of gains from sales. These charges were recorded in gain (loss) on investments, net. The impairment charges resulted from a number of factors, including the duration of the decline in market values, the financial condition, and future prospects for the investees.

Other Events Impacting Comparability

In March 2004, the Applied Biosystems group and MDS Inc., through the Applied Biosystems/MDS Sciex Instruments joint venture, received a payment of $18.1 million from Waters Technologies Corporation in connection with the resolution of patent infringement claims between the parties. The Applied Biosystems group recorded a net gain of $6.7 million from legal settlements, including its share of the settlement between the Applied Biosystems/MDS Sciex Instruments joint venture and Waters Technologies Corporation, in the third quarter of fiscal 2004. This net gain was recorded in litigation settlements.

In March 2003, we received a ruling in favor of the Applied Biosystems group and MDS Inc. in a patent infringement lawsuit against Micromass U.K. Ltd. and its U.S. subsidiary, Micromass, Inc., both divisions of Waters Corporation. In April 2003, the Applied Biosystems group received a payment that represented its share of the judgment proceeds on the successful completion of the lawsuit. We recorded a gain of $25.8 million in litigation settlements, which represented the amount received, net of related fees and costs in the fourth quarter of fiscal 2003.

The effective tax rate for fiscal 2003 included a reduction of the valuation allowance on deferred tax assets resulting from the expected utilization of foreign tax credits and a reduction of the income tax liability due to the settlement of overseas tax audits for $27.8 million recorded in the fourth quarter of fiscal 2003. Our worldwide valuation allowance was $42.7 million at June 30, 2002 and $17.3

amount of goodwill exceeded the implied fair value of the goodwill.

Investments

The Applied Biosystems group recorded before tax gains of $11.2 million in fiscal 2004, related primarily to the sales of minority equity investments. These investment sales resulted from management' s decision to liquidate non-strategic investments.

The Celera Genomics group recorded a before-tax gain of $24.8 million from the sale of its investment in Discovery Partners International, Inc. ("DPI") common stock in the fourth quarter of fiscal 2004 included in gain (loss) on investments, net. Our investment in DPI common stock, which resulted from our acquisition of Axys, had been accounted for under the equity method of accounting. In fiscal 2003, based on the decline in its market capitalization, DPI re-assessed the value of its goodwill and other long-lived assets and recorded an impairment charge as a result of this re-assessment. Accordingly, the Celera Genomics group recognized a non-cash charge of $15.1 million in other income (expense), net in fiscal 2003, representing its share of the impairment charge.

During fiscal 2002, the Applied Biosystems group recorded $8.2 million and the Celera Genomics group recorded $6.0 million at June 30, 2003, which in both years consisted of foreign tax loss and foreign tax credit carryforwards. The valuation allowance decrease in fiscal 2003 was due to our ability to utilize a portion of our foreign tax credits as well as our expectation that we will be able to utilize the remaining portion of those credits in the future. The fiscal 2003 reduction of the valuation allowance resulted from the implementation of a tax planning strategy to capitalize and amortize research and development expenses incurred in fiscal 2003 over a ten-year period. The deferral of these tax deductions created additional U.S. tax eligible to be offset by the available foreign tax credit carryforwards that otherwise would have expired. We have determined that implementation of this tax planning strategy was both prudent and feasible in order to utilize foreign tax credits that were due to expire. A valuation allowance has been maintained on the remaining carryforwards since we may not generate sufficient income, of the appropriate character, and in the particular jurisdictions, to realize the benefits before carryforward periods expire. See Note 4 to our consolidated financial statements.

Discussion of Applera Corporation' s Consolidated Operations

Results of Continuing Operations − 2004 Compared with 2003

$18.1 million pre-tax charge in fiscal 2004 representing the estimated loss on the planned sale of our Rockville, MD facility; and

$36.0 million pre-tax gains in fiscal 2004 relating to investments, including $24.8 million on the sale of our investment in DPI.

(Dollar amounts in millions)	2003	2004	% Increase/ (Decrease)
Net revenues	$1,777.2	**$1,825.2**	**2.7%**
Cost of sales	849.6	**858.5**	**1.0%**
Gross margin	927.6	**966.7**	**4.2%**
SG&A expenses	435.0	**482.9**	**11.0%**
R&D	401.6	**377.1**	**(6.1%)**
Amortization of intangible assets	5.9	**2.9**	**(50.8%)**
Employee-related charges, asset impairments and other	20.0	**41.8**	**109.0%**
Litigation settlements	(25.8)	**(6.7)**	**(74.0%)**
Operating income	90.9	**68.7**	**(24.4%)**
Gain (loss) on investments, net	(2.6)	**35.5**	
Interest income, net	29.6	**22.8**	**(23.0%)**
Other income (expense), net	(12.3)	**2.5**	**(120.3%)**
Income before income taxes	105.6	**129.5**	**22.6%**
Provision (benefit) for income taxes	(12.9)	**14.5**	**(212.4%)**
Income from continuing operations	$118.5	**$115.0**	**(3.0%)**
Percentage of net revenues:			
Gross margin	52.2%	**53.0%**	
SG&A expenses	24.5%	**26.5%**	
R&D	22.6%	**20.7%**	
Operating income	5.1%	**3.8%**	
Effective income tax (benefit) rate	(12%)	**11%**	

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

- $15.1 million pre-tax charge included in the loss from our equity interest in DPI in fiscal 2003. This amount was recorded in other income (expense), net;

The total tax benefit recorded on the fiscal 2003 net charge was $34.6 million, including the tax benefit for the reduction of valuation allowances on deferred tax assets. The total tax expense recorded on the fiscal 2004 items was $1.2 million.

Income from continuing operations decreased for fiscal 2004 primarily due to the special items described above, as well as due to higher SG&A expenses resulting primarily from increased litigation-related legal expenses, spending on the Applied Biosystems myScience℠ virtual research community and e-commerce website (collectively known as the Applied Biosystems Portal), insurance and pension costs, and the unfavorable effects of foreign currency. This decrease was partially offset by revenue growth at the Applied Biosystems group from all three sources: instruments, consumables, and other sources, and lower R&D expenses, in part due to the completion of the Applera Genomics Initiative. The net effect of foreign currency on income from continuing operations in fiscal 2004 was a benefit of approximately $8 million compared to fiscal 2003. Please read our discussion of segments for information on their financial results.

The favorable effects of foreign currency increased net revenues by approximately 2% when comparing fiscal 2004 with fiscal 2003. As a result, net revenues, excluding the effects of foreign currency, were relatively flat with the prior fiscal year. Revenues increased slightly at the Applied Biosystems group, due primarily to strength in the Real-Time PCR/Other Applied Genomics and Mass Spectrometry product categories, partially offset by lower sequencing-related revenues. The Celera Genomics group reported lower net revenues primarily as a result of the continuing expiration of Online/Information Business customer agreements. Celera Diagnostics' net revenues increased due to an increase in equalization payments under the profit-sharing arrangement with Abbott Laboratories and technology-related payments.

Net revenues decreased 2.2% in the U.S and 1.1% in Asia Pacific, and increased 12.2% in Europe and 19.3% in Latin America and other markets, compared with the prior fiscal year. The favorable effects of foreign currency increased revenues by approximately 6% in Europe and 2% in Asia Pacific during fiscal 2004 compared to fiscal 2003. European revenues increased due primarily to strong sales of the 4000 Q TRAP System and Real-Time

$29.5 million pre-tax charge, including $9.5 million recorded in cost of sales, for cost reductions, asset impairments, and other charges in fiscal 2003;

$25.8 million pre-tax gain for the successful completion of the patent infringement lawsuit, net of related expenses, in fiscal 2003;

$27.8 million tax benefit for the reduction of valuation allowances on deferred tax assets and the reduction of the income tax liability in fiscal 2003;

$6.3 million pre-tax charge for severance and related costs in fiscal 2004;

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

$0.6 million reduction in fiscal 2004 of severance costs recorded in fiscal 2003;

$14.9 million pre-tax charge in fiscal 2004 for the impairment of patents and acquired technology;

$4.4 million pre-tax charge, including $1.2 million recorded in cost of sales, in fiscal 2004 for asset write-downs and other expenses related to a non-strategic product line;

PCR/Other Applied Genomics instruments and consumables. Also impacting the increase in European revenues was an order from a large-scale genome center for a substantial number of 3730*x*l instrument systems in fiscal 2003 that was not repeated in fiscal 2004. During fiscal 2004, revenues in Japan declined 5% compared to the prior fiscal year, net of a positive impact from foreign currency of approximately 2%. This decline primarily resulted from a disruption in traditional customer purchasing patterns due to the transition of the Applied Biosystems group' s university customers to Independent Administrative Agency status.

Revenues in the U.S. decreased primarily due to weaker DNA sequencing sales to large genome centers at the Applied Biosystems group and the continuing expiration of Online/Information Business customer agreements at the Celera Genomics group, partially offset by higher revenues at Celera Diagnostics.

The higher gross margin percentage in fiscal 2004 was due primarily to: additional costs related to changes in the oligo manufacturing processes made in the fourth quarter of fiscal 2003; a shift in product mix towards newer, higher margin products such as the 4000 Q TRAP, human identification products used in forensics, and the Applied Biosystems 7300 Real-Time and 7500 Real-Time PCR Systems; operational efficiencies; and the favorable effects of foreign currency at the Applied Biosystems group. This increase was partially offset by lower revenues in fiscal 2004 at the Celera Genomics group. In addition, fiscal 2003 gross margin was lower due to the previously discussed asset impairment charge, which reduced gross margin by less than one percentage point.

The increase in SG&A expenses, as a percentage of net revenues, in fiscal 2004 compared with fiscal 2003 was primarily due to: higher litigation-related legal expenses of $19.2 million; increased spending of $12.4 million on the development of, and enhancements to, the Applied Biosystems Portal; and increased insurance and pension costs of $6.6 million. The increase was partially offset by lower employee-related costs due to the reduction in personnel at the Applied Biosystems group announced in December 2002 and lower employee-related costs and other service costs at the Celera Genomics group. In addition, the unfavorable effects of foreign currency increased fiscal 2004 SG&A expenses by approximately $15 million.

R&D expenses decreased in fiscal 2004 compared with fiscal 2003 due to the completion of the funding for the Applera Genomics Initiative, the costs of which were shared among our three businesses, lower employee-related costs due to the reduction in personnel at the settlement of overseas tax audits, both of which were recorded in fiscal 2003, as well as changes in R&D credits. An analysis of the differences between the federal statutory income tax rate and the effective income tax rate is provided in Note 4 to our consolidated financial statements.

Results of Continuing Operations − 2003 Compared with 2002

(Dollar amounts in millions)	2002	2003	% Increase/ (Decrease)
Net revenues	$1,701.2	$1,777.2	4.5%
Cost of sales	799.0	849.6	6.3%
Gross margin	902.2	927.6	2.8%
SG&A expenses	438.4	435.0	(0.8%)
R&D	381.9	401.6	5.2%
Amortization of intangible assets	7.4	5.9	(20.3%)
Goodwill impairment	12.1		(100.0%)
Employee-related charges, asset impairments and other	13.7	20.0	46.0%
Litigation settlements		(25.8)	
Acquired IPR&D	101.2		(100.0%)
Operating income (loss)	(52.5)	90.9	(273.1%)
Loss on investments, net	(14.5)	(2.6)	(82.1%)
Interest income, net	43.5	29.6	(32.0%)
Other income (expense), net	(5.1)	(12.3)	141.2%
Income (loss) before income taxes	(28.6)	105.6	(469.2%)
Provision (benefit) for income taxes	12.0	(12.9)	(207.5%)
Income (loss) from continuing operations	$(40.6)	$118.5	(391.9%)
Percentage of net revenues:			

Gross margin	53.0%	52.2%
SG&A expenses	25.8%	24.5%
R&D	22.4%	22.6%
Operating income (loss)	(3.1%)	5.1%
Effective income tax (benefit) rate	42%	(12%)

Applied Biosystems group announced in December 2002, and cost reductions in the Online/Information Business at the Celera Genomics group. This decrease was partially offset by support for new product introductions at the Applied Biosystems group, increased therapeutic R&D expenditures at the Celera Genomics group, and increased spending for discovery programs and product development at Celera Diagnostics.

Interest income, net decreased in fiscal 2004, primarily due to lower average interest rates and, to a lesser extent, slightly lower average cash and cash equivalents and short-term investment balances during fiscal 2004 as compared to fiscal 2003.

Other income (expense), net in fiscal 2004 was impacted by lower losses recorded for equity method investments, including our share of the DPI impairment charge recorded in fiscal 2003 previously described, partially offset by lower benefits associated with our foreign currency risk management program.

The change in the effective tax rate was primarily due to a reduction of the valuation allowance on deferred tax assets and a reduction of the income tax liability due to the

As previously described in events impacting comparability, fiscal 2003 and 2002 results were impacted by the following items:

$25.9 million pre-tax charge, including $2.9 million recorded in cost of sales, related to the Celera Genomics group' s Paracel business in fiscal 2002;

$2.8 million pre-tax charge for restructuring the Celera Genomics group' s business in fiscal 2002;

$14.2 million pre-tax charge for other-than-temporary impairment of minority equity investments in fiscal 2002;

$101.2 million pre-tax charge to write-off acquired IPR&D in fiscal 2002 with no associated tax benefit;

$15.1 million pre-tax charge included in the loss from our equity interest in DPI in fiscal 2003. This amount was recorded in other income (expense), net;

$29.5 million pre-tax charge, including $9.5 million recorded in cost of sales, for cost reductions, asset impairments, and other charges in fiscal 2003;

$25.8 million pre-tax gain for the successful completion of the patent infringement lawsuit, net of related expenses, in fiscal 2003; and

$27.8 million tax benefit for the reduction of valuation allowances on deferred tax assets and the reduction of the income tax liability in fiscal 2003.

The total tax benefit recorded on the fiscal 2002 charges was $10.9 million. The total tax benefit recorded on the fiscal 2003 net charge was $34.6 million, including the tax

Interest income, net decreased by $13.9 million for fiscal 2003, primarily due to lower average interest rates and, to a lesser extent, lower average cash and cash equivalents and short-term investment balances during fiscal 2003 as compared to fiscal 2002.

benefit for the reduction of valuation allowances on deferred tax assets.

The net effect of foreign currency on income from continuing operations was a benefit of approximately $5.0 million during fiscal 2003. Also impacting the increase in income from continuing operations were higher net revenues and a change in the effective tax rate, partially offset by higher R&D expenses and lower interest income.

The favorable effects of foreign currency increased net revenues by approximately 2% when comparing fiscal 2003 with fiscal 2002. Revenues increased primarily due to improved instrument sales and higher service revenues and license fees at the Applied Biosystems group, partially offset by lower revenues at the Celera Genomics group primarily resulting from the group' s decision not to pursue additional sequencing service business. Net revenues increased 7.7% in the U.S., 7.7% in Europe, and 6.9% in Latin America and other markets and decreased 6.8% in Asia Pacific, compared with the prior fiscal year. The effects of foreign currency increased revenues by approximately 7% in Europe during fiscal 2003 compared to fiscal 2002. The decrease in Asia Pacific was due in large part to the delays by the Japanese government in releasing appropriated funds from its budget.

The lower gross margin percentage in fiscal 2003 compared with fiscal 2002 was due primarily to the asset impairment charges recorded in fiscal 2003, additional costs associated with changes in the oligo manufacturing processes which rendered certain equipment obsolete, and a change in product sales and geographic mix at the Applied Biosystems group, partially offset by a decrease in the lower margin sequencing service business for the Celera Genomics group. The fiscal 2003 and 2002 special charges reduced gross margin by less than one percentage point in both fiscal years.

SG&A expenses, as a percentage of net revenues, decreased in fiscal 2003 compared with fiscal 2002. This decrease was primarily due to revenue growth at the Applied Biosystems group as well as a workforce reduction at the Celera Genomics group, resulting from the June 2002 restructuring of the organization. Partially offsetting this decrease was an increased number of employees resulting from the acquisition of Axys in

Other income, net increased in fiscal 2003 due primarily to benefits associated with our foreign currency risk management program, partially offset by losses recorded for equity method investments, including the DPI charge described above. In fiscal 2002, other expense, net included our share of losses from equity method investments and other non-operating costs, partially offset by a net gain on the sale of the Celera Genomics group' s AgGen plant genotyping business.

The change in the effective tax rate was primarily due to a reduction of the valuation allowance on deferred tax assets resulting from the current and expected utilization of foreign tax credits and a reduction of the income tax liability due to the settlement of overseas tax audits, as well as a non-cash charge related to amended returns and the previously discussed special charges recorded in both years. An analysis of the differences between the federal statutory income tax rate and the effective income tax rate is provided in Note 4 to our consolidated financial statements.

Applera Corporation

Discussion of Consolidated Financial Resources and Liquidity

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

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

(Dollar amounts in millions)	2003	**2004**
Cash and cash equivalents	$654.3	**$561.9**

November 2001 and increased staffing at Celera Diagnostics.

R&D expenses increased $19.7 million for fiscal 2003 from fiscal 2002. This increase was primarily due to spending on: the development of new products and technologies by the Applied Biosystems group; therapeutic discovery and development programs by the Celera Genomics group, including the programs acquired with Axys; and diagnostics discovery and development programs by Celera Diagnostics. Partially offsetting this increase was lower spending on the Applera Genomics Initiative, the costs of which were shared among our three businesses.

Short-term investments	749.8	**688.8**
Total cash and cash equivalents and short-term investments	$1,404.1	**$1,250.7**
Total debt	17.1	**6.1**
Working capital	1,460.1	**1,326.6**
Debt to total capitalization	0.7%	**0.3%**

During fiscal 2003, we purchased $18.1 million of non-callable U.S. government obligations to serve as collateral for the 8% senior secured convertible notes we assumed in connection with the Axys acquisition. We substituted these government obligations for our shares of DPI common stock that originally

collateralized these 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 government obligations, which mature in fiscal 2005, are classified as available for sale at June 30, 2004. In fiscal 2004, we repurchased $10.0 million in principal amount of the outstanding convertible notes and sold our investment in DPI stock. During fiscal 2002, we repurchased an additional $10.0 million of these senior secured convertible notes.

Cash and cash equivalents in fiscal 2004 decreased as expenditures for capital assets, debt repayment, the payment of dividends, and the repurchase of Applera- Applied Biosystems stock, were only partially offset by cash generated from operating activities, which included the amount received related to the previously described patent infringement lawsuit, maturities of short-term investments, and proceeds from asset sales and stock issuances for employee stock plans. Also impacting the decrease in cash and cash equivalents was a $17.4 million payment made in the fourth quarter of fiscal 2004 for a patent lawsuit related to a discontinued product line. See Note 14 to our consolidated financial statements for further information. Net cash flows of continuing operations for the fiscal years ending June 30 were as follows:

(Dollar amounts in millions)	2002	2003	**2004**
Net cash from operating activities	$212.9	$195.9	**$194.4**
Net cash from investing activities	(259.4)	(14.7)	**67.8**
Net cash from financing activities	(120.4)	(22.6)	**(349.7)**
Effect of exchange rate changes on cash	31.5	29.2	**12.9**

Operating activities

Business customer agreements at the Celera Genomics group. Partially offsetting this decrease were higher income-related cash flows, including the amount received related to the previously described patent infringement lawsuit.

Investing activities

Capital expenditures, net of disposals, were $68.4 million in fiscal 2004, $144.4 million in fiscal 2003, and $114.1 million in fiscal 2002. Fiscal 2004 capital expenditures included: the Applied Biosystems group' s facilities expansions in Pleasanton, CA and Bedford, MA, including production equipment, testing and laboratory equipment for these facilities; as well as enterprise system upgrades; and equipment purchases used to support the therapeutics business at the Celera Genomics group. Fiscal 2003 capital expenditures included the Applied Biosystems group' s facilities expansions in Pleasanton, CA and Bedford, MA, and capital expenditures for production equipment for these facilities; improvements made to the Celera Genomics group' s therapeutics facilities and equipment purchases used to support the therapeutics business; and improvements to existing Celera Diagnostics' facilities to meet FDA requirements. Fiscal 2002 capital expenditures included the Applied Biosystems group' s facilities expansion in Pleasanton, CA and capital spending related to the expansion of laboratory facilities for therapeutics research and development purposes for the Celera Genomics group as well as software purchases for both groups.

Cash paid in connection with our acquisitions and investments in equity interests of other companies was $0.3 million in both fiscal 2004 and fiscal 2003 and $41.9 million in fiscal 2002. In fiscal 2004 and fiscal 2003, cash was generated from the sales and maturities of short-term investments. We used a portion of the fiscal 2003 proceeds to purchase investments to secure the 8% senior secured convertible notes. We acquired the remaining 87% of Boston Probes, not previously owned, for approximately $37 million in fiscal 2002. Net cash

The slight decrease in net cash from operating activities of continuing operations for fiscal 2004 resulted primarily from: lower income-related cash flows, which included the amounts received in fiscal 2003 and 2004 related to previously described patent infringement lawsuits; the funding of our U.S. pension plan of approximately $51 million in fiscal 2004, an increase of approximately $44 million over the funding made in fiscal 2003; the timing of royalty and vendor payments at the Applied Biosystems group; and lower cash receipts in fiscal 2004 due to the continuing expiration of Online/Information Business customer agreements at the Celera Genomics group. This decrease was almost completely offset by improved accounts receivable collections in fiscal 2004, higher turnover of inventory in fiscal 2004, the timing of the receipt of dividends and distributions from investments in unconsolidated subsidiaries at the Applied Biosystems group, and lower tax and severance and related benefits payments at the Applied Biosystems group in fiscal 2004.

Net cash from operating activities of continuing operations for fiscal 2003 decreased $17.0 million in comparison to fiscal 2002 resulting primarily from approximately $16 million of severance payments made under the Applied Biosystems group' s fiscal 2003 cost reduction program and the Celera Genomics group' s fiscal 2002 restructuring program, higher compensation-related payments, the timing of accounts receivable collections, and lower deferred revenues primarily due to the continuing expiration of Online/Information proceeds from the sale of equity investments and real estate were $62.4 million in fiscal 2004, $6.6 million in fiscal 2003, and $5.2 million in fiscal 2002.

Financing activities

During fiscal 2004, we repurchased $10.0 million in principal amount of the outstanding 8% senior secured convertible notes assumed in connection with the Axys acquisition that were scheduled to mature in October 2004. In fiscal 2002, we repaid a yen 3.8 billion, or $29.0 million, loan on its scheduled maturity and also repurchased $10.0 million of the 8% senior secured convertible notes. We repurchased the following shares of Applera- Applied Biosystems stock and Applera- Celera stock for the fiscal years ended June 30:

(Dollars and shares in millions, except as noted)	Number of Shares Repurchased	Purchase Price
Applied Biosystems Group		
2002	3.9	$69.0
2003	1.1	$19.8
2004	**15.4**	**$325.0**
Celera Genomics Group		
2002	47.7 thousand	$0.9

Contractual Obligations

Our significant contractual obligations at June 30, 2004 and the anticipated payments under these obligations were as follows:

Payments by Period

$25.8 million pre-tax gain for the successful completion of the patent infringement lawsuit, net of related expenses, in fiscal 2003;

$27.8 million tax benefit for the reduction of valuation allowances on deferred tax assets and the reduction of the income tax liability in fiscal 2003;

(Dollar amounts in millions)	Total	2005	2006 - 2007	2008 - 2009	Thereafter
Debt	**$6.1**	**$6.1**	**$–**	**$–**	**$ –**
Minimum operating lease payments (a)	**157.2**	**43.7**	**48.5**	**26.9**	**38.1**
Purchase obligations (b)	**87.2**	**75.0**	**8.1**	**1.4**	**2.7**
Other long-term liabilities (c)	**31.5**	**5.0**	**1.1**	**0.4**	**25.0**
Total	**$282.0**	**$129.8**	**$57.7**	**$28.7**	**$65.8**

(a) Please refer to Note 10 to our consolidated financial statements for further information.

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

(c) We have excluded deferred revenues as they have no impact on our future liquidity. We have also excluded deferred tax liabilities and obligations connected with our pension and postretirement plans and other foreign employee-related plans, as they are not contractually fixed as to timing and amount. Please see Note 5 to our consolidated financial statements for more information on these plans.

For additional information regarding our financial obligations and commitments, see Notes 9 and 10 to our consolidated financial statements.

Discussion of Segments' Operations, Financial Resources and Liquidity

Applied Biosystems Group

Results of Continuing Operations – 2004 Compared with 2003

(Dollar amounts in millions)	2003	**2004**	**% Increase/ (Decrease)**
Net revenues	$1,682.9	**$1,741.1**	**3.5%**
Cost of sales	833.5	**835.4**	**0.2%**
Gross margin	849.4	**905.7**	**6.6%**
SG&A expenses	393.1	**439.0**	**11.7%**
R&D	238.4	**233.8**	**(1.9%)**
Employee-related charges, asset impairments and other	20.0	**23.7**	**18.5%**

$6.3 million pre-tax charge for severance and related costs in fiscal 2004;

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

$0.6 million reduction in fiscal 2004 of severance costs recorded in fiscal 2003;

$14.9 million pre-tax charge in fiscal 2004 for the impairment of patents and acquired technology;

$4.4 million pre-tax charge, including $1.2 million recorded in cost of sales, in fiscal 2004 for asset write-downs and other expenses related to a non-strategic product line; and

$11.2 million pre-tax gains in fiscal 2004 relating to investments.

The total tax benefit recorded on the fiscal 2003 net charge was $28.7 million, including the tax benefit for the reduction of valuation allowances on deferred tax assets. The total tax benefit recorded on the fiscal 2004 net charge was $1.2 million.

Income from continuing operations decreased for fiscal 2004 primarily due to the items described above, as well as due to higher SG&A expenses. This decrease was partially offset by revenue growth from all three sources: instruments, consumables, and other sources, particularly in Mass Spectrometry instruments and Real-Time PCR/ Other Applied Genomics consumables. The net effect of foreign currency on income from continuing operations in fiscal 2004 was a benefit of approximately $8 million compared to fiscal 2003.

Revenues – overall summary

The following table sets forth the Applied Biosystems group's revenues by product categories for the fiscal years ended June 30:

(Dollar amounts in millions)	2003	**2004**	**% Increase/ (Decrease)**
DNA Sequencing	$631.7	**$572.5**	**(9%)**
% of total revenues	*37%*	***33%***	

Litigation settlements	(25.8)	**(6.7)**	**(74.0%)**
Operating income	223.7	**215.9**	**(3.5%)**
Gain (loss) on investments, net	(2.3)	**11.2**	**(587.0%)**
Interest income, net	12.7	**12.0**	**(5.5%)**
Other income (expense), net	4.6	**0.6**	**(87.0%)**
Income before income taxes	238.7	**239.7**	**0.4%**
Provision for income taxes	39.1	**67.4**	**72.4%**
Income from continuing operations	$199.6	**$172.3**	**(13.7%)**
Percentage of net revenues:			
Gross margin	50.5%	**52.0%**	
SG&A expenses	23.4%	**25.2%**	
R&D	14.2%	**13.4%**	
Operating income	13.3%	**12.4%**	
Effective income tax rate	16%	**28%**	

Real-Time PCR/Other Applied Genomics (a)(b)	352.5	**430.9**	**22%**
% of total revenues	*21%*	***25%***	
Mass Spectrometry (c)	355.1	**414.8**	**17%**
% of total revenues	*21%*	***24%***	
Core DNA Synthesis and PCR	202.9	**202.4**	**–%**
% of total revenues	*12%*	***11%***	
Other Product Lines (b)(c)	140.7	**120.5**	**(14%)**
% of total revenues	*9%*	***7%***	
Total	$1,682.9	**$1,741.1**	**3%**

(a) The product category Real-Time PCR/Other Applied Genomics was previously referred to as SDS/Other Applied Genomics.

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

$29.5 million pre-tax charge, including $9.5 million recorded in cost of sales, for cost reductions, asset impairments, and other charges in fiscal 2003;

(b) A reclassification of $0.6 million for fiscal 2003 was made from Other Product Lines to Real-Time PCR/Other Applied Genomics.

(c) A reclassification of $5.3 million for fiscal 2003 was made from Other Product Lines to Mass Spectrometry.

The favorable effects of foreign currency increased net revenues in fiscal 2004 by approximately 2% compared to fiscal 2003. As a result, net revenues, excluding the effects of foreign currency, slightly increased as compared to the prior fiscal year. Growth in the Real-Time PCR/Other Applied Genomics and Mass Spectrometry product categories were offset by a decline in sales of the Applied Biosystems 3730*x*l DNA Analyzer to large-scale genome centers and the ABI PRISM® 3100 Genetic Analyzer in the DNA Sequencing category.

The decrease in revenues from Other Product Lines for fiscal 2004 resulted primarily from lower software sales and chromatography instrument sales compared with the prior fiscal year.

Revenues by geographic area

The following table sets forth the Applied Biosystems group' s revenues by geographic area for the fiscal years ended June 30:

(Dollar amounts in millions)	2003	**2004**	**% Increase/ (Decrease)**
United States	$824.8	**$809.2**	**(1.9%)**
Europe	474.9	**537.8**	**13.2%**
Asia Pacific	333.1	**333.0**	**(–%)**
Latin America and other markets	50.1	**61.1**	**22.0%**
Total	$1,682.9	**$1,741.1**	**3.5%**

The favorable effects of foreign currency increased revenues by approximately 6% in Europe and 2% in Asia Pacific during fiscal 2004 compared to fiscal 2003.

Instruments

Revenues from instrument sales increased in fiscal 2004 as growth in the Mass Spectrometry, led by the 4000 Q TRAP® LC/MS/MS System, and Real-Time PCR/Other Applied Genomics product categories were partially offset by a decline in sales of the Applied Biosystems 3730*x*l DNA Analyzer to large-scale genome centers and the ABI PRISM® 3100 Genetic Analyzer in the DNA Sequencing category. The increase in instrument sales for the Real-Time PCR/Other Applied Genomics product category resulted primarily from the introduction of the newly launched Applied Biosystems 7300 Real-Time and 7500 Real-Time PCR Systems, partially offset by lower sales of the ABI Prism® 7000 system.

Consumables

In fiscal 2004, consumables sales increased primarily due to: growth in sales of TaqMan® reagents; higher sales of human identification products used in forensics; and the increasing adoption of the Applied Biosystems TaqMan® Gene Expression Assays products for gene expression and Applied Biosystems TaqMan® SNP Genotyping Assays products for genotyping experiments (both formerly known as Assays-on-Demand™ products) in both basic research and drug discovery and development. Partially offsetting this increase were declines in sales of DNA sequencing consumables.

Other sources

Revenues from other sources, which included service and support, royalties, licenses, and consulting, increased for fiscal 2004 primarily from higher service and support revenues, partially offset by lower technology licensing fees.

Gross margin, as a percentage of net revenues, increased for fiscal 2004 due primarily to: additional costs related to changes in the oligo manufacturing processes made in the fourth quarter of fiscal 2003; a shift in product mix towards newer, higher margin products such as the

European revenues increased due primarily to strong sales of the 4000 Q TRAP System and Real-Time PCR/ Other Applied Genomics instruments and consumables. Also impacting the increase in European revenues was an order from a large-scale genome center for a substantial number of 3730*xl* instrument systems in fiscal 2003 that was not repeated in fiscal 2004. During fiscal 2004, revenues in Japan declined 5% compared to the prior fiscal year, net of a positive impact from foreign currency of approximately 2%. This decline primarily resulted from a disruption in traditional customer purchasing patterns due to the transition of the Applied Biosystems group' s university customers to Independent Administrative Agency status. Revenues in the U.S. decreased primarily due to weaker DNA sequencing sales to large genome centers.

Revenue by sources

The following table sets forth the Applied Biosystems group' s revenues by source for the fiscal years ended June 30:

(Dollar amounts in millions)	2003	**2004**	**% Increase/ (Decrease)**
Instruments	$829.2	**$841.0**	**1.4%**
Consumables	575.4	**609.2**	**5.9%**
Other sources	278.3	**290.9**	**4.5%**
Total	$1,682.9	**$1,741.1**	**3.5%**

4000 Q TRAP, human identification products used in forensics, and the Applied Biosystems 7300 Real-Time and 7500 Real-Time PCR Systems; volume increases; operational efficiencies; and the favorable effects of foreign currency. In addition, fiscal 2003 gross margin was lower due to the previously discussed asset impairment charges.

SG&A expenses, as a percentage of net revenues, increased over fiscal 2003 due primarily to: increased litigation-related legal expenses of $19.2 million; increased spending of $12.4 million on the development of, and enhancements to the Applied Biosystems Portal; and increased insurance and pension costs of $6.3 million. Partially offsetting this increase were lower employee-related costs due to the reduction in personnel announced in December 2002. In addition, the unfavorable effects of foreign currency increased fiscal 2004 SG&A expenses by approximately $15 million. A significant portion of the Applied Biosystems group' s increased litigation-related legal expenses related to defending the Applied Biosystems group' s intellectual property assets.

R&D expenses slightly decreased in fiscal 2004 from the prior fiscal year, resulting primarily from the completion of funding for the Applera Genomics Initiative and lower employee-

related costs due to the reduction in personnel announced in December 2002, partially offset by support for new product introductions.

Interest income, net decreased during fiscal 2004 compared to the prior fiscal year primarily due to lower

$27.8 million tax benefit for the reduction of valuation allowances on deferred tax assets and the reduction of the income tax liability in fiscal 2003.

The total tax benefit recorded on the fiscal 2002 charges was $2.9 million. The total tax benefit recorded on the fiscal 2003 net charge was $28.7 million, including the tax

average interest rates, partially offset by higher average cash and cash equivalents balances during fiscal 2004.

Other income (expense), net decreased in fiscal 2004 primarily due to lower benefits associated with our foreign currency risk management program.

The increase in the effective tax rate for fiscal 2004 was primarily due to a reduction of the valuation allowance on deferred tax assets and a reduction of the income tax liability due to the settlement of overseas tax audits, both of which were recorded in fiscal 2003.

Results of Continuing Operations – 2003 Compared with 2002

(Dollar amounts in millions)	2002	2003	% Increase/ (Decrease)
Net revenues	$1,604.0	$1,682.9	4.9%
Cost of sales	768.5	833.5	8.5%
Gross margin	835.5	849.4	1.7%
SG&A expenses	379.2	393.1	3.7%
R&D	219.6	238.4	8.6%
Employee-related charges, asset impairments and other		20.0	
Litigation settlements		(25.8)	
Acquired IPR&D	2.2		(100.0%)
Operating income	234.5	223.7	(4.6%)
Loss on investments, net	(8.6)	(2.3)	(73.3%)
Interest income, net	12.2	12.7	4.1%
Other income (expense), net	(0.6)	4.6	(866.7%)
Income before income taxes	237.5	238.7	0.5%
Provision for income taxes	69.0	39.1	(43.3%)
Income from continuing operations	$168.5	$199.6	18.5%
Percentage of net revenues:			
Gross margin	52.1%	50.5%	
SG&A expenses	23.6%	23.4%	
R&D	13.7%	14.2%	

benefit for the reduction of valuation allowances on deferred tax assets.

Income from continuing operations increased for fiscal 2003 primarily due to the items described above, as well as due to higher instrument, service, and license revenues and a lower provision for income taxes. This increase was partially offset by higher R&D spending related to products in development and support for Knowledge Business initiatives and higher SG&A expenses resulting from the revenue growth. The Knowledge Business was integrated into other business units of the Applied Biosystems group in fiscal 2004. The favorable effects of foreign currency increased income from continuing operations by approximately $5 million for fiscal 2003.

Revenues – overall summary

The following table sets forth the Applied Biosystems group's revenues by product categories for the fiscal years ended June 30:

(Dollar amounts in millions)	2002	2003	% Increase/ (Decrease)
DNA Sequencing	$602.9	$631.7	5%
% of total revenues	*37%*	*37%*	
Real-Time PCR/Other Applied Genomics (a)(b)	322.6	352.5	9%
% of total revenues	*20%*	*21%*	
Mass Spectrometry (c)	287.3	355.1	24%
% of total revenues	*18%*	*21%*	
Core DNA Synthesis and PCR	236.9	202.9	(14%)
% of total revenues	*15%*	*12%*	
Other Product Lines (b)(c)	154.3	140.7	(9%)
% of total revenues	*10%*	*9%*	
Total	$1,604.0	$1,682.9	5%

(a) The product category Real-Time PCR/Other Applied Genomics was previously referred to as SDS/Other Applied Genomics.

(b) A reclassification of $0.6 million for fiscal 2003 was made from Other Product Lines to Real-Time PCR/Other Applied Genomics.

Operating income	14.6%	13.3%
Effective income tax rate	29%	16%

A reclassification of $5.3 million for fiscal 2003 and $2.1 million for (c)fiscal 2002 was made from Other Product Lines to Mass Spectrometry.

As previously described in events impacting comparability, fiscal 2003 and 2002 results were impacted by the following items:

- $8.2 million pre-tax charge for other-than-temporary impairment of minority equity investments in fiscal 2002;
- $2.2 million pre-tax charge to write-off acquired IPR&D in fiscal 2002 with no associated tax benefit;
- $29.5 million pre-tax charge, including $9.5 million recorded in cost of sales, for cost reductions, asset impairments, and other charges in fiscal 2003;
- $25.8 million pre-tax gain for the successful completion of the patent infringement lawsuit, net of related expenses, in fiscal 2003; and

Growth in instrument sales in the Mass Spectrometry and DNA Sequencing product categories and consumables sales in the Real-Time PCR/Other Applied Genomics product category were only partially offset by a decline in consumable sales in the DNA Sequencing and Core DNA Synthesis and PCR product categories.

Net revenues from the Celera Genomics group and Celera Diagnostics, primarily from leased instruments, consumables, and project materials and contracted R&D services, were $9.5 million for fiscal 2003, or 0.6% of the Applied Biosystems group' s net revenues, and $24.1 million for fiscal 2002, or 1.5%. The favorable effects of foreign currency increased net revenues in fiscal 2003 by approximately 2% as compared to fiscal 2002.

Revenues by geographic area

The following table sets forth the Applied Biosystems group' s revenues by geographic area for the fiscal years ended June 30:

(Dollar amounts in millions)	2002	2003	% Increase/ (Decrease)
United States	$762.3	$824.8	8.2%
Europe	439.2	474.9	8.1%
Asia Pacific	355.7	333.1	(6.4%)
Latin America and other markets	46.8	50.1	7.1%
Total	$1,604.0	$1,682.9	4.9%

The effects of foreign currency increased revenues by approximately 7% in Europe during fiscal 2003 compared to fiscal 2002. The decrease in Asia Pacific was due to weakness in Japan partially offset by revenue growth in the rest of Asia. The weakness in Japan resulted in large part from delays by the Japanese government in releasing appropriated funds from its budget.

Revenues by sources

The following table sets forth the Applied Biosystems group' s revenues by source for the fiscal years ended June 30:

(Dollar amounts in millions)	2002	2003	% Increase/ (Decrease)
Instruments	$762.9	$829.2	8.7%
Consumables	601.4	575.4	(4.3%)
Other sources	239.7	278.3	16.1%
Total	$1,604.0	$1,682.9	4.9%

Gross margin, as a percentage of net revenues, decreased from the prior fiscal year, primarily due to the asset impairment charges, additional costs associated with changes in the oligo manufacturing processes which rendered certain equipment obsolete, and changes in product sales mix, including increased sales of lower-margin Mass Spectrometry products and lower-margin service revenues. These items were only partially offset by higher margins from increased royalty and license revenues.

As a percentage of net revenues, SG&A expenses slightly decreased as compared to fiscal 2002 due to revenue growth. SG&A increased approximately $11 million compared to fiscal 2002 primarily due to the unfavorable effects of foreign currency and the inclusion of the Knowledge Business, partially offset by lower employee-related costs due in part to the fiscal 2003 cost reduction.

The increase in R&D expenses was primarily due to the support for Knowledge Business initiatives and new products in development, partially offset by a decline in the funding of the Applera Genomics Initiative and the associated reduction in personnel announced in December 2002.

Interest income, net slightly increased as higher average cash and cash equivalents and short-term investments balances for fiscal 2003 compared with fiscal 2002 were only partially offset by lower average interest rates.

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

The decrease in the effective income tax rate for fiscal 2003 was primarily due to a reduction of the valuation allowance on deferred tax assets resulting from the fiscal 2003 utilization and future expected utilization of foreign tax credits, a reduction of the income tax liability due to the settlement of overseas tax audits, as well as the previously discussed special charges recorded in both

Instrument sales increased in fiscal 2003 in the DNA Sequencing and Mass Spectrometry product categories and decreased in the Real-Time PCR instruments product line. The DNA Sequencing instrument growth was driven primarily by shipments of the 3730xl DNA Analyzer to some of the large genome centers, as well as demand for the 3730 and the 3730*xl* systems from smaller academic and commercial laboratories. This growth was partially offset by revenue declines in other DNA Sequencing instruments, including the ABI PRISM® 3100 Genetic Analyzer. Although the overall Real-Time PCR/Other Applied Genomics product category grew in fiscal 2003 compared to the prior fiscal year, Real-Time PCR instrument sales decreased due primarily to restrained pharmaceutical spending on certain high-end instruments, partially offset by strong sales of the ABI Prism® 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 fiscal year.

Consumables sales decreased in fiscal 2003 primarily due to declines in sales of DNA Sequencing consumables and Core DNA Synthesis and PCR consumables, which more than offset the growth of Real-Time PCR and other consumables revenues. Within the Real-Time PCR/Other Applied Genomics product category, revenue from the TaqMan® chemistry-based consumable products, which are used for both gene expression and genotyping, increased.

Revenues from other sources, which included service and support, royalties, licenses, and consulting increased in fiscal 2003, primarily from increased service revenues and higher than normal license fees, including $5.4 million for licenses related to certain mass spectrometry technology and $6.7 million for licenses related to certain genetic analysis technology.

years. The effective income tax rate for fiscal 2003 also included a non-cash charge related to amended returns.

Applied Biosystems Group

Discussion of Financial Resources and Liquidity

The Applied Biosystems group had cash and cash equivalents of $504.9 million at June 30, 2004 and $601.7 million at June 30, 2003. We maintain a $50 million revolving credit agreement with three banks that expires on April 20, 2005, under which there were no borrowings outstanding at June 30, 2004 or 2003. We intend to renew this agreement prior to expiration. Cash provided by operating activities has been the Applied Biosystems group’ s primary source of funds.

We believe that existing funds, cash generated from operations, and existing sources of debt financing are more than adequate to satisfy the Applied Biosystems group’ s normal operating cash flow needs, planned capital expenditures, its share of funding of the Celera Diagnostics

Investing activities

Capital expenditures, net of disposals, were $60.4 million in fiscal 2004, $131.9 million in fiscal 2003, and $88.3 million in fiscal 2002. Fiscal 2004 capital expenditures included approximately $12 million for the expansion of facilities, primarily in Pleasanton, CA and Bedford, MA, as

joint venture, dividends, and authorized share repurchases for the next twelve months and for the foreseeable future.

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

for the Applied Biosystems group and the Celera Genomics group on a centralized basis and allocate activity within these balances to the group that uses or generates such resources.

(Dollar amounts in millions)	2003	**2004**
Cash and cash equivalents	$ 601.7	**$ 504.9**
Working capital	708.6	**592.0**

Cash and cash equivalents in fiscal 2004 decreased as expenditures for capital assets, the funding of the Celera Diagnostics joint venture, the payment of dividends, and the repurchase of Applera- Applied Biosystems stock, were only partially offset by cash generated from operating activities, which included the amount received related to the previously described patent infringement lawsuit, proceeds from the sale of investments, and proceeds from stock issuances for employee stock plans. Also impacting the decrease in cash and cash equivalents was a $17.4 million payment made in the fourth quarter of fiscal 2004 for a patent lawsuit related to a discontinued product line. See Note 14 to our consolidated financial statements for further information. Net cash flows of continuing operations for the fiscal years ended June 30 were as follows:

(Dollar amounts in millions)	2002	2003	**2004**
Net cash from operating activities	$300.6	$279.4	**$289.3**
Net cash from investing activities	(152.2)	(104.2)	**(35.6)**
Net cash from financing activities	(128.2)	(40.3)	**(345.5)**
Effect of exchange rate changes on cash	31.5	29.1	**12.9**

Operating activities

Net cash from operating activities of continuing operations for fiscal 2004 was $9.9 million higher than in fiscal 2003. This increase resulted primarily from improved accounts receivable collections in fiscal 2004, higher turnover of inventory in fiscal 2004, the timing of the receipt of dividends and distributions from investments in unconsolidated subsidiaries, and lower tax and severance well as purchases of production equipment, testing and laboratory equipment for these facilities, and $13 million for enterprise system upgrades. Fiscal 2003 capital expenditures included approximately $87 million for the expansion of facilities, primarily in Pleasanton, CA and Bedford, MA, as well as purchases of production, tool and testing equipment for these facilities. Fiscal 2002 capital expenditures included approximately $47 million for the expansion of facilities, primarily in Pleasanton, CA and the U.K., as well as purchases of production and laboratory equipment for these facilities.

Cash paid in connection with acquisitions and investments in equity interest of other companies was $0.3 million in fiscal 2004 and fiscal 2003 and $37.2 million in fiscal 2002. Fiscal 2004 included $29.6 million of proceeds primarily from the sale of minority equity investments. Fiscal 2003 also included $29.6 million of proceeds from the maturity of a short-term investment. The Applied Biosystems group acquired the remaining 87% of Boston Probes, not previously owned, for approximately $37 million in fiscal 2002.

Financing activities

In fiscal 2002, the Applied Biosystems group repaid its yen 3.8 billion, or $29.0 million, loan on its scheduled maturity. We repurchased the following shares of Applera- Applied Biosystems stock for the fiscal years ended June 30:

(Dollars and shares in millions)	Number of Shares Repurchased	Purchase Price
2002	3.9	$69.0
2003	1.1	$19.8
2004	**15.4**	**$325.0**

Celera Genomics Group

Results of Operations – 2004 Compared with 2003

(Dollar amounts in millions)	2003	**2004**	**% Increase/ (Decrease)**
Net revenues	$88.3	**$60.1**	**(31.9%)**

and related benefits payments in fiscal 2004. This increase was partially offset by: lower income-related cash flows; the funding of our U.S. pension plan of approximately $51 million in fiscal 2004, an increase of approximately $44 million over the funding made in fiscal 2003; and the timing of royalty and vendor payments. Net cash from operating activities of continuing operations for fiscal 2003 was $21.2 million lower than in fiscal 2002. This decrease resulted primarily from approximately $14 million of severance payments made under the fiscal 2003 cost reduction program, higher compensation-related payments, and an increase in accounts receivable. Partially offsetting this decrease were higher income-related cash flows, including the amount received related to the previously described patent infringement lawsuit and the timing of vendor and royalty payments. The Applied Biosystems group' s days sales outstanding was 61 days at June 30, 2004 compared to 75 days at June 30, 2003 and 72 days at June 30, 2002. Inventory on hand was 2.8 months at June 30, 2004, and 3.3 months at June 30, 2003 and 2002.

Cost of sales	14.1	**10.8**	**(23.4%)**
R&D	120.9	**104.6**	**(13.5%)**
SG&A expenses	30.2	**29.2**	**(3.3%)**
Amortization of intangible assets	5.9	**2.9**	**(50.8%)**
Asset impairments		**18.1**	
Operating loss	(82.8)	**(105.5)**	**27.4%**
Gain (loss) on investments, net	(0.3)	**24.3**	
Interest income, net	16.9	**10.8**	**(36.1%)**
Other income (expense), net	(16.9)	**1.9**	**(111.2%)**
Loss from joint venture	(51.2)	**(42.0)**	**(18.0%)**
Loss before income taxes	(134.3)	**(110.5)**	**(17.7%)**
Benefit for income taxes	52.4	**53.0**	**1.1%**
Net loss	$(81.9)	**$(57.5)**	**(29.8%)**
Effective income tax benefit rate	39%	**48%**	

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

- $15.1 million pre-tax charge included in the loss from the Celera Genomics group' s equity interest in DPI in fiscal 2003. This amount was recorded in other income (expense), net;
- $18.1 million pre-tax charge in fiscal 2004 representing the estimated loss on the planned sale of the Celera Genomics group' s Rockville, MD facility; and
- $24.8 million pre-tax gain in fiscal 2004 on the sale of the Celera Genomics group' s investment in DPI.

The tax benefit recorded on the fiscal 2003 charge was $5.9 million. The total tax expense recorded on the fiscal 2004 net gain was $2.4 million.

The lower net loss in fiscal 2004 in comparison to fiscal 2003 resulted primarily from: lower R&D expenses in fiscal 2004; the gain on the sale of the DPI investment in fiscal 2004; the loss on the DPI equity method investment in fiscal 2003, which included our share of an impairment charge; and lower losses for the Celera Diagnostic joint venture in fiscal 2004. Partially offsetting these items were lower revenues and net interest income and the loss on the planned sale of one of our facilities in fiscal 2004.

Revenues decreased in fiscal 2004 primarily as a result of the continuing expiration of Online/Information Business customer agreements. Under the terms of the marketing and distribution agreement between the Celera Genomics group and the Applied Biosystems group, the Celera Genomics group has not sought any new customers for its Celera Discovery System™ ("CDS") and related information products and services since June 2002, and therefore its revenues from these products and services have continued to decline as expected. The CDS online platform is an integrated source of information based on

Other income (expense), net for fiscal 2004 included a non-recurring receipt of $2.0 million related to the March 2002 sale of the Celera Genomics group' s animal genomics and genotyping business. Other income (expense), net for fiscal 2003 included the loss for the DPI equity method investment, which included our share of the impairment charge previously described.

The increase in the effective income tax benefit rate for fiscal 2004 was primarily attributable to changes in R&D tax credits and reduction in the valuation allowance.

Results of Operations − 2003 Compared with 2002

(Dollar amounts in millions)	2002	2003	% Increase/ (Decrease)
Net revenues	$120.9	$88.3	(27.0%)
Cost of sales	51.9	14.1	(72.8%)
R&D	132.7	120.9	(8.9%)
SG&A expenses	50.4	30.2	(40.1%)
Amortization of intangible assets	7.4	5.9	(20.3%)
Goodwill impairment	12.1		(100.0%)
Employee-related charges, asset impairments and other	13.7		(100.0%)
Acquired IPR&D	99.0		(100.0%)
Operating loss	(246.3)	(82.8)	(66.4%)
Loss on investments, net	(6.0)	(0.3)	(95.0%)
Interest income, net	31.3	16.9	(46.0%)
Other income (expense), net	(4.6)	(16.9)	267.4%
Loss from joint venture	(44.7)	(51.2)	14.5%
Loss before income taxes	(270.3)	(134.3)	(50.3%)
Benefit for income taxes	58.5	52.4	(10.4%)
Net loss	$(211.8)	$(81.9)	(61.3%)
Effective income tax benefit rate	22%	39%	

the human genome and other biological and medical sources.

R&D expenses decreased in fiscal 2004 compared to the prior fiscal year due primarily to the completion of the Applera Genomics Initiative and cost reductions in the Online/Information Business. These reductions were partially offset by higher R&D expenditures for therapeutic programs.

SG&A expenses slightly decreased in fiscal 2004 compared to the prior fiscal year primarily due to lower employee-related costs and other services costs. Corporate expenses and administrative shared services allocated to the Celera Genomics group were $0.5 million lower for fiscal 2004 compared with fiscal 2003 due primarily to lower software costs and employee benefit-related expenses.

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

Interest income, net decreased during fiscal 2004 compared to the prior year period primarily due to lower average interest rates and, to a lesser extent, lower average cash and cash equivalents and short-term investments.

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

$25.9 million charge, including $2.9 million recorded in cost of sales, related to the Paracel business in fiscal 2002;

$99.0 million charge to write-off acquired IPR&D in fiscal 2002;

$2.8 million charge for restructuring the business in fiscal 2002;

$6.0 million charge for other-than-temporary impairment of minority equity investments in fiscal 2002; and

$15.1 million charge included in the loss from the Celera Genomics group' s equity interest in DPI in fiscal 2003. This amount was recorded in other income (expense), net.

The total tax benefit recorded was $8.0 million on the fiscal 2002 charges and $5.9 million on the fiscal 2003 charge. There was no tax benefit associated with the fiscal 2002 acquired IPR&D charge.

The lower net loss for fiscal 2003 primarily resulted from the higher special charges listed above that were recorded in fiscal 2002, as well as lower cost of sales, R&D and SG&A expenses in fiscal 2003, partially offset by lower interest income in fiscal 2003.

Revenues decreased in fiscal 2003 primarily as a result of the Celera Genomics group' s decision not to pursue additional contract sequencing service business.

Cost of sales decreased primarily due to the decrease in the sequencing service business and, to a lesser extent,

(Dollar amounts in millions)	2003	**2004**
Cash and cash equivalents	$52.6	**$57.0**
Short-term investments	749.8	**688.8**
Total cash and cash equivalents and short-term investments	$802.4	**$745.8**
Total debt	17.1	**6.1**

Working capital	750.8	**726.8**
Debt to total capitalization	1.7%	**0.6%**

the Paracel inventory-related write-offs recorded in fiscal 2002 as described above.

R&D expenses decreased for fiscal 2003 in comparison to fiscal 2002 due primarily to: lower R&D expenses related to programs eliminated in the June 2002 restructuring of the organization and the wind-down of the Applera Genomics Initiative, partially offset by higher expenses for therapeutic discovery and development programs, including programs acquired with Axys.

SG&A expenses decreased for fiscal 2003 compared to the prior fiscal year primarily due to a workforce reduction resulting from the June 2002 restructuring, partially offset by an increased number of employees resulting from the acquisition of Axys in November 2001.

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 fiscal 2003 compared to the prior fiscal year.

Other expense, net increased for fiscal 2003 due primarily to the loss recorded for the DPI equity method investment, including our $15.1 million share of the impairment charge recorded by DPI described above.

The increase in the effective income tax benefit rate was primarily attributable to the previously discussed special charges recorded in both fiscal years.

Celera Genomics Group

Discussion of Financial Resources and Liquidity

The Celera Genomics group had cash and cash equivalents and short-term investments of $745.8 million at June 30, 2004 and $802.4 million at June 30, 2003. We maintain a $50 million revolving credit agreement with three banks that expires on April 20, 2005, under which there were no borrowings outstanding at June 30, 2004 or 2003. We intend to renew this agreement prior to expiration.

We believe that existing funds and existing sources of debt financing are more than adequate to satisfy the Celera Genomics group' s normal operating cash flow needs, planned capital expenditures and its share of funding of the Celera Diagnostics joint venture for the next

During fiscal 2003, the Celera Genomics group purchased $18.1 million of non-callable U.S. government obligations to serve as collateral for the 8% senior secured convertible notes assumed in connection with the Axys acquisition. We substituted these government obligations for our 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. The government obligations, which mature in fiscal 2005, are classified as available for sale at June 30, 2004. In fiscal 2004, the Celera Genomics group repurchased $10.0 million in principal amount of the outstanding convertible notes and sold its investment in DPI stock. During fiscal 2002, we repurchased an additional $10.0 million of these senior secured convertible notes.

Cash and cash equivalents for fiscal 2004 increased as proceeds from the sales and maturities of short-term investments, sale of assets and proceeds from stock issuances were only partially expended on operations, the funding of the Celera Diagnostics joint venture, the purchase of capital assets, and debt repayment. Net cash flows for the fiscal years ended June 30 were as follows:

(Dollar amounts in millions)	2002	2003	**2004**
Net cash from operating activities	$(49.9)	$(31.9)	**$(53.9)**
Net cash from investing activities	(145.1)	37.9	**62.5**
Net cash from financing activities	7.8	17.7	**(4.3)**

Operating activities

Net cash used by operating activities for fiscal 2004 was $22.0 million higher than in fiscal 2003. The higher use of cash resulted primarily from higher net cash operating losses and lower cash receipts in fiscal 2004 due to the continuing expiration of Online/Information Business customer agreements. In fiscal 2003, net cash used by operating activities was $18.0 million lower than in fiscal 2002. The lower use of cash resulted from lower net cash operating losses and a decrease in accounts receivable, partially offset by lower deferred revenues resulting from

twelve months and the foreseeable future. However, if the Celera Genomics group is successful in its preclinical programs, it may require additional funds to advance these programs through the regulatory process.

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

the continuing expiration of Online/Information Business customer agreements.

Investing activities

Capital expenditures, net of disposals, were $6.0 million in fiscal 2004 and fiscal 2003 and $17.8 million in fiscal 2002. Fiscal 2004 capital expenditures consisted primarily of equipment purchases used to support our therapeutics business. Fiscal 2003 capital expenditures included improvements made to our therapeutics facilities and equipment purchases used to support our therapeutics

business. Fiscal 2002 capital expenditures included payments for the expansion of laboratories for therapeutics research and development purposes as well as computer software.

Cash paid in connection with acquisitions and investments, the majority of which related to the funding of the Celera Diagnostics joint venture, was $38.7 million in fiscal 2004, $52.3 million in fiscal 2003, and $48.3 million in fiscal 2002. In fiscal 2004 and 2003, cash was generated from the sales and maturities of short-term investments. These proceeds were partially offset by the funding of the Celera Diagnostics joint venture and, in fiscal 2003, the purchase of investments to secure the 8% senior secured convertible notes. In the fourth quarter of fiscal 2004, the Celera Genomics group sold its investment in DPI and received net proceeds of approximately $32 million.

Financing activities

We repurchased $20.0 million, $10.0 million in fiscal 2004 and $10.0 million in fiscal 2002, in principal amount of the outstanding 8% senior secured convertible notes assumed in connection with the Axys acquisition that were scheduled to mature in October 2004. In fiscal 2002, we repurchased 47,700 shares of Applera- Celera stock for $0.9 million, which was subsequently reissued for stock plans.

Celera Diagnostics

Results of Operations − 2004 Compared with 2003

(Dollar amounts in millions)	2003	2004	% Increase/ (Decrease)
Net revenues	$20.8	$36.7	76.4%
Cost of sales	11.3	20.1	77.9%
R&D	49.0	43.9	(10.4%)
SG&A expenses	11.7	14.7	25.6%

and gross margins from period to period due to differences in end-user sales of alliance products and operating expenses between the alliance partners. End-user alliance sales for all products sold primarily through Abbott increased mostly due to higher demand for cystic fibrosis analyte specific reagents ("ASRs"). Also impacting the results for fiscal 2004 was growth in products sourced from third parties, including products for Human Leukocyte Antigen ("HLA") typing, and infectious disease testing products. HLA-typing products detect specific DNA sequences in several HLA genes. The results for fiscal 2003 included $3.9 million of end-user sales of products manufactured by Celera Diagnostics and sold by the Applied Biosystems group during the first quarter of fiscal 2003.

Cost of sales increased in fiscal 2004 due to the increase in end-user alliance sales.

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

SG&A expenses for fiscal 2004 increased in comparison to fiscal 2003 due to a $1.6 million charge in fiscal 2004 related to a facility lease agreement, as well as due to higher employee-related costs and depreciation expense.

Net revenues included $3.3 million of diagnostic products sold to the Applied Biosystems group during fiscal 2003 under a distribution arrangement. R&D expenses included $4.9 million of lease payments on instruments and purchases of consumables from the Applied Biosystems group for fiscal 2004 and 2003.

Results of Operations − 2003 Compared with 2002

(Dollar amounts in millions)	2002	2003	% Increase/ (Decrease)

Operating loss	$(51.2)	**$(42.0) (18.0%)**
Equalization payments	$10.5	**$23.3**
End-user sales of products manufactured by Celera Diagnostics, sold primarily through Abbott Laboratories	$23.4	**$38.0**
End-user alliance sales for all products sold primarily through Abbott Laboratories	$20.5	**$45.9**

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

The majority of reported net revenues for fiscal 2004 and 2003 consisted of equalization payments from Abbott under the profit-sharing arrangement between Abbott and Celera Diagnostics. Reported net revenues for fiscal 2004 also included technology-related revenues from the patent license agreement with Cepheid. The increase in equalization and technology-related payments primarily accounted for the increase in net revenues. Fluctuation in these equalization payments can lead to fluctuation in both reported revenues

Net revenues	$9.2	$20.8	126.1%
Cost of sales	6.2	11.3	82.3%
R&D	39.0	49.0	25.6%
SG&A expenses	8.7	11.7	34.5%
Operating loss	$(44.7)	$(51.2)	14.5%
Equalization payments		$10.5	
End-user sales of products manufactured by Celera Diagnostics, sold primarily through Abbott Laboratories		$23.4	
End-user alliance sales for all products sold primarily through Abbott Laboratories		$20.5	

Revenues for fiscal 2003 increased due to higher sales of cystic fibrosis ASRs, and to a lesser extent, the ViroSeq™ HIV-1 Genotyping System, as well as the inclusion of revenue relating to equalization payments from the profit-sharing alliance between Abbott Laboratories and Celera Diagnostics. Fiscal 2003 included $10.5 million of revenue recorded under the Abbott alliance for the equalization of gross margin and relative expenses incurred by the parties. End-user product sales were $11.6 million for fiscal 2002. In fiscal 2002, the Applied Biosystems group distributed Celera Diagnostics' products and recorded end-user sales.

Cost of sales increased in fiscal 2003 due to the end-user alliance sales in fiscal 2003.

R&D expenses increased in fiscal 2003 as a result of increased spending for discovery programs and product development including increased lease payments on

We performed a sensitivity analysis as of June 30, 2004. Assuming a hypothetical adverse change of 10% in foreign exchange rates in relation to the U.S. dollar, we calculated a hypothetical after-tax loss of $22.2 million, as compared to a hypothetical after-tax loss of $36.8 million at June 30, 2003. Our analysis included the change in

instruments and purchases of consumables from the Applied Biosystems group.

SG&A expenses for fiscal 2003 reflected increased staffing to support its business objectives.

Net revenues included $3.3 million for fiscal 2003 and $8.7 million for fiscal 2002 of diagnostic products sold to the Applied Biosystems group under a distribution arrangement. R&D expenses included $4.9 million of lease payments on instruments and purchases of consumables from the Applied Biosystems group for fiscal 2003 and $1.7 million for fiscal 2002.

Market Risks

We are exposed to potential loss from exposure to market risks represented principally by changes in foreign exchange rates, interest rates, and equity prices.

We operate internationally, with manufacturing and distribution facilities in various countries throughout the world. For fiscal 2004, 2003 and 2002, we derived approximately 50% of our revenues from countries outside of the U.S. while a significant portion of the related costs are based in U.S. dollars. Results continue to be affected by market risk, including changes in political and economic conditions in foreign markets and fluctuations in foreign currency exchange rates, primarily the euro, Japanese yen, and British pound.

Our foreign currency risk management strategy uses derivative instruments to hedge certain foreign currency forecasted revenues and intercompany transactions and to offset the impact of changes in foreign currency exchange rates on certain foreign currency-denominated assets and liabilities. The principal objective of this strategy is to minimize the risks and/or costs associated with our global financial and operating activities. We use foreign exchange forward, option, and range forward contracts to manage our foreign currency exposures. Foreign exchange forward contracts commit us to buy or sell a foreign currency at a contracted rate on a specified future date. Option contracts grant us the right, but not the obligation, to buy or sell a foreign currency at a certain rate by or on a specified future date in exchange for a fee. Option contracts provide us with an effective hedge against a negative movement in foreign currencies at a fixed cost. Range forward contracts consist of the simultaneous purchase and sale of options to create a value of the derivative financial instruments, along with the impact of translation on foreign currency-denominated assets and liabilities. Our analysis excluded the impact of translation of foreign currency-denominated forecasted revenues and intercompany transactions. If foreign currency exchange rates actually change in a manner similar to the assumed change in the foregoing calculation, the hypothetical loss calculated would be more than offset by the recognition of higher U.S. dollar equivalent foreign revenues. Actual gains and losses in the future could, however, differ materially from this analysis, based on changes in the timing and amount of foreign currency exchange rate movements and actual exposures and hedges.

In connection with the Axys acquisition in fiscal 2002, we assumed $26.0 million of 8% senior secured convertible notes, of which $10.0 million was repurchased in January 2002. During fiscal 2004, we repurchased an additional $10.0 million in principal amount of the outstanding notes. The remaining notes mature on October 1, 2004.

We do not hedge our equity positions in other companies or our short-term investments. Our exposure on these instruments is limited to changes in quoted market prices. The fair value of our minority equity positions in other companies was approximately $16 million at June 30, 2004, as compared to $44 million at June 30, 2003.

Impact of Inflation and Changing Prices

Inflation and changing prices are continually monitored. We attempt to minimize the impact of inflation by improving productivity and efficiency through continual review of both manufacturing capacity and operating expense levels. When operating costs and manufacturing costs increase, we attempt to recover such costs by increasing, over time, the selling price of our products and services. We believe the effects of inflation have been appropriately managed and therefore have not had a material impact on our historic consolidated operations and resulting financial position.

Recently Issued Accounting Standards

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

Outlook

range within which we can benefit from changes in currency rates. We generally use foreign exchange forward contracts to offset the impact of changes in certain foreign currency-denominated assets and liabilities. In hedging certain foreign currency forecasted revenues and intercompany transactions where we have functional currency exposure, we use a combination of foreign exchange forward, option and range forward contracts in a cost beneficial manner. We do not use derivative financial instruments for trading or speculative purposes, nor are we a party to leveraged derivatives.

Applied Biosystems Group

The Applied Biosystems group has the following expectations regarding its financial performance for fiscal 2005:

The Applied Biosystems group anticipates low- to mid-single digit revenue growth for the Applied Biosystems group as a whole. In terms of product categories, Real-Time PCR/Other Applied Genomics revenues should increase, driven by increased use of the Applied Biosystems group' s products in the expanding field of functional genomics, and Mass Spectrometry revenues should increase, driven by increased

use of the Applied Biosystems group' s products for proteomics research, drug metabolism and pharmacokinetics studies, and applied markets applications. Revenues from DNA Sequencing overall should decline, primarily due to lower anticipated sales to large genome centers. Core DNA Synthesis and PCR and Other Product Lines revenues should approximately equal fiscal 2004 revenues.

The gross margin should equal, or slightly exceed, the fiscal 2004 gross margin. SG&A expense as a percent of total revenues should approximate, and R&D expense as a percent of total revenues should decline from, the fiscal 2004 levels. The operating margin should increase from the fiscal 2004 level, excluding special items in both fiscal years.

The effective tax rate should be 28 percent. However, the effective tax rate may be impacted by pending tax legislation to replace the existing U.S. export tax regime, possible extension of the research tax credit, and the possibility that the Applied Biosystems group may be able to resolve several outstanding tax issues in multiple taxing jurisdictions.

Earnings per share from continuing operations should increase at a rate exceeding that of the annual revenue growth rate, excluding special items in both fiscal years.

Capital spending should be in the range of $55-65 million.

First quarter fiscal 2005 earnings per share, excluding severance related charges resulting from the previously disclosed reduction in staff, should be equal to, or slightly above or below, the prior year quarter results. First quarter fiscal 2005 SG&A expense should significantly exceed prior year quarter, primarily as a result of increased litigation expenses, the cost of an enterprise system software upgrade, and the negative effect of foreign currency.

Roche, Inc. and its affiliates which own some of the patents covering the PCR process. The Applied Biosystems group receives royalties from third-party sales of products incorporating this technology through a series of licensing programs that it has established for industry access to some of its intellectual property. The first of these patents expires in March 2005 in the U.S., and in March 2006 in Europe and some other jurisdictions. The expiration of these patents may result in reduced royalty payments to the Applied Biosystems group. However, the Applied Biosystems group expects that a possible reduction in PCR royalties would be offset to a substantial degree by income from real-time PCR and other PCR-related technologies that it owns or licenses. In addition, the Applied Biosystems group has rights to multiple other PCR-related patents that should support a PCR-related royalty stream beyond our 2005 and 2006 fiscal years. Taken together, the Applied Biosystems group believes these factors should mitigate the effects of the patent expirations. The agreements with Hoffmann-LaRoche and its affiliates are the subject of legal proceedings described in Note 10 to our consolidated financial statements included in this report. The outcome of legal proceedings is inherently uncertain, and an adverse outcome in these proceedings could negatively affect the value of our PCR rights.

Celera Genomics Group

The Celera Genomics group intends to continue to advance its most promising programs toward IND filings and clinical trials. In support of its recently established collaborations, the Celera Genomics group expects to continue to identify and validate additional targets within its four ongoing proteomic oncology programs. The Celera Genomics group also plans to initiate at least one new proteomics study during fiscal 2005, including a study to identify diagnostic protein markers associated with cancer.

The fiscal 2005 financial outlook for the Celera Genomics group is as follows:

Beyond fiscal 2005, the Applied Biosystems group believes organic revenue growth should attain high-single digits due to changes implemented to the Applied Biosystems group' s existing business. These changes include rebalancing R&D investments and implementing a new divisional organizational structure, as well as related business process changes. The Applied Biosystems group is seeking to identify and analyze additional internal and external growth opportunities aimed at further increasing this revenue growth rate.

The Applied Biosystems group believes that this outlook and its fiscal 2005 financial performance will be affected by, among other things: the introduction and adoption of new products; the level of commercial investments in life science R&D; and the level of government funding for life science research. While the Applied Biosystems group anticipates growth in U.S. sales, the Applied Biosystems group believes that customer concern about the timing and level of future NIH funding in the U.S. could impact purchase behavior by laboratories operated or funded by the NIH. In Europe, the Applied Biosystems group expects government funding for life science research to remain stable. Finally, the Applied Biosystems group expects that the transition of universities in Japan to Independent Administrative Agency status will continue to negatively impact financial results.

The Applied Biosystems group derives some rights to PCR technology under a series of agreements with Hoffmann-La

The Celera Genomics group' s net cash use is expected to be between $135 and $150 million, including an anticipated $16 to $20 million for the Celera Genomics group' s portion of the funding for the Celera Diagnostics joint venture. The impact of lower Online/ Information Business revenues and operating profit and higher R&D expenses should be partially offset by lower losses and cash demands related to Celera Diagnostics. This outlook includes cash required to retire the remaining $6 million in principal amount of outstanding 8% senior secured convertible notes assumed in connection with the acquisition of Axys that will mature on October 1, 2004. This outlook excludes any potential proceeds from the sale of the Rockville facility.

The Celera Genomics group anticipates R&D expenses to be in the range of $110 to $125 million, and SG&A expenses to be in the range of $25 to $30 million. Actual R&D expenses will depend on the rate of progress in discovery and development programs. Pre-tax losses related to the Celera Diagnostics joint venture are expected to be in the range of $28 to $35 million.

The Celera Genomics group anticipates revenues will continue to trend downward to a range of $25 to $30 million due to the continuing expiration of Online/ Information Business customer agreements.

Capital spending in fiscal 2005 is anticipated to be in the range of $7 to $10 million.

based on our expectations when the statements are made. We cannot guarantee that any forward-looking statements will be realized.

The Private Securities Litigation Reform Act of 1995 provides a ‘‘safe harbor’’ for forward-looking statements.

Celera Diagnostics

Celera Diagnostics intends to continue advancing its disease association research portfolio and its medical utility studies to create value from diagnostic testing. For fiscal 2005, Celera Diagnostics anticipates pre-tax losses to be in a range of $28 to $35 million, and fiscal 2005 net cash use to be in a range of $30 to $40 million, including capital spending of approximately $5 million. Total end user sales for the alliance between Celera Diagnostics and Abbott Laboratories are anticipated to be in range of $60 to $70 million. This outlook assumes continued demand growth for current products, such as ASRs for cystic fibrosis and products for infectious disease testing, and some contribution from new alliance product sales.

Forward-Looking Statements

Some statements contained in this report, including the Outlook section, are forward-looking and are subject to a variety of risks and uncertainties. Similarly, the press releases we issue and other public statements we make from time to time may contain language that is forward-looking. These forward-looking statements may be identified by the use of forward-looking words or phrases such as "forecast," "believe," "expect," "intend," "anticipate," "should," "plan," "estimate," and "potential," among others. The forward-looking statements contained in this report are based on our current expectations and those made at other times will be

In order to comply with the terms of the safe harbor, we note that a variety of factors could cause actual results and experience to differ materially from anticipated results or other expectations expressed in forward-looking statements. We also note that achievement of anticipated results or expectations in forward-looking statements is subject to the possibility that assumptions underlying forward-looking statements will prove to be inaccurate. Investors should bear this in mind as they consider forward-looking statements. The risks and uncertainties that may affect the operations, performance, development, and results of our business include, but are not limited to, those described under the headings "Factors Relating to Applied Biosystems," "Factors Relating to Celera Genomics," and "Factors Relating to Celera Diagnostics, a 50/50 Joint Venture between Applied Biosystems and Celera Genomics" contained in our Form 10-K Annual Report for fiscal 2004.

Also, we note that owners of Applera- Applied Biosystems stock and Applera- Celera stock are subject to risks arising from their ownership of common stock of a corporation with two separate classes of common stock. The risks and uncertainties that arise from our capital structure, particularly our two separate classes of common stock, include, but are not limited to, those described below under the heading "Risks Relating to a Capital Structure with Two Separate Classes of Common Stock" contained in our Form 10-K Annual Report for fiscal 2004.

(Dollar amounts in thousands except per share amounts)

For the years ended June 30,	2002	2003	2004
Products	$1,350,413	$1,405,063	**$1,455,959**
Services	176,217	166,646	**182,440**
Other sources	174,588	205,523	**186,794**
Total Net Revenues	1,701,218	1,777,232	**1,825,193**
Products	660,235	720,388	**730,694**
Services	104,618	93,542	**95,235**
Other sources	34,134	35,726	**32,581**
Total Cost of Sales	798,987	849,656	**858,510**
Gross Margin	902,231	927,576	**966,683**
Selling, general and administrative	438,369	435,026	**482,885**
Research, development and engineering	381,902	401,531	**377,061**
Amortization of intangible assets	7,443	5,873	**2,900**
Goodwill impairment	12,043		
Employee-related charges, asset impairments and other	13,711	20,041	**41,824**
Litigation settlements		(25,776)	**(6,660)**
Acquired research and development	101,181		
Operating Income (Loss)	(52,418)	90,881	**68,673**
Gain (loss) on investments, net	(14,496)	(2,615)	**35,529**
Interest expense	(1,461)	(1,048)	**(300)**
Interest income	44,968	30,665	**23,137**
Other income (expense), net	(5,143)	(12,306)	**2,448**
Income (Loss) before Income Taxes	(28,550)	105,577	**129,487**
Provision (benefit) for income taxes	12,031	(12,903)	**14,534**
Income (Loss) from Continuing Operations	(40,581)	118,480	**114,953**
Income (loss) from discontinued operations, net of income taxes		(16,400)	**10,628**
Net Income (Loss)	$(40,581)	$102,080	**$125,581**
Applied Biosystems Group (see Note 1)			
Income from Continuing Operations per Share			
Basic	$0.80	$0.96	**$0.84**
Diluted	$0.78	$0.95	**$0.83**

Income (loss) from Discontinued Operations per Share			
Basic and diluted	$–	$(0.08)	**$0.05**
Net Income per Share			
Basic	$0.80	$0.88	**$0.89**
Diluted	$0.78	$0.87	**$0.88**
Celera Genomics Group (see Note 1)			
Net Loss per Share			
Basic and diluted	$(3.21)	$(1.15)	**$(0.79)**

See accompanying notes to Applera Corporation' s consolidated financial statements.

(Dollar amounts in thousands except share data)

At June 30,	2003	**2004**
Assets		
Current assets		
Cash and cash equivalents	$654,283	**$561,935**
Short-term investments	749,785	**688,806**

Accounts receivable (net of allowances for doubtful accounts of $10,507 and $8,948, respectively)	423,549	**392,170**
Inventories, net	152,060	**140,796**
Prepaid expenses and other current assets	93,706	**139,701**
Total current assets	2,073,383	**1,923,408**
Property, plant and equipment, net	526,591	**446,027**
Other long-term assets	657,518	**603,416**
Total Assets	$3,257,492	**$2,972,851**
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	$–	**$6,081**
Accounts payable	166,319	**147,995**
Accrued salaries and wages	79,623	**89,704**
Accrued taxes on income	85,943	**80,599**
Other accrued expenses	281,435	**272,389**
Total current liabilities	613,320	**596,768**
Long-term debt	17,101	
Other long-term liabilities	286,786	**195,034**
Total Liabilities	917,207	**791,802**
Commitments and contingencies (see Note 10)		
Stockholders' Equity		
Capital stock		
Preferred stock		
Applera Corporation: $.01 par value; 10,000,000 shares authorized at June 30, 2003 and 2004; no shares issued and outstanding at June 30, 2003 and 2004		
Common stock		
Applera Corporation – Applied Biosystems stock: $.01 par value; 212,830,000 shares and 212,988,000 shares issued at June 30, 2003 and 2004, respectively	2,128	**2,130**
Applera Corporation – Celera Genomics stock: $.01 par value; 72,291,000 shares and 73,086,000 shares issued at June 30, 2003 and 2004, respectively	723	**731**
Capital in excess of par value	2,102,936	**2,111,805**
Retained earnings	355,252	**441,069**
Accumulated other comprehensive loss	(54,485)	**(15,683)**
Treasury stock, at cost	(66,269)	**(359,003)**
Total Stockholders' Equity	2,340,285	**2,181,049**
Total Liabilities and Stockholders' Equity	$3,257,492	**$2,972,851**

See accompanying notes to Applera Corporation' s consolidated financial statements.

(Dollar amounts in thousands)

For the years ended June 30,	2002	2003	**2004**
Operating Activities of Continuing Operations			
Income (loss) from continuing operations	$(40,581)	$118,480	**$114,953**
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	116,794	146,655	**125,267**
Asset impairments	15,563	9,991	**37,288**
Provisions for excess lease space, office closures and severance costs	13,106	19,498	**5,456**
Long-term compensation programs	5,240	5,114	**3,309**
Deferred income taxes	(47,535)	(58,014)	**(49,236)**
(Gains) losses from investments and sales of assets	14,095	1,500	**(35,463)**
Loss from equity method investees	4,789	18,894	**488**
Acquired research and development	101,181		
Changes in operating assets and liabilities:			
Accounts receivable	15,824	2,949	**49,338**
Inventories	1,257	(6,847)	**11,787**
Prepaid expenses and other assets	(28,719)	(22,881)	**(13,223)**
Accounts payable and other liabilities	41,843	(39,481)	**(55,529)**
Net Cash Provided by Operating Activities of Continuing Operations	212,857	195,858	**194,435**
Investing Activities of Continuing Operations			
Additions to property, plant and equipment (net of disposals of $1,629, $ – , and $ –, respectively)	(114,107)	(144,395)	**(68,391)**
Proceeds from maturities of available-for-sale investments	3,732,525	3,891,204	**2,230,846**
Proceeds from sales of available-for-sale investments	844,515	520,349	**694,296**
Purchases of available-for-sale investments	(4,680,440)	(4,271,258)	**(2,823,874)**
Purchases of long-term investments		(16,834)	
Acquisitions and other investments, net	(41,901)	(324)	**(288)**
Proceeds from the sale of assets, net		6,608	**35,221**
Net Cash Provided (Used) by Investing Activities of Continuing Operations	(259,408)	(14,650)	**67,810**
Net Cash Used by Operating Activities of Discontinued Operations	(2,843)	(3,677)	**(17,738)**
Financing Activities			
Net change in loans payable	(23,721)	(290)	
Principal payments on debt	(38,973)		**(10,000)**
Dividends	(36,020)	(35,567)	**(43,528)**

Purchases of common stock for treasury	(69,891)	(19,779)	**(324,999)**
Proceeds from stock issued for stock plans	48,215	33,047	**28,801**
Net Cash Used by Financing Activities	(120,390)	(22,589)	**(349,726)**
Effect of Exchange Rate Changes on Cash	31,467	29,123	**12,871**
Net Change in Cash and Cash Equivalents	(138,317)	184,065	**(92,348)**
Cash and Cash Equivalents Beginning of Year	608,535	470,218	**654,283**
Cash and Cash Equivalents End of Year	$470,218	$654,283	**$561,935**

See accompanying notes to Applera Corporation` s consolidated financial statements.

(Dollar amounts in thousands)	Applera-Applied Biosystems Stock	Applera-Celera Genomics Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Applera-Applied Biosystems Treasury Stock	Applera-Celera Treasury Stock	Total Stockholders' Equity
Balance at June 30, 2001	$2,115	$617	$1,832,000	$ 369,444	$(55,865)	$ –	$ –	$2,148,311
Comprehensive loss								

Net loss				(40,581)				(40,581)
Other comprehensive loss:								
Foreign currency translation adjustments					48,425			
Unrealized loss on hedge contracts, net of reclassification adjustments					(35,661)			
Minimum pension liability adjustment					(17,005)			
Unrealized loss on investments, net of reclassification adjustments					(31,468)			
Other comprehensive loss					(35,709)			(35,709)
Comprehensive loss								(76,290)
Cash dividends declared on Applera–Applied Biosystems stock				(35,972)				(35,972)
Purchase of shares for treasury stock						(68,950)	(941)	(69,891)
Issuances under stock plans	13	38	52,684	(201)		2,987	941	56,462
Tax benefit related to employee stock options			15,172					15,172
Shares issued in Axys acquisition		55	181,856					181,911
Stock compensation			5,217			23		5,240
Balance at June 30, 2002	2,128	710	2,086,929	292,690	(91,574)	(65,940)	–	2,224,943
Comprehensive income								
Net income				102,080				102,080
Other comprehensive income:								
Foreign currency translation adjustments					45,712			
Unrealized gain on hedge contracts, net of reclassification adjustments					13,850			
Minimum pension liability adjustment					(27,918)			
Unrealized gain on investments, net of reclassification adjustments					5,445			
Other comprehensive income					37,089			37,089
Comprehensive income								139,169
Cash dividends declared on Applera–Applied Biosystems stock				(35,519)				(35,519)
Purchase of shares for treasury stock						(19,779)		(19,779)
Issuances under stock plans		13	9,510	(4,028)		19,304		24,799
Tax benefit related to employee stock options			1,558					1,558
Stock compensation			4,939	29		146		5,114
Balance at June 30, 2003	2,128	723	2,102,936	355,252	(54,485)	(66,269)	–	2,340,285
Comprehensive income								
Net income				**125,581**				**125,581**
Other comprehensive income:								
Foreign currency translation adjustments					**34,044**			
Unrealized gain on hedge contracts, net of reclassification adjustments					**6,168**			
Minimum pension liability adjustment					**8,780**			

Unrealized loss on investments, net of reclassification adjustments					(10,190)			
Other comprehensive income					38,802			38,802
Comprehensive income								164,383
Cash dividends declared on Applera–Applied Biosystems stock				(34,645)				(34,645)
Purchase of shares for treasury stock						(324,999)		(324,999)
Issuances under stock plans	2	8	2,348	(5,148)		32,135		29,345
Tax benefit related to employee stock options			3,372					3,372
Stock compensation			3,149	29		130		3,308
Balance at June 30, 2004	$2,130	$731	$2,111,805	$ 441,069	$(15,683)	$(359,003)	$ –	$2,181,049

See accompanying notes to Applera Corporation' s consolidated financial statements.

Note 1–Accounting Policies and Practices

Organization

The Applera Corporation is a life sciences company with a mission to improve human health and society by understanding and applying the power of biology to develop breakthrough research technologies, diagnostic products, and drugs. When used in these notes, the terms "Applera," "Company," "we," "us," or "our" mean Applera Corporation and its subsidiaries. We are comprised of three business segments: the Applied Biosystems group, the Celera Genomics group, and Celera Diagnostics. Please see Note 15 for more information on our segments.

Principles of Consolidation

We include the accounts of Applera and all of our majority-owned subsidiaries that we control in our consolidated financial statements. In addition, as required under Financial Accounting Standards Board ("FASB") Interpretation No. 46R ("FIN 46R"), "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51," our consolidation policy requires the consolidation of variable interest entities ("VIEs") in which we are determined to be the primary beneficiary from the date the determination is made. See Recently Issued Accounting Standards in this Note for more information on FIN 46R. We have eliminated all significant intracompany transactions and balances in consolidation.

We have reclassified certain prior year amounts in the consolidated financial statements and notes for comparative purposes.

Use of Estimates

We prepare our consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America, or GAAP. In preparing these statements, we are required to use estimates and assumptions. While we believe we have considered all available information, 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.

Financial effects arising from one group that affect our consolidated results of operations or consolidated financial position could, if significant, affect the results of operations or financial position of the other group and the per share market price of the class of common stock relating to the other group. Any net losses of the Applied Biosystems group or the Celera Genomics group and dividends or distributions on, or repurchases of, Applera–Applied Biosystems stock or Applera–Celera stock or repurchases of preferred stock of the Company will reduce the assets of Applera legally available for payment of dividends.

Recently Issued Accounting Standards

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Medicare Act") introduced a prescription drug benefit under Medicare, as well as a federal subsidy to sponsors of retiree health care benefit plans. In May 2004, the FASB issued FASB Staff Position ("FSP") No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," which superseded FSP No. 106-1. FSP 106-2 provides guidance on the accounting for and disclosures required for the effects of the Medicare Act. In particular, the FSP prevents companies from recording the federal subsidy as a one-time gain to earnings. The amounts included in the accompanying consolidated financial statements related to our postretirement benefit plan reflect the effects of the Medicare Act. Please see Note 5 for information on the impact of the Medicare Act on our consolidated financial statements.

In December 2003, the FASB issued a revised Statement of Financial Accounting Standards ("SFAS") No. 132,

actual results could affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods.

Capital Structure

In fiscal 1999, as part of a recapitalization of our Company, we created two classes of common stock called Applera Corporation- Applied Biosystems Group Common Stock ("Applera- Applied Biosystems stock") and Applera Corporation- Celera Genomics Group Common Stock ("Applera- Celera stock"). Applera- Applied Biosystems stock is intended to reflect the relative performance of the Applied Biosystems group, and Applera- Celera stock is intended to reflect the relative performance of the Celera Genomics group.

Holders of Applera- Applied Biosystems stock and holders of 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

"Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106, and a revision of FASB Statement No. 132." SFAS No. 132 (revised 2003) requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. We adopted the provisions of this Statement in fiscal 2004.

Also in December 2003, the FASB issued FIN 46R to clarify and amend some of the original provisions of FIN 46, which was issued in January 2003, and to exempt certain entities from its requirements. FIN 46R applies to entities whose equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support provided by any parties, including equity holders, or where the equity investors (if any) do not have a controlling financial interest. FIN 46R provides that if an entity is the primary beneficiary of a VIE, the assets, liabilities, and results of operations of the VIE should be consolidated in the entity's financial statements. A VIE refers to an entity subject to

consolidation according to the provisions of this Interpretation. In addition, FIN 46R requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE provide additional disclosures. The adoption of FIN 46R in fiscal 2004 did not impact our consolidated financial statements.

Earnings (Loss) per Share

We compute basic earnings (loss) per share for each class of common stock using the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock according to dividends declared and participation rights in undistributed earnings. To calculate the basic earnings (loss) per share for each class of common stock, we divide the earnings (losses) allocated to each class of common stock by the weighted average number of outstanding shares of that class of common stock. Diluted earnings (loss) per share is calculated using the weighted average number of outstanding shares of that class of common stock adjusted to include the dilutive effect of common stock equivalents. Dilutive common stock equivalents primarily consist of employee stock options.

Our board of directors approves the method of allocating earnings to each class of common stock for purposes of calculating earnings (loss) per share. This determination is generally based on the net income or loss amounts of the corresponding group calculated in accordance with GAAP, consistently applied. We believe this method of allocation is systematic and reasonable. Our board of directors can, in its discretion, change the method of allocating earnings (losses) to each class of common stock at any time.

(Amounts in thousands except per share amounts)	Applied Biosystems Group			Celera Genomics Group		
For the years ended June 30,	2002	2003	**2004**	2002	2003	**2004**
Income (loss) from continuing operations	$168.5	$199.6	**$172.3**	$(211.8)	$(81.9)	**$(57.5)**
Less dividends declared on common stock	36.0	35.5	**34.6**			
Undistributed earnings (loss)	$132.5	$164.1	**$137.6**	$(211.8)	$(81.9)	**$(57.5)**
Allocation of basic earnings (loss) per share						
Basic distributed earnings	$0.17	$0.17	**$0.17**	$–	$–	**$–**
Basic undistributed earnings (loss) per share	0.63	0.79	**0.67**	(3.21)	(1.15)	**(0.79)**
Total basic earnings (loss) per share	$0.80	$0.96	**$0.84**	$(3.21)	$(1.15)	**$(0.79)**
Allocation of diluted earnings (loss) per share						
Diluted distributed earnings	$0.17	$0.17	**$0.17**	$–	$–	**$–**
Diluted undistributed earnings (loss) per share	0.61	0.78	**0.66**	(3.21)	(1.15)	**(0.79)**
Total diluted earnings (loss) per share	$0.78	$0.95	**$0.83**	$(3.21)	$(1.15)	**$(0.79)**
Weighted average number of common shares						

Basic	211.6	209.0	**204.6**	66.0	71.5	**72.5**
Common stock equivalents	3.8	1.4	**3.7**			
Diluted	215.4	210.4	**208.3**	66.0	71.5	**72.5**

Options to purchase stock at exercise prices greater than the average market prices of our common stocks were excluded from the computation of diluted earnings per share because the effect would have been antidilutive. Additionally, options and warrants to purchase shares of Applera-Celera stock were excluded from the computation of diluted loss per share because the effect was antidilutive. The following table presents the number of shares excluded from the diluted earnings and loss per share computations.

(Shares in millions)	2002	2003	**2004**
Applera- Applied Biosystems stock	27.8	25.7	**27.2**
Applera- Celera stock	13.1	12.3	**12.8**

Stock-Based Compensation

We currently sponsor stock option plans, employee stock purchase plans, a restricted stock plan, and a performance unit bonus plan. See Note 7 for further information. We apply the provisions of Accounting Principles Board Opinion No. 25 (“APB Opinion No. 25”), “Accounting for Stock Issued to Employees,” and FIN 44, “Accounting for Certain Transactions Involving Stock Compensation – An Interpretation of Accounting Principles Board Opinion No. 25” in accounting for stock-based compensation plans. In accordance with APB Opinion No. 25, compensation cost for stock options is recognized in income based on the excess, if any, of the quoted market price of the stock over the exercise price of the stock options at the grant date of the award. Generally, the exercise price of stock options granted to employees equals the fair market value of our stock prices at the date of grant; therefore generally no compensation expense is recorded.

We determined pro forma net income and earnings per share information, as required by SFAS No. 123, "Accounting for Stock-Based Compensation," for employee stock plans under the statement' s fair value method. For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the options' vesting period. The following tables present a reconciliation of basic and diluted earnings (loss) per share from continuing operations and illustrate what income (loss) from continuing operations and earnings (loss) per share would have been if we had applied the fair value method of accounting for employee stock plans.

(Dollar amounts in millions)	Applera Corporation		
For the years ended June 30,	2002	2003	**2004**
Income (loss) from continuing operations, as reported	$(40.6)	$118.5	**$115.0**
Add: Stock-based employee compensation expense included in reported income (loss) from continuing operations, net of tax	2.8	1.1	**1.9**
Deduct: Stock-based employee compensation expense determined under fair value based method, net of tax	131.6	148.7	**120.9**
Pro forma loss from continuing operations	$(169.4)	$(29.1)	**$(4.0)**

(Dollar amounts in millions except per share amounts)	Applied Biosystems Group			Celera Genomics Group		
For the years ended June 30,	2002	2003	**2004**	2002	2003	**2004**
Income (loss) from continuing operations, as reported	$168.5	$199.6	**$172.3**	$(211.8)	$(81.9)	**$(57.5)**
Add: Stock-based employee compensation expense included in reported income (loss) from continuing operations, net of tax	2.1	0.7	**1.2**	0.7	0.4	**0.7**
Deduct: Stock-based employee compensation expense determined under fair value based method, net of tax	101.1	118.8	**97.6**	30.5	29.9	**23.3**
Pro forma income (loss) from continuing operations	$69.5	$81.5	**$75.9**	$(241.6)	$(111.4)	**$(80.1)**
Earnings (loss) per share from continuing operations						
Basic – as reported	$0.80	$0.96	**$0.84**	$(3.21)	$(1.15)	**$(0.79)**
Basic – pro forma	$0.33	$0.39	**$0.37**	$(3.66)	$(1.56)	**$(1.10)**
Diluted – as reported	$0.78	$0.95	**$0.83**	$(3.21)	$(1.15)	**$(0.79)**
Diluted – pro forma	$0.32	$0.39	**$0.36**	$(3.66)	$(1.56)	**$(1.10)**

The weighted average fair value of our stock options granted was:

For the years ended June 30,	2002	2003	**2004**
Applera- Applied Biosystems stock options	$12.36	$9.15	**$12.32**
Applera- Celera stock options	13.84	6.49	**6.05**

We estimate the fair value of our options using the Black-Scholes option pricing model, which was developed for use in estimating the value of freely-traded options that have no vesting restrictions and are fully transferable. Similar to other option pricing models, this model requires the input of highly-subjective assumptions, including the stock price volatility. Our options have characteristics significantly different from traded options, and changes in the input assumptions can materially affect the fair value estimates. The fair value of the options was estimated at the grant date with the following weighted average assumptions:

For the years ended June 30,	2002	2003	**2004**
Applied Biosystems Group			
Dividend yield	0.9%	1.1%	**0.8%**
Volatility	78%	72%	**71%**
Risk-free interest rate	3.6%	3.0%	**3.8%**
Expected option life in years	4	5	**5**
Celera Genomics Group			
Volatility	101%	97%	**66%**
Risk-free interest rate	3.7%	3.0%	**3.8%**
Expected option life in years	3.5	4	**4**

Foreign Currency

We translate assets and liabilities of foreign operations, where the functional currency is the local currency, into U.S. dollars at the fiscal year-end exchange rates. We record the related translation adjustments as a separate component of accumulated other comprehensive income (loss) in the consolidated statements of financial position. We translate foreign currency revenues and expenses using average exchange rates prevailing during the fiscal year. Foreign currency transaction gains and losses are included in net income. Transaction gains and losses occur from fluctuations in

exchange rates when assets and liabilities are denominated in currencies other than the functional currency of an entity. Net transaction gains were $0.7 million for fiscal 2002 and $3.0 million for fiscal 2003, and net transaction losses were $0.6 million for fiscal 2004. Net transaction gains and losses includes the gains and the acquisition of Axys Pharmaceuticals, Inc. in fiscal 2002. See Note 9 for more information.

We also held securities that are classified as trading at June 30, 2003 and 2004, which were recorded at fair value with realized and unrealized gains and losses

losses on the revaluation of non-functional currency-denominated net assets offset by the losses and gains, respectively, on non-qualified hedges on these positions. See Note 11 for further information on our hedging program.

Derivative Financial Instruments

We use derivative financial instruments to minimize exposure to market risks arising from changes in foreign currency exchange rates. We used foreign exchange forward, option and range forward contracts as our derivative financial instruments during fiscal 2003 and 2004 (see Note 11).

Cash and Cash Equivalents and Short and Long-Term Investments

Our cash equivalents consist of highly liquid debt instruments, time deposits, and certificates of deposit with original maturities of three months or less at the date of purchase.

Investments classified as available-for-sale are carried at fair value with unrealized gains and losses included as a separate component of stockholders' equity, net of any related tax effect. Investments with maturities beyond one year may be classified as short-term based on their highly liquid nature and because such marketable securities represent the investment of cash that is readily available for current operations should it be needed. We use the specific identification method to determine the cost of securities disposed of, with realized gains and losses recorded in other income (expense), net.

The fair value of short and long-term investments and unrealized gains (losses) at June 30, 2003 and 2004 was as follows:

(Dollar amounts in millions)	2003	**2004**
Certificates of deposit and time deposits	$16.8	**$13.0**
Commercial paper	44.4	**69.5**
U.S. government and agency obligations	506.9	**367.6**
Corporate bonds	128.9	**188.9**
Asset backed securities	52.8	**49.8**
Total short-term investments	$749.8	**$688.8**
U.S. government and agency obligations	16.4	

included in income. These securities are recorded in other current assets. Included in income were unrealized net gains of $0.1 million during fiscal 2003 and $2.2 million during fiscal 2004.

Investments

We account for investments in business entities in which we have the ability to exercise significant influence over operating and financial policies (generally 20% to 50% ownership) using the equity method of accounting. Under the equity method of accounting, we record investments at cost and we adjust for dividends and undistributed earnings and losses.

We classify investments for which we do not have the ability to exercise significant influence as minority equity investments. We account for non-marketable minority equity investments using the cost method of accounting. We generally classify minority equity investments in public companies as available-for-sale and carry them at market value in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." We use the specific identification method to determine the cost of securities disposed of. Under the cost method of accounting, we carry investments in equity securities at cost and adjust only for other-than-temporary declines in fair value, distributions of earnings and additional investments.

In connection with the Axys acquisition, we received an approximate 30% ownership interest in Discovery Partners International, Inc. ("DPI"). The investment was accounted for under the equity method of accounting. As of June 30, 2004, we no longer had an investment in DPI common stock as we sold our ownership interest during fiscal 2004 for a gain of $24.8 million.

The following tables provide unaudited summarized financial information on a 100% basis for DPI. Prior to the disposition of our investment in DPI, we reported the impact of DPI's financial results in our financial statements on a three-month lag. As a result, the information of DPI presented below reflects balances as of and for the periods ended March 31.

Unaudited summarized balance sheet information as of March 31, 2003 of DPI is as follows:

(Dollar amounts millions)

Total long-term investments	$16.4	**$**–
Unrealized gains on investments	$2.0	**$0.2**
Unrealized losses on investments	(0.1)	**(1.5)**
Realized gains on investments	$0.5	**$0.3**
Realized losses on investments	(0.2)	**(0.3)**

Current assets	$83.6
Non-current assets	20.5
Current liabilities	7.2
Non-current liabilities	0.4

Included in U.S. government and agency obligations are non-callable U.S. government obligations that collateralize the 8% senior secured convertible notes assumed in connection with

Unaudited summarized statement of operations information of DPI for the year ended March 31 is as follows:

(Dollar amounts in millions)	2002	2003
Net revenue	$41.6	$44.0
Gross profit	15.3	5.3
Net loss	(9.7)	(61.0)

At the time of the Axys acquisition, under the purchase method of accounting, we reduced the carrying value of our DPI investment by $12.3 million. This amount reflected the difference between the fair value assigned to the DPI shares and the then carrying amount of the investment. As of June 30, 2003, the market value of our investment in DPI common stock was $31.7 million. At June 30, 2003, the carrying value of our DPI investment was $8.7 million.

We recorded a $17.7 million loss for our share of DPI' s losses in fiscal 2003 in other income (expense), net. Based on the decline in its market capitalization, DPI re-assessed the value of its goodwill and other long-lived assets and recorded an impairment charge as a result of this re-assessment. Included in the $17.7 million loss was a non-cash charge of $15.1 million, which represented our share of the impairment charge.

Inventories

Inventories are stated at the lower of cost (on a first-in, first-out basis) or market. Cost is determined principally on the standard cost method for manufactured goods which approximates cost on the first-in, first-out method. Inventories at June 30, 2003 and 2004 included the following components:

(Dollar amounts in millions)	2003	**2004**
Raw materials and supplies	$54.4	**$52.6**
Work-in-process	9.8	**7.4**
Finished products	87.9	**80.8**

The reduction in buildings and leasehold improvements in fiscal 2004 was primarily due to the reclassification of the Celera Genomics group' s Rockville, MD facility to assets held for sale. See Note 8 for more information.

We capitalize major renewals and improvements that significantly add to productive capacity or extend the life of an asset. We expense repairs, maintenance, and minor renewals and improvements as incurred. We remove the cost of assets and related depreciation from the related accounts on the balance sheet when such assets are disposed of, and any related gains or losses are reflected in current earnings.

We compute depreciation expense of owned property, plant and equipment based on the expected useful lives of the assets primarily using the straight-line method. We amortize leasehold improvements over their estimated useful lives or the term of the applicable lease, whichever is less. Useful lives are generally five to ten years for land improvements, 30 to 40 years for buildings, and three to seven years for machinery and equipment. We amortize capitalized internal-use software costs primarily over the expected useful lives, not to exceed seven years. Depreciation expense for property, plant and equipment was $88.7 million for fiscal 2002, $112.6 million for fiscal 2003, and $94.9 million for fiscal 2004. In addition, the Celera Genomics group recorded an $18.1 million impairment charge in fiscal 2004 related to its Rockville, MD facility. This charge is included in employee-related charges, asset impairments and other. See Note 2 for more information.

Capitalized Software

We capitalize and include in other long-term assets software development costs for software used in our products which are incurred from the time technological feasibility of the software is established until the software is ready for its intended use. We amortize these costs using the straight-line method over a maximum of three years or the expected life of the product, whichever is

Total inventories, net	$152.1	**$140.8**

Property, Plant and Equipment, and Depreciation

Property, plant and equipment are recorded at cost and consisted of the following at June 30, 2003 and 2004:

(Dollar amounts in millions)	2003	**2004**
Land and improvements	$105.5	**$101.3**
Buildings and leasehold improvements	352.0	**284.1**
Machinery and equipment	344.8	**350.3**
Computer software and licenses	117.4	**133.6**
Property, plant and equipment, at cost	919.7	**869.3**
Accumulated depreciation and amortization	393.1	**423.3**
Property, plant and equipment, net	$526.6	**$446.0**

less. Capitalized software costs, net of accumulated amortization, were $17.2 million at June 30, 2003, and $8.2 million at June 30, 2004. Amortization expense was $11.0 million in fiscal 2002, $15.1 million in fiscal 2003, and $13.6 million in fiscal 2004. We expense research and development costs and other computer software maintenance costs related to software development as incurred.

Intangible Assets

We amortize intangible assets using the straight-line method over their expected useful lives. Intangible assets subject to amortization at June 30, 2003 and 2004 included the following:

(Dollar amounts in millions)	Weighted Average Life	2003 Gross Carrying Amount	2003 Accumulated Amortization	**2004** Gross Carrying Amount	**2004** Accumulated Amortization
Patents	**8.0**	$44.7	$21.2	**$25.5**	**$18.8**
Acquired technology	**6.4**	60.0	30.0	**60.1**	**35.5**
Favorable operating leases	**4.0**	11.6	4.7	**11.6**	**7.6**
Total		$116.3	$55.9	**$97.2**	**$61.9**

In fiscal 2004, the Applied Biosystems group recorded $14.9 million for the impairment of patents and acquired technology related to Boston Probes, Inc., a business we acquired in fiscal 2002. This charge is included in employee-related charges, asset impairments and other (see Notes 2 and 3).

Aggregate amortization expense for the fiscal years ended June 30, 2003 and 2004 was as follows:

(Dollar amounts in millions)	2003	**2004**
Applied Biosystems group	$9.4	**$10.1**
Celera Genomics group	5.9	**2.9**
Celera Diagnostics	2.1	**2.1**
Consolidated	$17.4	**$15.1**

exceeds its estimated fair value, goodwill impairment is recognized to the extent that the reporting unit' s carrying amount of goodwill exceeds the implied fair value of the goodwill. The fair value of reporting units were estimated using discounted cash flows, market multiples, and other valuation techniques.

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

Impairment of Long-Lived Assets

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

With the exception of the charge discussed above, the Applied Biosystems group records a substantial portion of amortization expense in cost of sales. The Celera Genomics group records amortization expense in amortization of intangible assets and Celera Diagnostics records amortization expense in cost of sales. At June 30, 2004, we estimated annual amortization expense of our intangible assets for each of the next five fiscal years to be as shown in the following table. Future acquisitions or impairment events could cause these amounts to change.

(Dollar amounts in millions)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Consolidated
2005	**$6.9**	**$2.9**	**$2.2**	**$12.0**
2006	**6.5**	**1.1**	**2.2**	**9.8**
2007	**5.3**		**2.0**	**7.3**
2008	**2.6**		**0.4**	**3.0**
2009	**1.6**			**1.6**

Goodwill

Goodwill represents the excess purchase price over the net asset value of companies acquired. We test goodwill for impairment using a fair value approach at the reporting unit level annually, or earlier if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. A reporting unit can be an operating segment or a business if discrete financial information is prepared and reviewed by management. Under the impairment test, if a reporting unit' s carrying amount

Events which could trigger an impairment review include, among others, a decrease in the market value of an asset, an asset' s inability to generate income from operations and positive cash flow in future periods, a decision to change the manner in which an asset is used, a physical change to an asset or a change in business climate. We calculate estimated future undiscounted cash flows, before interest and taxes, resulting from the use of the asset and its estimated value at disposal and compare it to its carrying value in determining whether impairment potentially exists. If a potential impairment exists, a calculation is performed to determine the fair value of the long-lived asset. This calculation is based on a valuation model and discount rate commensurate with the risks involved. Third party appraised values may also be used in determining whether impairment potentially exists.

Product Warranties

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

The following table provides the analysis of the warranty reserve for the fiscal years ended June 30, 2003 and 2004:

(Dollar amount in millions)	2003	**2004**
Beginning of year	$12.8	**$15.1**
Accruals for warranties	29.3	**30.4**
Usage of reserve	(27.0)	**(29.6)**
End of year	$15.1	**$15.9**

Revenues

We record revenue upon entering into a final agreement with the customer that includes the specific nature and terms of the revenue-generating activity and for which collectibility is reasonably assured, which is generally at the time of shipment of products or performance of services. Concurrently, we record provisions for warranty, returns, and installation based on historical experience and anticipated product performance. Discounts are recorded as sales reductions concurrently with the applicable sale. Cash discounts are recorded as sales reductions upon our receipt of the sales proceeds. Deferred revenues consist of prepayments for service contracts and subscription agreements. Revenue is not recognized at the time of shipment of products in situations where risks and rewards of ownership are transferred to the customer at a point other than shipment due to the shipping terms, the existence of an acceptance clause, the achievement of milestones, or some return or cancellation privileges. Revenue is recognized once customer acceptance occurs or the acceptance provisions lapse. Service revenue is recognized over the period services are performed.

In revenue arrangements with multiple deliverables, we record revenue as the separate elements are delivered to the customer if the delivered item is determined to represent a separate earnings process, there is objective

We recognize revenue on subscription fees for access to our on-line information databases as part of the Celera Discovery System™ (“CDS”) ratably over the contracted period.

We recognize royalty revenues when earned over the term of the agreement in exchange for the grant of licenses to use our products or certain technologies for which we hold patents. We recognize revenue for estimates of royalties earned during the applicable period, based on historical activity, and make revisions for actual royalties received in the following quarter. For those arrangements where royalties cannot be reasonably estimated, we recognize revenue upon the receipt of cash or royalty statements from our licensees.

The Celera Genomics group recognizes revenue and profit on long-term contracts in accordance with the percentage-of-completion method. Under this method, the Celera Genomics group recognizes revenue based on either the costs incurred compared to total costs expected to be incurred as work is performed or on the relative costs for a completed phase compared to the estimate of total expected contract costs when delivery and/or acceptance provisions are present. The percentage-of-completion method relies on estimates of total expected contract revenues and costs. Revenue from short-term contracts is recognized upon completion.

A significant portion of Celera Diagnostics’ reported net revenues consists of equalization payments from Abbott Laboratories resulting from a profit and loss sharing arrangement between Abbott and Celera Diagnostics. All revenues, costs and expenses of the alliance are shared equally by both parties through a quarterly equalization payment. The timing and nature of equalization payments can lead to fluctuations in both reported revenues and gross margins from period to period due to changes in end-user sales of alliance products and differences in relative operating expenses between the alliance partners.

Research, Development and Engineering

and reliable evidence of the fair value of the undeliverable item, and delivery or performance of the undelivered item is probable and substantially in our control. For certain instruments where installation is determined to be a separate earnings process, the portion of the sales price allocable to the fair value of the installation is deferred and recognized when installation is complete. We determine the fair value of the installation process based on technician labor billing rates, the expected number of hours to install the instrument based on historical experience, and amounts charged by third parties.

Under sales-type or direct financing lease agreements, revenue is recognized at the time of shipment, and the difference between the gross investment in the lease and the sales price of the property is deferred and amortized over the lease term using the interest method. These transactions represent an insignificant portion of our consolidated revenues.

We expense research, development and engineering costs as incurred. Research, development and engineering costs include salaries and benefits, supplies and materials, facilities costs, equipment depreciation, contract services, allocations of various corporate costs and other outside costs.

Supplemental Cash Flow Information

Cash paid for interest and income taxes and significant non-cash investing and financing activities for the following fiscal years ended June 30 were as follows:

(Dollar amounts in millions)	2002	2003	**2004**

carrying value in determining whether impairment potentially existed. The calculation was based on a valuation model and discount rate that was commensurate with the risks involved. We recognized the goodwill impairment to the extent that Paracel' s carrying

Interest	$2.1	$1.5	**$1.3**
Income taxes	$33.2	$66.6	**$52.8**
Significant non-cash investing and financing activities:			
Tax benefit related to employee stock options	$15.2	$1.6	**$3.4**
Dividends declared not paid	$8.9	$8.9	
Issuances of restricted stock	$2.4	$0.2	**$6.6**
Equity instruments issued in Axys acquisition	$181.9		
Debt and capital lease obligation assumed in the Axys acquisition	$39.1		
Stock issued for which proceeds were in-transit	$8.2		**$0.5**

Note 2–Employee-Related Charges, Asset and Goodwill Impairments, and Other

The following table summarizes significant charges and income for fiscal years ended June 30:

(Dollar amounts in millions)	2002	2003	**2004**
Excess lease space	$ (10.1)	$–	**$–**
Severance and benefit costs	(3.0)	(22.9)	**(6.3)**
Reduction of expected costs		4.3	**0.6**
Asset impairments			**(36.1)**
Other	(0.6)	(1.4)	
Total employee-related charges, asset impairments, and other	$(13.7)	$(20.0)	**$(41.8)**
Total goodwill impairment	$(12.1)	$–	**$–**
Total litigation settlements	$–	$25.8	**$6.7**

Fiscal 2002 Charges

In fiscal 2002, the Celera Genomics group recorded a $25.9 million charge related to Paracel, a business we acquired in fiscal 2000. This charge was primarily comprised of $12.7 million for asset impairments, and provisions of $10.1 million for the estimated cost of excess lease space and $0.2 million for severance costs. This charge also included $2.9 million for impairment of Paracel inventory included in cost of sales. The asset impairment charges were for the write-off of the remaining goodwill of $12.1 million, other intangible assets of $0.5 million and the remaining unamortized amount of goodwill exceeded the implied fair value of the goodwill.

Cash payments associated with the excess lease space were $0.4 million during fiscal 2002, $1.8 million during fiscal 2003, and $1.9 million during fiscal 2004. Severance and related benefits, granted to 19 employees terminated during fiscal 2002, were paid by June 30, 2002.

Also in fiscal 2002, the Celera Genomics group recorded a restructuring charge of $2.8 million for severance costs associated with the termination of 132 employees primarily within the functional areas of DNA sequencing, data management and analysis support, sales, and general administration. This restructuring plan was undertaken to realign the organization with the Celera Genomics group' s drug discovery and development strategy and to reduce infrastructure previously built to support whole genome sequencing and the acquisition of customers for the Online/Information Business. All actions under this plan were taken as of June 30, 2002, and all cash payments were made by March 31, 2003.

Fiscal 2003 Charges

During 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. The $33.8 million charge consisted of $24.3 million in employee-related charges, asset impairments and other, of which $22.9 million was for severance and benefits costs and $1.4 million was for office closures. The Applied Biosystems group also recorded $9.5 million for the impairment of assets in cost of sales. The Applied Biosystems group recorded pre-tax benefits of $4.3 million in the fourth quarter of fiscal 2003 and $0.6 million in the second quarter of fiscal 2004 in employee-related charges, asset impairments and other for reductions in anticipated employee-related costs associated with this program. These reductions were associated with lower than expected costs being incurred as the actions for this program were implemented.

The severance and benefits charge related to the termination of approximately 400 employees worldwide. Positions impacted, mainly in the U.S. and Europe, were

million, and leasehold improvements of $0.1 million. These charges resulted from Paracel' s unfavorable performance against the lowered profitability outlook for the business established during fiscal 2001, and our decision during the third quarter of fiscal 2002 to redirect the business away from hardware and focus more on software products. In accordance with the provisions of SFAS No. 142, we estimated Paracel' s fair value using discounted cash flows, and compared it to its

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 fiscal 2003 special charges:

(Dollar amounts in millions)	Employee-Related Charges	Asset Impairment	Office Closures	Total
Total charges	$22.9	$9.5	$1.4	$33.8
Cash payments	14.2		0.2	14.4
Non-cash charges		9.5	0.5	10.0
Reduction of expected costs	4.3			4.3
Balance at June 30, 2003	4.4	–	0.7	5.1
Cash payments	**3.0**		**0.5**	**3.5**
Reduction of expected costs	**0.6**			**0.6**
Balance at June 30, 2004	**$ 0.8**	**$ –**	**$0.2**	**$1.0**

Substantially all cash payments were made by June 30, 2004. These payments were funded primarily from cash provided by operating activities. The majority of the remaining cash payments are expected to be made in fiscal 2005.

Fiscal 2004 Charges

During fiscal 2004, the Applied Biosystems group recorded pre-tax charges of $6.3 million for the termination of approximately 110 employees, mainly in the U.S. The savings resulting from this action are expected to be used to support the businesses that are driving the Applied Biosystems group' s revenue growth, including through the hiring of additional appropriately-skilled employees. As of June 30, 2004, the majority of Applied Biosystems group had entered into a collaboration and commercialization agreement for this product line with HTS Biosystems in fiscal 2002. As a result of a change in strategic direction and focus at the Applied Biosystems group, as determined during the previously mentioned review, we determined that the inventory and fixed assets related to this product line have no net realizable value. Additionally, we wrote off a loan and accrued the final payments based on our decision to terminate the agreement with HTS Biosystems.

During the fourth quarter of fiscal 2004, the Celera Genomics group decided to pursue the sale of its Rockville, MD facility. As a result of this decision, we have classified the related assets as assets held for sale within prepaid expenses and other currents assets (see Note 8). In connection with the decision to sell the Rockville facility, the Celera Genomics group recorded a pre-tax impairment charge of $18.1 million during the fourth quarter of fiscal 2004 in employee-related charges, asset impairments and other. This charge represented the write-down of the carrying amount of the facility to its current estimated market value less estimated costs to sell. The estimated market value was determined based on a third-party appraisal. After an analysis, the Celera Genomics group decided during the fourth quarter of fiscal 2004 that selling the facility and leasing space is the preferred option to meet its space requirements in Maryland.

Patent Litigation Settlement

In March 2003, we received a ruling in favor of the Applied Biosystems group and MDS Inc. in a patent infringement lawsuit against Micromass U.K. Ltd. and its U.S. subsidiary, Micromass, Inc., both divisions of Waters Corporation. In April 2003, the Applied Biosystems group received a payment that represented its share of the judgment proceeds on the successful completion of the lawsuit. We recorded a gain of $25.8 million in litigation settlements, which represented the amount received, net of related fees and costs, in the fourth quarter of fiscal 2003.

the affected employees had been terminated and we had made cash payments of $5.3 million. The cash payments were funded primarily from cash provided by operating activities. The remaining cash payments are expected to be made in fiscal 2005.

In the fourth quarter of fiscal 2004, the Applied Biosystems group recorded pre-tax charges of $14.9 million in employee-related charges, asset impairments and other for the impairment of patents and acquired technology related to Boston Probes. As a result of a strategic and operational review, we determined, during the fourth quarter of fiscal 2004, that the intellectual property was not expected to lead to feasible commercialization of the products that we had originally envisioned when we purchased Boston Probes. In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the impairment charge represented the amount by which the carrying amount of the assets exceeded their fair value. The fair value was based on estimated undiscounted future cash flows relating to the existing service potential of those assets.

Additionally in the fourth quarter of fiscal 2004, the Applied Biosystems group recorded pre-tax charges of $4.4 million for asset write-downs and other expenses related to the decision to transfer the 8500 Affinity Chip Analyzer product line to HTS Biosystems, Inc., its development partner for this product line. The $4.4 million charge consisted of $3.2 million for write-downs of fixed assets and other charges and $1.2 million for the impairment of inventory recorded in cost of sales. The

In March 2004, the Applied Biosystems group and MDS Inc., through the Applied Biosystems/MDS Sciex Instruments joint venture, received a payment of $18.1 million from Waters Technologies Corporation in connection with the resolution of patent infringement claims between the parties. The Applied Biosystems group recorded a net gain of $6.7 million from legal settlements, including its share of the settlement between the Applied Biosystems/MDS Sciex Instruments joint venture and Waters Technologies Corporation, in the third quarter of fiscal 2004. This net gain was recorded in litigation settlements.

Note 3–Acquisitions

Axys Pharmaceuticals, Inc.

We acquired Axys in a stock-for-stock transaction during fiscal 2002. At the time of the acquisition, Axys was an integrated small molecule drug discovery and development company that was developing products for chronic therapeutic application

through collaborations with pharmaceutical companies and had a proprietary product portfolio in oncology.

We issued 5.5 million shares of Applera-Celera stock in exchange for all of the outstanding shares of Axys common stock. The total purchase price for the

We are amortizing the recorded values of the intangible assets, other than the acquired in-process research and development, or IPR&D, over their expected period of benefit, which on a weighted average basis is 2.8 years. We recorded in purchase accounting a $61.3 million deferred tax asset, included in long-term assets, for net

acquisition was $188.4 million, which consisted of Applera-Celera stock valued at $170.3 million, stock options valued at $8.8 million, warrants valued at $2.8 million and transaction costs of $6.5 million. We calculated the purchase price based on a measurement date determined in accordance with Emerging Issues Task Force Abstracts Issue 99-12, "Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination." This date represented the first date on which the exchange ratio was fixed under the merger agreement. We calculated the fair value of the options and warrants using the Black-Scholes pricing model.

We allocated the purchase price of $188.4 million to tangible net assets and intangible assets as follows:

(Dollar amounts in millions)

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

operating loss carryforwards and other temporary differences of Axys which we expected to use. Current liabilities included $4.2 million of contractual severance and involuntary termination costs, all of which were paid prior to June 30, 2002.

In connection with the acquisition of Axys, we allocated approximately $99.0 million of the purchase price to IPR&D. As of the acquisition date, the technological feasibility of the related projects had not been established, and it was determined that the acquired projects had no future alternative uses. The amounts attributed to acquired IPR&D were developed using an income approach. The in-process technologies were valued using a discounted cash flow model on a project-by-project basis. This valuation incorporated a percentage of completion analysis using revenues allocated to in-process technologies. The risk-adjusted discount rates used to value the projects at acquisition ranged from 38% to 43%. The discount rates applied in the discounted cash flow model were risk adjusted, since the assumed periods of milestone receipts and assumed timing of product launch may vary significantly from the assumptions. The valuation assumptions were made solely for the purpose of calculating projected cash flows and valuing the intangible assets acquired at the date of acquisition.

The following table briefly describes the IPR&D projects at the date of acquisition.

Project	Development Status at Acquisition Date	Valuation Assumptions at Acquisition Date: Project` s Stage of Completion at Acquisition Date	Valuation Assumptions at Acquisition Date: Assumed Period of Milestone Receipts	Value at Acquisition Date
(Dollar amounts in millions)				
Cathepsin S: Collaboration with Aventis Pharmaceuticals Products, Inc. with the objective of discovery and development of small molecule drugs that inhibit Cathepsin S, a human cysteine protease associated with certain inflammatory diseases	Pre-clinical studies	90%	Years 1 – 7 from date of acquisition	$37.7
Cathepsin K: Collaboration with Merck & Co., Inc. to develop small molecule inhibitors of Cathepsin K for the treatment of osteoporosis	Pre-clinical studies	91%	Years 2 – 6 from date of acquisition	26.6
Tryptase: Collaboration with Bayer AG to identify oral tryptase inhibitors for the treatment of asthma	Pre-clinical studies	89%	Years 3 – 8 from date of acquisition	14.9
Cathepsin F: Development of compounds for inflammatory diseases such as asthma and rheumatoid arthritis	Pre-clinical studies	28%	Years 2 – 8 from date of acquisition	8.9
Urokinase: Oncology program focused on development of inhibitors of the protease urokinase to interfere with angiogenesis and metastasis processes	Pre-clinical studies	50%	Years 2 – 8 from date of acquisition	4.7

Serm-beta:				
Oncology program utilizing licenses granted by Celgene Corp. for exclusive rights to selective estrogen receptor-beta modulators	Pre-clinical studies	71%	Years 3 – 7 from date of acquisition	4.3
Factors VIIa & Xa:				
Development of oral and parenteral therapeutics for blood clotting disorders, such as deep vein thrombosis, stroke, and myocardial infarction or heart attack	Pre-clinical studies	54%	Years 2 – 10 from date of acquisition	1.9
				$99.0

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

The Celera Genomics group has in the past and continues to review the proprietary pre-clinical projects. These reviews may lead to revised prioritization, resourcing and strategies to move toward clinical trials and commercialization, or may lead us to no longer pursue a project. As a result of these actions, actual results for some programs have varied, and for others may in the future vary, from the valuation assumptions above.

The net assets and results of operations of Axys have been included in our consolidated financial statements since the date of the acquisition, and have been allocated to the Celera Genomics group. The following selected unaudited pro forma information for Applera has been prepared assuming the acquisition had occurred at the

Note 4–Income Taxes

Income (loss) before income taxes from continuing operations for fiscal 2002, 2003, and 2004 is summarized below:

(Dollar amounts in millions)	2002	2003	**2004**

beginning of fiscal 2002 and gives effect to purchase accounting adjustments:

(Dollar amounts in millions except per share amounts)	2002
Net revenues	$1,703.8
Net loss	$35.6
Applied Biosystems Group	
Net revenues	$1,604.0
Net income	$168.5
Basic per share	$0.80
Diluted per share	$0.78
Celera Genomics Group	
Net revenues	$123.4
Net loss*	$(135.6)
Basic and diluted per share	$(1.99)

* See Note 2 for information on other charges recorded by the Celera Genomics group during fiscal 2002.

Upon consummation of the acquisition, the Celera Genomics group recorded a $99.0 million non-cash charge to write-off the value of acquired IPR&D, which has been excluded from the pro forma results above. Included in the unaudited pro forma results for fiscal 2002 is a non-cash pretax charge of $10.8 million recorded by Axys, prior to the acquisition date, for the impairment of an investment accounted for under the cost method of accounting.

This unaudited pro forma data is for informational purposes only and may not be indicative of the actual results that would have occurred had the acquisition been consummated at the beginning of fiscal 2002 or of the future operations of the combined companies.

Boston Probes, Inc.

We acquired the remaining shares of Boston Probes not previously owned, or approximately 87% of the outstanding shares, and certain intellectual property rights related to peptide nucleic acids, for approximately $37 million in cash during fiscal 2002. As a result of owning 100% of Boston Probes, we recorded goodwill of $22.7 million, other intangible assets of $21.8 million, and a charge to write-off the value of acquired IPR&D of $2.2

United States	$(257.5)	$(147.0)	**$(142.4)**
Foreign	228.9	252.6	**271.9**
Total	$(28.6)	$105.6	**$129.5**

Our provision for income taxes from continuing operations for fiscal 2002, 2003, and 2004 consisted of the following:

(Dollar amounts in millions)	2002	2003	**2004**
Currently Payable			
Domestic	$ 36.5	$ 15.0	**$ 20.8**
Foreign	23.0	30.1	**43.0**
Total currently payable	59.5	45.1	**63.8**
Deferred			
Domestic	(53.4)	(70.7)	**(39.9)**
Foreign	5.9	12.7	**(9.4)**
Total deferred	(47.5)	(58.0)	**(49.3)**
Total provision for income taxes	$ 12.0	$(12.9)	**$ 14.5**

Significant components of deferred tax assets and liabilities at June 30, 2003 and 2004 are summarized below:

(Dollar amounts in millions)	2003	**2004**
Deferred Tax Assets		
Depreciation	$ –	**$ 6.3**
Inventories	11.3	**10.3**
Postretirement and postemployment benefits	74.4	**71.5**
Unrealized losses on investments	23.1	**9.7**
Other accruals	43.9	**17.7**
Tax credit and loss carryforwards	126.1	**133.1**
Capitalized R&D expense	189.2	**240.7**
Subtotal	468.0	**489.3**
Valuation allowance	(17.3)	**(20.9)**
Total deferred tax assets	450.7	**468.4**
Deferred Tax Liabilities		
Depreciation	16.0	
Other accruals	23.4	**14.0**
Intangible assets	11.2	**6.5**

million. We were amortizing other intangible assets over their expected period of benefit, which was 7 years. During fiscal 2004, the Applied Biosystems group recorded an impairment charge related to these other intangible assets as discussed in Note 2. At the time of the acquisition, Boston Probes developed and commercialized products employing peptide nucleic acid probe technology and developed novel chemistry platforms based on its technology. The net assets and results of operations of Boston Probes have been allocated to the Applied Biosystems group.

Total deferred tax liabilities	50.6	**20.5**
Total deferred tax assets, net	$400.1	**$447.9**

A reconciliation of the federal statutory tax rate to Applera' s, the Applied Biosystems group' s and the Celera Genomics group' s tax rate on continuing operations for fiscal 2002, 2003, and 2004 is set forth in the following table:

	Applied Biosystems Group			Celera Genomics Group			Consolidated		
(Dollar amounts in millions)	2002	2003	**2004**	2002	2003	**2004**	2002	2003	**2004**
Federal statutory rate	35%	35%	**35%**	35%	35%	**35%**	35%	35%	**35%**
Tax at federal statutory rate	$ 83.1	$ 83.6	**$ 83.9**	$(94.6)	$(47.0)	**$(38.7)**	$(10.0)	$ 37.0	**$ 45.3**
State income taxes (net of federal benefit)	0.4	1.5	**0.5**	0.5	0.8	**0.3**	0.9	2.3	**0.8**
Effect on income taxes from foreign operations	3.0	(16.2)	**(13.3)**	0.1			3.1	(16.2)	**(13.3)**
Effect on income taxes from export operations	(10.0)	(5.4)	**1.3**				(10.0)	(5.4)	**1.3**
Goodwill and intangibles	1.1	0.4	**0.4**	38.0	(0.9)	**(0.9)**	39.1	(0.5)	**(0.5)**
R&D tax credit	(1.1)	0.6	**(7.5)**	(5.1)	(3.9)	**(10.1)**	(6.2)	(3.3)	**(17.6)**
Valuation allowance	(4.1)	(26.0)	**0.7**			**(4.0)**	(4.1)	(26.0)	**(3.3)**
Other	(3.4)	0.6	**1.5**	2.6	(1.4)	**0.3**	(0.8)	(0.8)	**1.8**
Total provision for income taxes from continuing operations	$ 69.0	$ 39.1	**$ 67.5**	$(58.5)	$(52.4)	**$(53.1)**	$ 12.0	$(12.9)	**$ 14.5**

At June 30, 2004, our worldwide valuation allowance of $20.9 million consisted of foreign tax loss and passive foreign tax credit carryforwards. The valuation allowance increased by $3.6 million in fiscal 2004. The change in the valuation allowance in fiscal 2004 reflected an increase of $12.0 million as a result of changes in our assessment of the realization of certain net operating loss carryforwards in various countries, primarily Germany, and a decrease of $8.4 million to reflect the implementation of various tax planning strategies to utilize tax loss carryforwards in various countries, primarily Japan. At June 30, 2003, our worldwide valuation allowance consisted of foreign tax loss and passive foreign tax credit carryforwards. A valuation allowance has been maintained on these carryforwards since we believe that we may not generate sufficient income, of the appropriate character, and in the particular jurisdictions, to realize the benefits before the carryforward periods expire.

We have domestic loss carryforwards as a result of various acquisitions of approximately $82.3 million that can be utilized annually to offset future taxable income as a result of these acquisitions. We also have domestic credit carryforwards of $86.7 million that expire between fiscal 2006 and 2024, and loss carryforwards of approximately $27.7 million in various foreign countries with varying expiration dates.

U.S. income taxes were not provided on approximately $569.3 million of net unremitted earnings from foreign subsidiaries. Substantially all of this amount represents earnings indefinitely reinvested as part of our ongoing business. It is not practicable to estimate the amount of taxes that might be payable on the eventual remittance of such earnings. On remittance, certain countries impose withholding taxes that, subject to certain limitations, are then available for use as tax credits against a U.S. tax liability, if any. However, if some portion of these earnings is remitted, we expect the effect of any remittance after considering available tax credits and amounts previously accrued not to be significant to the consolidated results of operations. These earnings include income from

will expire between fiscal 2009 and 2021. The Internal Revenue Code has limited the amount of these net operating loss carryforwards

manufacturing operations in Singapore, which is tax-exempt through fiscal 2014.

Note 5−Retirement and Other Benefits

Pension Plans, Retiree Healthcare, and Life Insurance Benefits

We maintain or sponsor pension plans that cover a portion of our worldwide employees. Pension benefits

Medicare or other group coverage. We share the cost of providing these benefits with retirees.

Our fiscal 2004 postretirement benefit plan disclosures reflect the impact of the Medicare Act. See Recently Issued Accounting Standards in Note 1 for further

earned are generally based on years of service and compensation during active employment. However, the level of benefits and terms of vesting may vary among plans. We determine the funding of the pension plans in accordance with statutory funding requirements.

Our domestic pension plan covers U.S. employees hired prior to July 1, 1999. The accrual of future service benefits for all participants terminated as of June 30, 2004. The effect of this termination is expected to decrease our pension expense by approximately $7 million in fiscal 2005. Benefits earned under the plan will be paid out under normal existing plan provisions.

Our postretirement benefit plan is unfunded and provides healthcare and life insurance benefits to domestic employees hired prior to January 1, 1993, who retire and satisfy certain service and age requirements. Generally, medical coverage pays a stated percentage of most medical expenses, and in some cases, participants pay a co-payment. Benefits are reduced for any deductible and for payments made by

information on the Medicare Act. We remeasured our postretirement benefit obligation as of July 1, 2003, which resulted in a reduction of approximately $9 million in our accumulated postretirement benefit obligation (‘‘APBO’’). The postretirement benefit obligation reflects that we will recognize the federal subsidy as an offset to plan costs and this amount has been included as an unrecognized gain to the plan at June 30, 2004. The impact of this remeasurement will be amortized over the average working life of our employees eligible for postretirement benefits beginning July 1, 2004. The remeasurement will result in a reduction of net postretirement benefit cost of approximately $1 million in fiscal 2005. The federal subsidy is expected to reduce our prescription drug plan costs by approximately $445 per eligible participant beginning in fiscal 2006, increasing with the assumed health cost trend rate after 2006.

We use a June 30 measurement date for the majority of our pension and postretirement benefit plans.

The following tables set forth the changes in the benefit obligations and the plan assets, the funded status of the plans, and the amounts recorded in our Consolidated Statements of Financial Position at June 30, 2003 and 2004:

	Pension		Postretirement	
(Dollar amounts in millions)	2003	**2004**	2003	**2004**
Change in Benefit Obligation				
Benefit obligation, beginning of year	$ 584.0	**$604.8**	$ 66.7	**$ 80.2**
Service cost	9.3	**10.1**	0.3	**0.3**
Interest cost	39.4	**36.3**	5.1	**4.7**
Participants' contributions	0.2	**0.3**		
Benefits paid	(33.6)	**(34.2)**	(7.1)	**(7.2)**
Actuarial (gain) loss	13.0	**(6.5)**	15.2	**(13.0)**
Variable annuity unit value change	(10.4)	**25.5**		
Additional foreign plans and other	0.6	**(0.7)**		
Foreign currency translation	2.3	**2.1**		
Benefit obligation	$ 604.8	**$637.7**	$ 80.2	**$65.0**
Change in Plan Assets				
Fair value of plan assets, beginning of year	$ 515.3	**$491.4**	$ –	$ –
Actual return on plan assets	(2.1)	**75.0**		
Participants' contributions	0.2	**0.3**		
Company contributions	8.4	**52.2**	7.1	**7.2**
Benefits paid	(32.0)	**(32.4)**	(7.1)	**(7.2)**
Additional foreign plans and other	0.1	**(0.7)**		
Foreign currency translation	1.5	**0.9**		
Fair value of plan assets	$ 491.4	**$586.7**	$ –	$ –
Funded Status Reconciliation				
Funded status	$(113.4)	**$ (51.0)**	$(80.2)	**$(65.0)**
Unrecognized prior service gain	(0.8)			
Unrecognized transition asset	0.7	**0.7**		
Unrecognized (gains) losses	136.8	**114.8**	3.7	**(9.3)**
Net amount recognized	$ 23.3	**$ 64.5**	$(76.5)	**$(74.3)**
Amounts Recognized in the Consolidated Statements of Financial Position				
Prepaid benefit cost	$ 0.9	**$ 1.0**	$ –	$ –
Accrued benefit liability	(105.2)	**(50.8)**	(76.5)	**(74.3)**
Intangible asset	1.0	**1.2**		

Minimum pension liability adjustment	126.6	**113.1**		
Net amount recognized	$ 23.3	**$ 64.5**	$(76.5)	**$ (74.3)**
Supplemental Information				
Accumulated Benefit Obligation	$ 593.6	**$632.0**	$ 80.2	**$ 65.0**
Selected Information for Plans with Accumulated Benefit Obligations in Excess of Plan Assets				
Accumulated benefit obligation	$ 585.6	**$623.3**	$ 80.2	**$ 65.0**
Projected benefit obligation	594.8	**625.9**	80.2	**65.0**
Fair value of plan assets	479.9	**574.2**		

A minimum pension liability adjustment is required when the actuarial present value of accumulated plan benefits exceeds plan assets and accrued pension liabilities.

The components of net pension and postretirement benefit expenses for fiscal 2002, 2003, and 2004 are set forth in the following table:

(Dollar amounts in millions)	2002	2003	**2004**

Pension

U.S. pension plan in fiscal 2005 in order to meet minimum statutory funding requirements.

Our domestic pension plan weighted-average target range for fiscal 2004 and actual domestic pension plan asset allocation at June 30, 2004 and 2003 are as follows:

Service cost	$10.0	$9.3	**$10.1**
Interest cost	42.4	39.4	**36.3**
Expected return on plan assets	(44.2)	(40.1)	**(37.3)**
Amortization of transition asset	0.4		**0.2**
Amortization of prior service cost	(0.5)	(0.6)	**(0.1)**
Amortization of losses	0.5	1.1	**4.7**
Net periodic expense	$8.6	$9.1	**$13.9**

Postretirement Benefit

Service cost	$0.2	$0.3	**$0.3**
Interest cost	4.8	5.1	**4.7**
Amortization of gains	(1.0)		
Net periodic expense	$4.0	$5.4	**$5.0**

The following actuarial assumptions were used for the pension and postretirement plans:

	2002	2003	**2004**
Domestic Plans			
Discount rate used to determine benefit obligation	7 ¼%	6¼%	**6½%**
Discount rate used to determine net benefit cost	7 ½%	7 ¼%	**6 ¼%**
Compensation increase	5%	4%	**4%**
Expected rate of return*	7 ½ - 9 ¼%	7 ¼ - 9%	**6 ¼ - 8 ½%**
Foreign Plans			
Discount rate used to determine benefit obligation	2 ½ - 5 ¾%	1 ½ - 5 ¼%	**2 - 5 ¼%**
Discount rate used to determine net benefit cost	3 - 5 ½%	2 ½ - 5 ¾%	**1 ½ - 5 ¼%**
Compensation increase	2 - 5%	1 ¼ - 3 ½%	**1 - 3 ½%**

	Target Range	Percentage of Plan Assets	
	2004	**2004**	2003
Equity securities	**48 - 68 %**	**60 %**	65%
Fixed income securities	**32 - 52 %**	**33 %**	32%
Other	**0 - 10 %**	**7 %**	3%
Total		**100 %**	100%

At June 30, 2004, our domestic pension plan included a $28.5 million investment in a hedge fund-of-funds investment. This fund invests in multiple long-short market neutral equity funds, with a goal of achieving a desired rate of return with low volatility. The fund' s use of more than a dozen market neutral hedge funds allows for greater manager diversification and risk control.

The assets for our foreign pension plans are primarily invested in insurance contracts. The local governments generally direct the investments for these foreign plans.

Our asset investment strategy goal for the domestic pension plan is to achieve a long-term targeted rate of return, consistent with the ongoing nature of the plan' s liabilities. The plan' s assets are invested so that the total portfolio risk exposure and risk-adjusted returns meet the plan' s long-term total return goal. Trustees administer our pension plan assets and investment responsibility for the assets is assigned to outside investment managers. The plan' s investment policy prohibits the use of derivatives for speculative purposes. The assets of the plan are periodically rebalanced to remain within the desired target allocations.

The expected rate of return on assets is determined based on the historical results of the portfolio, the expected investment mix of the plans' assets, and estimates of future long-term investment returns, and takes into consideration external actuarial advice.

For postretirement benefits measurement purposes, a 10% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for plan year 2005, gradually reducing to 5.5% in 2013 and thereafter. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects:

Expected rate of return	2 - 6 ½%	2 - 5 1/5%	**1 - 4%**

*6 1/2 - 8 1/2% for fiscal 2005.

Our estimated future employer contributions and expected benefit payments at June 30, 2004 are as follows:

(Dollar amounts in millions)	Pension	Postretirement
Employer Contributions		
2005	**$ 1.0**	**$ 7.1**
Expected Benefit Payments		
2005	**$ 33.6**	**$ 7.1**
2006	**34.2**	**6.8**
2007	**34.7**	**6.4**
2008	**35.8**	**6.3**
2009	**36.5**	**6.1**
2010 and thereafter	**272.3**	**28.2**

Based on the level of our contributions to the U.S. pension plan during fiscal 2004, we do not expect to have to fund our

(Dollar amounts in millions)	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on the total of service and interest cost components	**$0.4**	**$(0.4)**
Effect on postretirement benefit obligation	**$5.8**	**$(5.0)**

Savings Plans

We provide a 401(k) savings plan for domestic employees with automatic Company contributions of 2% of eligible compensation and a dollar-for-dollar matching contribution of up to 4% of eligible compensation. Employees not eligible for the employee pension plan received an extra 2% Company contribution in addition to the automatic 2% Company contribution through June 30, 2004, while pension plan participants continue to receive the automatic 2% contribution. Commencing in fiscal 2005, the additional automatic 2% Company contribution will cease and Company contributions will increase to up to 6% of eligible compensation with dollar-for dollar matching for savings plan participants. Our contributions to this plan were $19.3 million for fiscal 2002, $20.8 million for fiscal 2003, and $21.0 million for fiscal 2004. We recorded expenses for foreign defined contribution plans of $2.0 million in fiscal 2002, $2.4 million in fiscal 2003, and $2.2 million in fiscal 2004.

Postemployment Benefits

We provide certain postemployment benefits to eligible employees, which generally include severance and outplacement costs, disability, and medical-related costs paid after employment but before retirement.

Note 6–Stockholders' Equity

Capital Stock

We have two classes of common stock: Applera–Applied Biosystems stock and Applera–Celera stock. Applera–Applied Biosystems stock is intended to reflect the relative performance of the Applied Biosystems group, and Applera–Celera stock is intended to reflect the relative performance of the Celera Genomics group. Holders of Applera–Applied Biosystems stock and holders of Applera–Celera stock are stockholders of Applera. The groups are not separate legal entities and holders of these stocks are stockholders of a single company, Applera. As a result, our stockholders are subject to all of the risks associated with an investment in Applera and all of its businesses, assets, and liabilities.

At June 30, 2003 and 2004, we had one billion authorized shares of a class of common stock designated as Applera Corporation–Applied Biosystems Group Common Stock, 225 million authorized shares of a class of common stock designated as Applera Corporation–Celera Genomics Group Common Stock, and 10 million authorized shares of preferred stock. Of the 10 million authorized shares of preferred stock, we previously designated 80,000 shares of two series of participating junior preferred stock in connection with our Stockholder Protection Rights Agreement described below.

Treasury Stock

We have in the past, and may in the future, repurchase shares of our Applera–Applied Biosystems stock or Applera–Celera stock. During the first quarter of fiscal 2004, our board of directors authorized the repurchase of up to $200 million of Applera–Applied Biosystems stock. Additionally, during the fourth quarter of fiscal 2004, our board of directors authorized the repurchase of up to an additional $100 million of Applera–Applied Biosystems stock. Repurchases may also be made under standing resolutions of our board of directors to replenish shares issued under our various stock plans. These resolutions, which have no time restrictions, delegate authority to management to purchase shares from time to time at price levels it deems appropriate through open market or negotiated purchases.

The following table provides transactions relating to our common stocks:

	Applera – Applied Biosystems Stock	Applera – Celera Stock

(Shares in millions)	Issued Shares	Treasury Stock Shares	Issued Shares	Treasury Stock Shares
Balance at June 30, 2002	212.8	3.7	71.0	
Purchases of shares for treasury stock		1.1		
Issuances of shares under stock plans		(1.2)	1.3	
Balance at June 30, 2003	212.8	3.6	72.3	
Purchases of shares for treasury stock		**15.4**		
Issuances of shares under stock plans	**0.2**	**(1.7)**	**0.8**	
Balance at June 30, 2004	**213.0**	**17.3**	**73.1**	

Stock Purchase Warrants

At June 30, 2003, we had approximately 226,000 warrants outstanding at an exercise price of $12.66. We assumed these warrants in connection with our acquisition of PerSeptive Biosystems, Inc. in fiscal 1998. These warrants expired in September 2003.

more of our assets or earnings power is sold or transferred, each Applera‑Applied Biosystems Right and each Applera‑Celera Right will entitle its holder to purchase, for the Series A Purchase Price or Series B Purchase Price, as applicable, a number of shares of common stock of the surviving entity in any such merger,

At June 30, 2004, we had approximately 262,000 warrants outstanding with exercise prices ranging from $29.96 to $93.63. We assumed these warrants in connection with our acquisition of Axys in fiscal 2002 and each warrant is convertible into one share of Applera- Celera stock. These warrants have a weighted average exercise price of $72.27 per share and expire at various dates during fiscal 2005.

Stockholder Protection Rights Agreement

In connection with our recapitalization, we adopted a Stockholder Protection Rights Agreement (the "Rights Agreement") to protect stockholders against abusive takeover tactics. Under the Rights Agreement, we will issue one right for every four shares of Applera- Applied Biosystems stock (an "Applera- Applied Biosystems Right"), which will allow holders to purchase one-thousandth of a share of our Series A participating junior preferred stock at a purchase price of $425, subject to adjustment (the "Series A Purchase Price"), and one right for every two shares of Applera- Celera stock (an "Applera- Celera Right"), which will allow holders to purchase one-thousandth of a share of our Series B participating junior preferred stock at a purchase price of $125, subject to adjustment (the "Series B Purchase Price").

An Applera- Applied Biosystems Right or an Applera- Celera Right will be exercisable only if a person or group ("Acquiring Person"): (a) acquires 15% or more of the shares of Applera- Applied Biosystems stock then outstanding or 15% or more of the shares of Applera- Celera stock then outstanding or (b) commences a tender offer that would result in such person or group owning such number of shares.

If any person or group becomes an Acquiring Person, each Applera- Applied Biosystems Right and each Applera- Celera Right will entitle its holder to purchase, for the Series A Purchase Price or the Series B Purchase Price, as applicable, a number of shares of the related class of our common stock having a market value equal to twice such purchase price.

If following the time a person or group becomes an Acquiring Person, we are acquired in a merger or other business combination transaction and we are not the surviving corporation; any person consolidates or merges consolidation, or business combination or the purchaser in any such sale or transfer having a market value equal to twice the Series A Purchase Price or Series B Purchase Price.

The rights are redeemable at our option at one cent per right prior to a person or group becoming an Acquiring Person.

Note 7–Stock Plans

Stock Option Plans

Under our stock option plans, we grant stock options to employees that allow them to purchase shares of our classes of common stock. In addition, members of our board of directors receive stock options for their service on our board. Generally, we issue stock options at their fair market value at the date of grant. Most options vest equally over a four-year service period and expire ten years from the grant date. At June 30, 2004, 41.6 million shares of Applera- Applied Biosystems stock and 18.7 million shares of Applera- Celera stock were authorized for grant of options. In addition, in connection with the acquisition of Axys in fiscal 2002, 500,000 shares of Applera- Celera stock were available at June 30, 2004 for potential future issuance under the Axys Pharmaceuticals, Inc. 1997 Equity Incentive Plan. The summary below describes our stock option plans.

1999 Stock Incentive Plans

Our stockholders first approved the Applera Corporation/ Applied Biosystems Group 1999 Stock Incentive Plan (the "Applera- Applied Biosystems Group Plan") and the Applera Corporation/Celera Genomics Group 1999 Stock Incentive Plan (the "Applera- Celera Group Plan") in April 1999. The Applera- Applied Biosystems Group Plan authorizes grants of Applera- Applied Biosystems stock options, stock awards, and performance shares. The Applera- Celera Group Plan authorizes grants of Applera- Celera stock options, stock awards, and performance shares. Directors, officers, and key employees with responsibilities involving both the Applied Biosystems group and the Celera Genomics group may be granted awards under both incentive plans in a manner which reflects their responsibilities. Our board of directors believes that granting awards tied to the performance of the group in which the participants work

with us and all or part of the common stock is converted or exchanged for securities, cash, or property of any other person; or 50% or

and, in certain cases the other group, is in the best interests of both the Company and its stockholders.

Employee Stock Purchase Plans

Our employee stock purchase plans offer U.S. and some non-U.S. employees the right to purchase shares of Applera- Applied Biosystems stock and/or Applera- Celera stock. Employees are eligible to participate through payroll deductions of up to 10% of their compensation. In the U.S., shares are purchased at 85% of the lower of the average market price at the beginning or the end of each three-month offering period. Provisions of the plan for employees in countries outside the U.S. vary according to local practice and regulations. The following table presents shares issued under the employee stock purchase plans:

For the years ended June 30,	2002	2003	**2004**
Applera- Applied Biosystems stock	451,000	504,000	**432,000**
Applera- Celera stock	443,000	525,000	**372,000**

Director Stock Purchase and Deferred Compensation Plan

We have a Director Stock Purchase and Deferred Compensation Plan that requires our non-employee directors to apply at least 50% of their retainer and other board fees to the purchase of common stock. Purchases of Applera- Applied Biosystems stock and Applera- Celera stock are made in a ratio approximately equal to the number of shares of Applera- Applied Biosystems stock and Applera- Celera stock outstanding. The purchase price is the fair market value on the date of purchase. At June 30, 2004, we had approximately 319,000 shares of Applera- Applied Biosystems stock and approximately 79,000 shares of Applera- Celera stock available for issuance under this plan.

Restricted Stock

As part of our stock incentive plans, employees may be, and non-employee directors have been, granted shares of The fair value of shares granted is generally expensed over the restricted periods. The periods may vary depending on the estimated achievement of performance goals. The following table presents information regarding our restricted stock:

(Dollar amounts in millions)

For the years ended June 30,	2002	2003	**2004**
Shares granted			
Applera- Applied Biosystems stock	31,000	4,000	**272,000**
Applera- Celera stock	92,000	21,000	**82,000**
Compensation expense	$4.6	$4.8	**$3.2**
Unearned compensation	$14.8	$1.8	**$5.4**

We record unearned compensation in capital in excess of par value within stockholders' equity.

Performance Unit Bonus Plan

We adopted a Performance Unit Bonus Plan in fiscal 1997. This plan authorizes a performance unit bonus pool that is tied to the grant of corresponding options under our Applera- Applied Biosystems Group Plan and our Applera- Celera Group Plan. Performance units granted under the plan represent the right to receive a cash payment from us at a specified date in the future. The plan was amended during fiscal 2004 to eliminate the issuance of stock as a form of payment. The amount of the payment for each grant is determined on the date of grant. Performance units can be granted in relation to either or both classes of our common stock. The performance units vest when the applicable class or classes of common stock reach and maintain specified price levels, based on their moving average price, for a specified period.

We granted seven series of performance units in fiscal 2002 and four series of performance units in fiscal 2003. We did not grant any performance units in fiscal 2004. Accordingly, we recognized compensation expense of

restricted stock that vest when certain continuous employment/service restrictions and/or specified performance goals are achieved.

$0.9 million in fiscal 2002, $1.6 million in fiscal 2003, and $1.8 million in fiscal 2004.

Stock Option Activity

Transactions relating to our stock option plans follow:

	Applera- Applied Biosystems Stock	
	Number of Options	Weighted Average

we assumed on the acquisition date have been included in the Applera- Celera stock options granted amount for fiscal 2002.

The following tables summarize information regarding options outstanding and exercisable at June 30, 2004:

		Exercise Price
Fiscal 2002		
Outstanding at June 30, 2001	27,921,748	$42.61
Granted	9,170,325	$21.72
Exercised	1,133,789	$11.44
Cancelled	1,917,820	$53.65
Outstanding at June 30, 2002	34,040,464	$37.40
Exercisable at June 30, 2002	14,142,628	$36.41
Fiscal 2003		
Granted	9,043,630	$16.02
Exercised	815,865	$11.51
Cancelled	3,225,690	$40.67
Outstanding at June 30, 2003	39,042,539	$32.69
Exercisable at June 30, 2003	19,497,929	$39.80
Fiscal 2004		
Granted	**5,223,048**	**$19.37**
Exercised	**1,268,475**	**$12.83**
Cancelled	**3,561,123**	**$37.46**
Outstanding at June 30, 2004	**39,435,989**	**$31.14**
Exercisable at June 30, 2004	**22,777,266**	**$39.25**

	Applera-Celera Stock	
	Number of Options	Weighted Average Exercise Price
Fiscal 2002		
Outstanding at June 30, 2001	13,112,236	$25.69
Granted	3,479,808	$19.74
Exercised	3,320,895	$ 8.62
Cancelled	1,975,306	$48.86
Outstanding at June 30, 2002	11,295,843	$25.40
Exercisable at June 30, 2002	5,451,116	$21.55
Fiscal 2003		
Granted	2,163,459	$ 9.27
Exercised	820,772	$ 7.44
Cancelled	2,106,994	$33.54
Outstanding at June 30, 2003	10,531,536	$21.88
Exercisable at June 30, 2003	5,861,305	$23.04

		Weighted Average	
(Option prices per share)	Number of Options	Exercise Price	Contractual Life Remaining in Years
Applera-Applied Biosystems Stock			
Options Outstanding			
At $ 1.82 - $ 16.00	**9,359,105**	**$14.68**	**7.4**
At $16.01 - $ 20.50	**7,815,399**	**$19.05**	**7.7**
At $20.51 - $ 27.00	**11,683,869**	**$22.91**	**7.2**
At $27.01 - $110.00	**10,577,616**	**$63.77**	**5.4**
Options Exercisable			
At $ 1.82 - $ 16.00	**3,500,430**	**$14.40**	
At $16.01 - $ 20.50	**2,680,935**	**$17.10**	
At $20.51 - $ 27.00	**6,600,662**	**$23.35**	
At $27.01 - $109.00	**9,995,239**	**$64.40**	
Applera-Celera Stock			
Options Outstanding			
At $ 0.74 - $ 9.00	**3,191,650**	**$ 7.52**	**4.3**
At $ 9.01 - $ 15.00	**3,977,350**	**$10.19**	**8.5**
At $15.01 - $ 20.00	**1,519,674**	**$18.80**	**7.5**
At $20.01 - $135.00	**2,397,041**	**$53.19**	**6.2**
Options Exercisable			
At $ 0.74 - $ 9.00	**3,025,562**	**$ 7.84**	
At $ 9.01 - $ 15.00	**1,012,161**	**$10.09**	
At $15.01 - $ 20.00	**719,802**	**$18.94**	
At $20.01 - $133.00	**1,917,243**	**$58.40**	

Pro Forma Disclosure

See Note 1 for the pro forma disclosures of income from continuing operations and earnings per share required under SFAS No. 123.

Fiscal 2004		
Granted	**1,681,327**	**$10.66**
Exercised	**392,355**	**$ 5.95**
Cancelled	**734,793**	**$31.67**
Outstanding at June 30, 2004	**11,085,715**	**$19.90**
Exercisable at June 30, 2004	**6,674,768**	**$23.90**

In connection with the acquisition of Axys in fiscal 2002, we assumed Axys' stock option plans. Options granted to Axys employees and directors prior to the acquisition of Axys that

Note 8–Additional Information

Selected Accounts

The following table provides the major components of selected accounts of the Consolidated Statements of Financial Position at June 30:

(Dollar amounts in millions)	2003	**2004**
Other Long-Term Assets		
Equity investments	$80.5	**$38.3**
Goodwill	39.4	**39.4**
Noncurrent deferred tax asset, net	406.4	**444.1**
Other	131.2	**81.6**
Total other long-term assets	$657.5	**$603.4**
Other Accrued Expenses		
Deferred revenues	$105.5	**$101.0**
Foreign currency hedge contracts	18.6	**11.3**
Other	157.3	**160.1**
Total other accrued expenses	$281.4	**$272.4**
Other Long-Term Liabilities		
Accrued postretirement benefits	$73.3	**$69.1**
Accrued pension benefits	91.7	**50.9**
Other	121.8	**75.0**
Total other long-term liabilities	$286.8	**$195.0**

Equity investments consist of common stock in publicly-traded companies and common stock and preferred stock in privately-held companies. Included in equity investments are minority equity interests of $44.4 million in fiscal 2003 and $16.2 million in fiscal 2004. We recorded unrealized gains of $25.5 million and unrealized losses of $1.3 million at June 30, 2003, and unrealized gains of $11.7 million at June 30, 2004, on publicly-traded companies. During fiscal 2004, the Applied Biosystems group recorded gains of $11.2 million related primarily to other currents assets. The reclassified assets consist of property, plant and equipment. The sale of this facility is expected to occur during the next twelve months.

In connection with the decision to sell the Rockville facility, the Celera Genomics group recorded a pre-tax impairment charge of $18.1 million during the fourth quarter of fiscal 2004. This charge represents the write-down of the carrying amount of the facility to its current estimated market value less estimated costs to sell (see Note 2).

Other Income (Expense), Net

The following table provides the major components of other income (expense), net in the Consolidated Statements of Operations for the years ended June 30:

(Dollar amounts in millions)	2002	2003	**2004**
DPI equity investment loss	$(0.8)	$(17.7)	**$0.6**
Other equity investment losses	(4.0)	(1.2)	**(1.0)**
Foreign currency gains (losses) associated with our foreign currency risk management program	0.7	3.0	**(0.6)**
Other	(1.0)	3.6	**3.4**
Total other income (expense), net	$(5.1)	$(12.3)	**$2.4**

In fiscal 2003, as part of our DPI equity investment loss, we recorded an impairment charge of $15.1 million. See Note 1 for more information.

Note 9–Debt and Lines of Credit

Short-term debt and long-term debt at June 30, 2003 and 2004 are summarized as follows:

(Dollar amounts in millions)	2003	**2004**
Short-Term Debt		
Current portion of long-term debt	$–	**$ 6.1**

the sales of minority equity investments and the Celera Genomics group recorded gains of $24.3 million related primarily to the sale of its DPI investment. These investment sales resulted from management' s decision to liquidate non-strategic investments.

Assets Held for Sale

During the third quarter of fiscal 2004, the Applied Biosystems group decided to pursue the sale of certain nonstrategic assets. As a result of this decision, we reclassified $19.5 million of assets into assets held for sale within prepaid expenses and other current assets at March 31, 2004. The reclassified assets consisted of $16.6 million of property, plant, and equipment, net and $2.9 million of net inventory. During the fourth quarter of fiscal 2004, the Applied Biosystems group revised its assessment and decided to no longer pursue the sale of these assets. As a result, we included these assets as part of operations at June 30, 2004.

During the fourth quarter of fiscal 2004, the Celera Genomics group decided to pursue the sale of its Rockville, MD facility. As a result of this decision, we have reclassified $40.3 million of assets into assets held for sale within prepaid expenses and

Total short-term debt	$–	**$6.1**

Long-Term Debt

Other debt	$17.1	**$**–
Total long-term debt	$ 17.1	**$**–

The weighted average interest rate for the current portion of long-term debt was 8% at June 30, 2004.

In connection with the acquisition of Axys, we assumed $26.0 million of 8% senior secured convertible notes. Interest is payable quarterly and the principal is payable at maturity as a lump sum. Holders of notes having an aggregate principal amount of $10 million exercised their right following the acquisition to require us to repurchase such notes, which we did in January 2002. During fiscal 2003, we purchased $18.1 million of non-callable U.S. government obligations and substituted these government obligations for our 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. During fiscal 2004, we repurchased $10.0 million in principal amount of the outstanding notes. The remaining notes, which mature on October 1, 2004, are convertible at any time into 115,163 shares of Applera- Celera stock at a conversion price of $52.10 per share.

record revenues from such transactions upon the shipment of products and maintain a reserve for estimated losses on all lease transactions with recourse provisions based on historical default rates and current economic conditions. At June 30, 2004, the financing companies' outstanding balance of lease receivables with

We maintain a $50 million revolving credit agreement with three banks that expires on April 20, 2005. We intend to renew this agreement prior to expiration. Commitment and facility fees are based on public debt ratings, or net worth and leverage ratios. Interest rates on amounts borrowed vary depending on whether borrowings are undertaken in the domestic or eurodollar markets. There were no outstanding borrowings under the facility at June 30, 2003 or 2004.

Under various debt and credit agreements, we are required to maintain certain minimum net worth and leverage ratios. We were in compliance with all such covenants as of June 30, 2004.

Note 10–Commitments, Contingencies, and Guarantees

Future minimum payments at June 30, 2004 under non-cancelable operating leases for real estate and equipment were as follows:

(Dollar amounts in millions)	
2005	**$43.7**
2006	**29.5**
2007	**19.0**
2008	**14.1**
2009	**12.8**
2010 and thereafter	**38.1**
Total	**$157.2**

We recorded rental expense of $68.2 million for fiscal 2002, $67.7 million for fiscal 2003, and $64.2 million for fiscal 2004.

Guarantees

There are three types of guarantees related to our business activities that are included in the scope of FASB Interpretation No. 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": leases with recourse provisions; the guarantee of pension benefits for a divested business; and product warranties. See Note 1 for more information on product warranties.

recourse to us was $8.4 million. We believe that we could recover the entire balance from the resale of the underlying instruments in the event of default by all customers.

Pension Benefits

As part of the divestiture of our Analytical Instruments business in fiscal 1999, the pension benefits for employees of a former German subsidiary are being paid by the purchaser of the Analytical Instruments business. However, we have 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 $50 million at June 30, 2004, is not expected to have a material adverse effect on our consolidated financial position.

Litigation

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

Applera and some of its officers were served in five lawsuits between April and May, 2000, purportedly on behalf of purchasers of Applera-Celera stock in our follow-on public offering of Applera-Celera stock completed on March 6, 2000. In the offering, we sold an aggregate of approximately 4.4 million shares of Applera-Celera stock at a public offering price of $225 per share. All of these lawsuits have been consolidated into a single case and are pending in the U.S. District Court for the District of Connecticut, and an amended consolidated complaint was filed on August 21, 2001. The consolidated complaint generally alleges that the prospectus used in connection with the offering was inaccurate or misleading because it failed to adequately disclose the alleged opposition of the Human Genome Project and two of its supporters, the governments of the U.S. and the U.K., to providing patent protection to our genomic-based products. Although the Celera Genomics group has never sought, or intended to seek, a patent on the basic human

Leases

We provide lease-financing options to our customers through third party financing companies. For certain leases, the financing companies have recourse to us for any unpaid principal balance upon default by the customer. The leases typically have terms of two to three years and are secured by the underlying instrument. In the event of default by a customer, we would repossess the underlying instrument. We

genome sequence data, the complaint also alleges that we did not adequately disclose the risk that the Celera Genomics group would not be able to patent this data. The consolidated complaint seeks monetary damages, rescission, costs and expenses, and other relief as the court deems proper.

We are involved in several litigation matters with MJ Research, Inc., which commenced with our filing claims against MJ Research based on its alleged infringement of some

polymerase chain reaction, or PCR, patents. In response to our claims, MJ Research filed counterclaims including, among others, allegations that we have licensed and enforced these patents through anticompetitive conduct in violation of federal and state antitrust laws, and MJ Research is seeking injunctive relief, monetary damages, costs and expenses, and other relief. A trial on these matters commenced in March 2004. The court elected to hold the trial in two phases: a patent phase and an antitrust phase. In the patent phase, which has concluded, the jury found that MJ Research infringed U.S. Patent Nos. 4,683,195, 4,683,202 and 4,965,188 (each relates to PCR process technology) and U.S. Patent Nos. 5,656,493, 5,333,675 and 5,475,610 (each relates to thermal cycler instrument technology). The jury found the infringement of the ' 195, ' 202, ' 188 and ' 493 patents to be willful. In addition to direct infringement by MJ Research of the ' 610 and ' 675 patents, the jury found that MJ Research induced its customers to infringe all of the patents and contributed to infringement by its customers of the ' 610 and ' 675 patents. In April 2004, the jury awarded damages to us and Roche Molecular Systems, also a party to the litigation, in the amount of $19.8 million. We intend to seek, with Roche Molecular Systems, an enhancement of damages, including legal fees, since several infringements were found to be willful. Additionally, we intend to seek an injunction against MJ Research, which filed for bankruptcy court protection on March 29, 2004. The antitrust phase of the trial has not yet commenced.

Subsequent to the filing of our claims against MJ Research which are described in the preceding paragraph, on September 21, 2000, MJ Research filed an action against us in the U.S. District Court for the District of Columbia. This complaint is based on the allegation that the patents underlying our DNA sequencing instruments were improperly obtained because one of the alleged inventors, whose work was funded in part by the U.S. government, was knowingly omitted from the patent applications. Our patents at issue are U.S. Patent Nos. 5,171,534, entitled "Automated DNA Sequencing U.S. Patent Nos. 6,221,598 and 5,843,660, both entitled "Multiplex Amplification of Short Tandem Repeat Loci," due to the defendants' sale of forensic identification and paternity testing kits. Promega is seeking monetary damages, costs and expenses, injunctive relief, and other relief as the court deems proper. The defendants answered the complaint on July 9, 2001, and we asserted counterclaims alleging that Promega is infringing our U.S. Patent No. 6,200,748, entitled "Tagged Extendable Primers and Extension Products," due to Promega' s sale of forensic identification and paternity testing kits. As a result of settlement negotiations, the case was dismissed without prejudice on October 29, 2002, but could be re-filed against us if settlement negotiations are not successful.

Beckman Coulter, Inc. filed a patent infringement action against us in the U.S. District Court for the Central District of California on July 3, 2002. The complaint alleges that we are infringing Beckman Coulter' s U.S. Patent Nos. RE 37,606 and 5,421,980, both entitled "Capillary Electrophoresis Using Replaceable Gels," and U.S. Patent No. 5,552,580, entitled "Heated Cover Device." The allegedly infringing products are the Applied Biosystems group' s capillary electrophoresis sequencing and genetic analysis instruments, and PCR and real-time PCR systems. Since Beckman Coulter filed this claim, U.S. Patent No. 5,421,980 has been reissued as U.S. Patent No. RE 37,941, entitled "Capillary Electrophoresis Using Replaceable Gels." On January 13, 2003, the court permitted Beckman Coulter to make a corresponding amendment to its complaint. Beckman Coulter is seeking monetary damages, costs and expenses, injunctive relief, and other relief as the court deems proper. On February 10, 2003, we filed our answer to Beckman Coulter' s allegations, and counterclaimed for declaratory relief that the Beckman Coulter patents underlying Beckman Coulter' s claim are invalid, unenforceable, and not infringed. We are seeking dismissal of Beckman Coulter' s complaint, costs and expenses, declaratory and injunctive relief, and other relief as the court deems proper.

Technique,'' 5,821,058, entitled ''Automated DNA Sequencing Technique,'' 6,200,748, entitled ''Tagged Extendable Primers and Extension Products,'' and 4,811,218, entitled ''Real Time Scanning Electrophoresis Apparatus for DNA Sequencing.'' The complaint asserts violations of the federal False Claims Act and the federal Bayh Dole Act, invalidity and unenforceability of the patents at issue, patent infringement, and various other civil claims against us. MJ Research is seeking monetary damages, costs and expenses, injunctive relief, transfer of ownership of the patents in dispute, and other relief as the court deems proper. MJ Research claims to be suing in the name of the U.S. government although the government has to date declined to participate in the suit. On October 9, 2003, the case against us was dismissed but MJ Research has filed an appeal.

Promega Corporation filed a patent infringement action against Lifecodes Corporation, Cellmark Diagnostics, Genomics International Corporation, and us in the U.S. District Court for the Western District of Wisconsin on April 24, 2001. The complaint alleges that the defendants are infringing Promega's

Henry Huang (an individual) filed an action against us and the Applied Biosystems group and the other parties described below in the U.S. District Court for the Central District of California on February 19, 2003. Mr. Huang's complaint seeks to change inventorship of the patents described below, and claims breach of contract, fraud, conversion, and unjust enrichment. The complaint relates to U.S. Patent Nos. 5,171,534, entitled ''Automated DNA Sequencing Technique,'' 5,821,058, entitled ''Automated DNA Sequencing Technique,'' 6,200,748, entitled ''Tagged Extendable Primers and Extension Products,'' and 4,811,218, entitled ''Real Time Scanning Electrophoresis Apparatus for DNA Sequencing.'' U.S. Patent Nos. 5,171,534, 5,821,058, and 6,200,748 are assigned to the California Institute of Technology and licensed by the Applied Biosystems group. U.S. Patent No. 4,811,218 is assigned to the Applied Biosystems group. Also named in the complaint are the California Institute of Technology, Lloyd Smith, Leroy Hood, Michael Hunkapiller, Timothy Hunkapiller, Charles Connell, John Lytle, William Mordan, and John Bridgham. Lloyd Smith, Leroy Hood, Michael Hunkapiller, Timothy Hunkapiller, and Charles Connell are the inventors named on

U.S. Patent Nos. 5,171,534, 5,821,058, and 6,200,748. Michael Hunkapiller, Charles Connell, John Lytle, William Mordan, and John Bridgham are the inventors named on U.S. Patent No. 4,811,218. The issues involved in this litigation are related to the issues in the MJ Research, Inc. litigation that was filed September 21, 2000, which is Roche Ltd., and other potential defendants affiliated with the named defendants (‘‘Roche’’) in California Superior Court on October 9, 2003. Our complaint asserts, among other things, breach of contract and other contract claims against the defendants arising from agreements relating to polymerase chain reaction, or PCR, technology rights

described above. Mr. Huang is alleging that he is the sole inventor on U.S. Patent Nos. 5,171,534, 5,821,058, 6,200,748, and 4,811,218. He is seeking to substitute himself for the named inventors on the relevant patents, and to have himself named as the sole assignee of the patents, and is also seeking monetary damages, costs, expenses, and other relief as the court deems proper. A trial was completed on December 22, 2003, and on February 18, 2004, the judge issued a decision in our favor finding that Mr. Huang was not an inventor of the patents at issue. Mr. Huang had appealed the decision, but on July 22, 2004, he filed a stipulation with the court withdrawing his appeal, resulting in the termination of this litigation.

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

On-Line Technologies, Inc. (since acquired by MKS Instruments, Inc.) filed claims for patent infringement, trade secret misappropriation, fraud, breach of contract and unfair trade practices against PerkinElmer, Inc., Sick UPA, GmbH, and us in the U.S. District Court for the District of Connecticut on or about November 3, 1999. The complaint alleged that products called the Spectrum One and the MCS100E manufactured by former divisions of the Applied Biosystems group, which divisions were sold to the co-defendants in this case, were based on allegedly proprietary information belonging to On-Line Technologies and that the MCS100E infringed U.S. Patent No. 5,440,143. On-Line Technologies sought monetary damages, costs, expenses, injunctive relief, and entered into between us and the defendants. Our complaint also asserts various tort claims against the defendants, including breach of trust, breach of fiduciary duty, and unfair competition, relating to our PCR rights. The defendants' acts and omissions that form the basis of the complaint include, among other things, the: (i) defendants' failure to abide by contractual provisions intended to allow us to effectively compete with the defendants with respect to (a) sales of diagnostic PCR products and (b) conveyance of diagnostic PCR rights to third parties; (ii) defendants' failure to pay us requisite royalties for sales by them of thermal cyclers and other products; (iii) defendants' failure to negotiate in good faith new agreements directed at modifying the relationship between the parties in accordance with principles set forth in an existing letter agreement that states the intended framework for the negotiations (the "Letter Agreement"); (iv) defendants' failure to provide us with diagnostic PCR rights on a nondiscriminatory basis as required by a European Union commission decree; (v) defendants' failure to comply with their agreement to assign ownership to us of some PCR instrument patents and patent applications, and (vi) defendants' mishandling of the prosecution of patent applications that the defendants were obligated to assign to us, in a manner that damaged us and precluded us from obtaining the full potential scope of patent protection for our instrument rights. Contemporaneously with our filing of this complaint, we also commenced arbitration proceedings with the American Arbitration Association against the defendants asserting, among other things, patent infringement claims (both direct infringement, contributory infringement and infringement by inducing third parties to infringe), breach of contract and other contract claims, and tort claims such as breach of fiduciary duty, breach of trust, and unfair competition. The arbitration is based on our allegation that the defendants (i) have infringed our exclusive rights to PCR patents in fields exclusively licensed to us pursuant to agreements with the defendants; and (ii) by their acts and omissions, have undermined the value of our exclusive PCR rights. In both the legal complaint and the arbitration, we are seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court or arbitrator deems proper. On December 15, 2003, Roche filed a motion in California Superior Court to compel arbitration of our state court complaint and to stay the litigation. Concurrently with the motion to compel arbitration, Roche also filed with the American Arbitration Association its response to our notice of arbitration in

other relief. On April 2, 2003, the U.S. District Court for the District of Connecticut granted our summary judgment motion and dismissed all claims brought by On-Line Technologies, Inc., though On-Line Technologies has filed an appeal with the U.S. Court of Appeals for the Federal Circuit seeking reinstatement of its claims.

We filed claims against Roche Molecular Systems, Inc., Hoffmann-La Roche, Inc., Roche Probe, Inc., F. Hoffmann-La which Roche denied all of our claims against it. Roche' s response included counterclaims asserting, among other things, that our exclusive patent rights under some PCR patents licensed from Roche under an existing distribution agreement were converted into nonexclusive rights by the Letter Agreement, which was entered into subsequent to the distribution agreement. Roche also alleges that (i) we breached

our contractual obligation under the Letter Agreement, including our obligation to source certain enzymes exclusively from Roche; and (ii) we failed to pay Roche the full royalties required pursuant to the distribution agreement. In its counterclaim, Roche is seeking a request for declaratory judgment confirming its assertions, interest, costs, and other relief as the arbitrator deems proper. The claims and counterclaims described in this paragraph involve PCR rights used by the Applied Biosystems group and also rights that the Applied Biosystems group has contributed to Celera Diagnostics. On March 1, 2004 the Superior Court denied Roche' s motion to compel arbitration, but Roche has appealed the decision and both the arbitration and the litigation have been stayed pending the outcome of the appeal.

Promega Corporation filed an action against us and some of our affiliates and Roche Molecular Systems, Inc. and Hoffmann-La Roche, Inc. in the U.S. District Court for the Eastern District of Virginia on April 10, 2000. The complaint asserts violations of the federal False Claims Act. On November 12, 2003, the court issued an order to have the complaint, which had previously been sealed, served on us and the other defendants. On February 9, 2004, we waived service of the complaint, which initiated our direct involvement in the case. The complaint alleges that we and Hoffmann-La Roche overcharged the U.S. government for thermal cyclers and PCR reagents. The overcharges are alleged to be the result of a licensing program based in part on U.S. Patent No. 4,889,818. Promega is asserting that U.S. Patent No. 4,889,818 was obtained fraudulently and that the licensing program run by us and Hoffmann-La Roche is the cause of the alleged overcharging. Promega is seeking monetary damages. Promega claims to be suing in the name of the U.S. government although the government has to date declined to participate in the suit. On June 29, 2004, the court granted our motion to dismiss for failure to state a claim upon which relief could be granted, but gave Promega the right to file an amended complaint. Promega filed an amended complaint on July 13, 2004, and we filed another motion to dismiss on August 6, 2004. The court Enzo Biochem, Inc., Enzo Life Sciences, Inc., and Yale University filed a patent infringement action against us in the U.S. District Court for the District of Connecticut on June 8, 2004. The complaint alleges that we are infringing six patents. Four of these patents are assigned to Yale University and licensed exclusively to Enzo Biochem, i.e., U.S. Patent No. 4,476,928, entitled "Modified Nucleotides and Polynucleotides and Complexes Formed Therefrom," U.S. Patent No. 5,449,767, entitled "Modified Nucleotides and Polynucleotides and Methods of Preparing Same," U.S. Patent No. 5,328,824 entitled "Methods of Using Labeled Nucleotides," and U.S. Patent No. 4,711,955, entitled "Modified Nucleotides and Polynucleotides and Methods of Preparing and Using Same." The other two patents are assigned to Enzo Life Sciences, i.e., U.S. Patent No. 5,082,830 entitled "End Labeled Nucleotide Probe" and U.S. Patent No. 4,994,373 entitled "Methods and Structures Employing Compoundly – Labeled Polynucleotide Probes." The allegedly infringing products include the Applied Biosystems group' s sequencing reagent kits, its TaqMan® genotyping and gene expression assays, and the gene expression microarrays used with its Expression Array System. Enzo Biochem, Enzo Life Sciences, and Yale University are seeking monitory damages, costs, expenses, injunctive relief, and other relief as the court deems proper.

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

Note 11–Financial Instruments

granted our second motion to dismiss on August 20, 2004, but we have not yet received the written court opinion and therefore do not know the full scope of that decision.

Bio-Rad Laboratories, Inc. filed a patent infringement, trademark infringement, and unfair competition action against us in the U.S. District Court for the Northern District of California on December 26, 2002. The complaint alleges that we are infringing Bio-Rad' s U.S. Pat. No. 5,089,011, entitled ''Electrophoretic Sieving in Gel-Free Media with Dissolved Polymers,'' and infringing Bio-Rad' s ''Bio-Rad'' trademark. They filed a third amended complaint against us on May 30, 2003. The allegedly infringing products according to the third amended complaint are instruments using, and reagents used for, capillary electrophoresis, and products using the BioCAD name. Bio-Rad submitted its final infringement contentions under the local court rules on April 22, 2004, and the parties held a court-ordered mediation conference on July 19, 2004. Bio-Rad is seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper.

Our foreign currency risk management strategy uses derivative instruments to hedge certain foreign currency forecasted revenues and intercompany transactions, and to offset the impact of changes in foreign currency exchange rates on certain foreign currency-denominated assets and liabilities. The principal objective of this strategy is to minimize the risks and/or costs associated with our global financing and operating activities. We use foreign exchange forward, option, and range forward contracts to manage our foreign currency exposures. We do not use derivative financial instruments for trading or speculative purposes or for activities other than risk management, nor are we a party to leveraged derivatives.

We record the fair value of foreign currency derivative contracts in either prepaid expenses and other current assets, other long-term assets, or other accrued expenses in the Consolidated Statements of Financial Position.

Cash Flow Hedges

Our international sales are typically denominated in the local currency of the customer, whether third party or intercompany. We use foreign exchange forward, option, and range forward contracts to hedge a portion of forecasted international sales not denominated in U.S. guidelines relative to credit ratings and maturities that seek to maintain safety and liquidity.

Concentration of credit risk with respect to accounts receivable is limited due to our large and diverse customer base, which is dispersed over differing

dollars. We use hedge accounting on the derivative contracts that are considered highly effective in offsetting the changes in fair value of the forecasted sales transactions caused by the movements in foreign currency exchange rates. We designate these contracts as cash flow hedges and we record the effective portion of the change in the fair value of these contracts in other comprehensive income (loss) in the Consolidated Statements of Financial Position until the underlying external forecasted transaction affects earnings. At that time, we reclassify to net revenues in the Consolidated Statements of Operations the gain or loss on the derivative instrument, which had been deferred in accumulated other comprehensive income (loss). We recognized net gains of $17.4 million in fiscal 2002, and net losses of $39.8 million in fiscal 2003 and $40.7 million in fiscal 2004 in net revenues from derivative instruments designated as cash flow hedges of anticipated sales. At June 30, 2004, we recorded $4.5 million of net derivative losses in accumulated other comprehensive income (loss). This amount, which is net of tax, is expected to be reclassified to revenues within the next twelve months.

Other Foreign Currency Derivatives

We also use derivative financial instruments to manage exposures resulting from changes in foreign currency exchange rates on our foreign currency-denominated net asset positions. The gains and losses on these derivatives are expected to largely offset transaction losses and gains, respectively, on the underlying foreign currency-denominated assets and liabilities, both of which are recorded in other income (expense), net in the Consolidated Statements of Operations.

Concentration of Credit Risk

The forward contracts and options used in managing our foreign currency exposures have an element of risk in that the counterparties may be unable to meet the terms of the agreements. However, we minimize this risk by limiting the counterparties to a diverse group of highly-rated major domestic and international financial institutions. We are exposed to potential losses in the event of non-performance by these counterparties. However, we do not expect to record any losses as a result of counterparty default. We do not require and are not required to pledge collateral for these financial instruments. Other financial instruments that potentially subject us to concentrations of geographic areas. Allowances are maintained for potential credit losses and such losses have historically been within our expectations.

Fair Value

We use various methods to estimate the fair value of financial instruments we hold or own. The carrying amount of cash and cash equivalents approximates fair value. We use quoted market prices, if available, or quoted market prices of financial instruments with similar characteristics in valuing our short and long-term investments and minority equity investments. We base the fair value of our debt on the current rates of debt with similar maturities offered to us. The following table presents the carrying amounts and fair values of our significant financial instruments at June 30:

	2003		**2004**	
(Dollar amounts in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$654.3	$654.3	**$561.9**	**$561.9**
Short-term investments	$748.0	$749.8	**$690.1**	**$688.8**
Long-term investments	$16.3	$ 16.4	**$–**	**$–**
Currency forwards and options	$11.6	$ (2.3)	**$8.8**	**$5.1**
Other investments	$19.3	$ 19.3	**$24.7**	**$24.7**
Minority equity investments	$20.2	$ 44.4	**$4.5**	**$16.2**
Short-term debt	$–	$ –	**$(6.1)**	**$(6.1)**
Long-term debt	$(17.1)	$ (17.1)	**$–**	**$–**

We report net unrealized gains and losses on short and long-term investments and minority equity investments as a separate component of accumulated other comprehensive income (loss) in the Consolidated Statements of Financial Position.

credit risk are cash and cash equivalents, short and long-term investments, and accounts receivable. We minimize the risks related to cash and cash equivalents and short and long-term investments by using highly-rated financial institutions that invest in a broad and diverse range of financial instruments. We have established

Note 12–Quarterly Financial Information (Unaudited)

The following is a summary of quarterly financial results:

(Dollar amounts in millions except per share amounts)	First Quarter 2003(a)	First Quarter **2004**	Second Quarter 2003(b)	Second Quarter **2004(c)**	Third Quarter 2003(d)	Third Quarter **2004(e)**	Fourth Quarter 2003(f)	Fourth Quarter **2004(g)**
Consolidated								
Net revenues	$417.3	**$405.0**	$473.0	**$485.3**	$431.0	**$455.2**	$455.9	**$479.7**
Gross margin	222.4	**214.6**	242.7	**254.6**	224.9	**239.0**	237.6	**258.8**
Income from continuing operations	12.1	**16.0**	13.4	**42.6**	13.6	**22.1**	79.4	**34.3**
Net income (loss)	(4.3)	**16.0**	13.4	**42.6**	13.6	**22.1**	79.4	**44.9**
Applied Biosystems Group								
Net revenues	$395.9	**$382.7**	$444.7	**$458.4**	$409.4	**$439.6**	$432.9	**$460.4**
Gross margin	202.6	**196.4**	218.9	**236.0**	207.1	**228.9**	220.8	**244.4**
Income from continuing operations	34.2	**33.4**	29.2	**52.4**	40.1	**46.0**	96.1	**40.5**
Net income	17.8	**33.4**	29.2	**52.4**	40.1	**46.0**	96.1	**51.1**
Dividends declared per share	$.0425	**$.0425**	$.0425	**$.0425**	$.085	**$.0425**	$–	**$.0425**
Income per share from continuing operations								
Basic	$0.16	**$0.16**	$0.14	**$0.25**	$0.19	**$0.23**	$0.46	**$0.20**
Diluted	$0.16	**$0.16**	$0.14	**$0.25**	$0.19	**$0.22**	$0.46	**$0.20**
Net income per share								
Basic	$0.08	**$0.16**	$0.14	**$0.25**	$0.19	**$0.23**	$0.46	**$0.26**
Diluted	$0.08	**$0.16**	$0.14	**$0.25**	$0.19	**$0.22**	$0.46	**$0.25**
Celera Genomics Group								
Net revenues	$23.6	**$17.3**	$22.9	**$19.2**	$20.3	**$11.2**	$21.5	**$12.4**
Net loss	(19.7)	**(16.3)**	(16.1)	**(13.6)**	(26.7)	**(21.9)**	(19.4)	**(5.7)**
Net loss per share								
Basic and diluted	$(0.28)	**$(0.23)**	$(0.23)	**$(0.19)**	$(0.37)	**$(0.30)**	$(0.27)	**$(0.08)**
Celera Diagnostics								
Net revenues	$3.0	**$8.5**	$7.8	**$11.0**	$4.3	**$7.5**	$5.7	**$10.1**
Net loss	$(13.3)	**$(12.0)**	$(9.9)	**$(9.3)**	$(12.6)	**$(11.9)**	$(15.4)	**$(8.4)**
Price range of common stock								
Applied Biosystems Group								
High	$21.42	**$22.55**	$24.49	**$24.00**	$19.17	**$24.44**	$21.38	**$21.96**
Low	$13.00	**$18.47**	$17.29	**$19.95**	$14.90	**$19.10**	$15.30	**$18.04**
Celera Genomics Group								
High	$11.93	**$12.65**	$11.67	**$15.49**	$10.95	**$17.99**	$14.42	**$15.36**
Low	$7.16	**$8.84**	$6.94	**$10.08**	$7.95	**$13.35**	$8.05	**$10.63**

There were no dividends paid on Applera-Celera stock during the periods presented.

The following transactions impacted the comparability between fiscal 2003 and 2004.

(a) The Applied Biosystems group recorded a charge of $16.4 million, net of tax, as part of discontinued operations as a result of 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 (see Note 14).

(b) The Applied Biosystems group recorded before-tax charges of $22.9 million for severance and benefit costs, $9.5 million for asset impairments, and $1.4 million for office closures related to a workforce reduction (see Note 2).

(c) The Applied Biosystems group recorded before tax gains of $6.4 million related to the sales of minority equity investments. The Applied Biosystems also recorded a before tax benefit of $0.6 million for a reduction of severance costs previously recorded during the second quarter of fiscal 2003.

(d) The Celera Genomics group recorded a before-tax loss of $15.1 million in other income (expense), net for the loss from its equity interest in DPI.

(e) The Applied Biosystems group recorded before-tax charges of $6.3 million for severance and related costs (see Note 2). The Applied Biosystems group also recorded a before-tax net gain of $6.7 million from legal settlements (see Note 2) and $3.6 million relating to the sales of minority equity investments.

(f) The Applied Biosystems group recorded a before-tax gain of $25.8 million related to the successful completion of a patent infringement lawsuit against Micromass U.K. Ltd. and its U.S. subsidiary, Micromass, Inc., both divisions of Waters Corporation (see Note 2). The Applied Biosystems group also recorded a before-tax benefit of $4.3 million for a reduction in anticipated employee-related costs associated with the workforce reduction implemented during the second quarter of fiscal 2003 and a benefit of $27.8 million for a reduction of valuation allowances on deferred tax assets resulting from the expected utilization of foreign tax credits and a reduction of the income tax liability due to the settlement of overseas tax audits.

(g) The Applied Biosystems group recorded a charge of $14.9 million for the impairment of patents and acquired technology and $4.4 million for write-downs of fixed assets and other costs (see Note 2). The Applied Biosystems group also recorded an after-tax benefit of $10.6 million as part of discontinued operations that included a reversal of a portion of a patent liability lawsuit accrued in fiscal 2003 and an expected German tax benefit (see Note 14). The Celera Genomics group recorded a gain of $24.8 million associated with the sale of its equity investment in DPI and a charge of $18.1 million for the estimated loss of the planned sale of its Rockville, MD facility (see Note 2).

Note 13–Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss), net of tax, for fiscal 2002, 2003, and 2004 was as follows:

(Dollar amounts in millions)	Unrealized Gain (Loss) on Investments	Unrealized Gain (Loss) on Hedge Contracts	Foreign Currency Translation Adjustments	Minimum Pension Liability	Accumulated Other Comprehensive Income (Loss)
Balance at June 30, 2001	$ 42.9	$ 11.2	$(72.6)	$(37.4)	$(55.9)
Change in net unrealized losses on investments, net of tax benefit of $21.7	(40.3)				(40.3)
Net unrealized losses reclassified into earnings, net of tax benefit of $4.8	8.9				8.9

Change in net unrealized losses on hedge contracts, net of tax benefit of $5.8		(23.9)			(23.9)
Net unrealized gains reclassified into earnings, net of tax expense of $5.6		(11.8)			(11.8)
Foreign currency translation adjustments			48.4		48.4
Minimum pension liability adjustment, net of tax benefit of $9.2				(17.0)	(17.0)
Balance at June 30, 2002	11.5	(24.5)	(24.2)	(54.4)	(91.6)
Change in net unrealized gains on investments, net of tax expense of $2.4	4.6				4.6
Net unrealized losses reclassified into earnings, net of tax benefit of $0.5	0.9				0.9
Change in net unrealized losses on hedge contracts, net of tax benefit of $9.6		(12.6)			(12.6)
Net unrealized losses reclassified into earnings, net of tax benefit of $13.4		26.4			26.4
Foreign currency translation adjustments			45.7		45.7
Minimum pension liability adjustment, net of tax benefit of $15.1				(27.9)	(27.9)
Balance at June 30, 2003	17.0	(10.7)	21.5	(82.3)	(54.5)
Change in net unrealized losses on investments, net of tax benefit of $1.1	**(2.1)**				**(2.1)**
Net unrealized gains reclassified into earnings, net of tax expense of $4.4	**(8.1)**				**(8.1)**
Change in net unrealized losses on hedge contracts, net of tax expense of $9.9		**(20.9)**			**(20.9)**
Net unrealized losses reclassified into earnings, net of tax expense of $13.6		**27.1**			**27.1**
Foreign currency translation adjustments			**34.0**		**34.0**
Minimum pension liability adjustment, net of tax expense of $4.7				**8.8**	**8.8**
Balance at June 30, 2004	**$ 6.8**	**$ (4.5)**	**$ 55.5**	**$(73.5)**	**$(15.7)**

The unrealized gains and losses on investments consist of investments in debt securities and minority equity investments in public companies that are classified as available for sale. The gains and losses recorded above resulted from temporary declines in the market value of the investments based on the most recent public information available. Please see Note 1 to our consolidated financial statements for the accounting policies related to our investments. The currency translation adjustments are not currently adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries.

Note 14–Discontinued Operations

In October 2002, we received an adverse jury verdict in Federal District Court for the District of Delaware in connection with a patent lawsuit between TA Instruments, Inc., a subsidiary of Waters Corporation, and The Perkin-Elmer Corporation relating to thermal analysis products. The Applied Biosystems group is involved as the successor to The Perkin-Elmer Corporation, having sold the thermal instruments product line as part of the sale of its Analytical Instruments business to EG&G, Inc. (now named PerkinElmer, Inc.) in 1999. In fiscal 2003, the jury

awarded TA Instruments $13.3 million based on lost sales, price erosion, and reasonable royalties, and also rejected claims we had made against TA Instruments alleging that their conduct infringed one of our patents. Subsequently, the District Court entered final judgment on a modified award of $17.3 million, after ruling on motions filed by us and TA Instruments which resulted in the Court' s striking the price erosion element of the jury' s damage award, but granting TA Instruments enhanced damages and attorneys fees on certain aspects of the verdict, and prejudgment interest. We recorded a charge of $16.4 million, net of income taxes, as part of discontinued operations in the first quarter of fiscal 2003. In June 2003, we appealed the judgment rejecting our infringement claims to the U.S. Court of Appeals for the Federal Circuit. On May 5, 2004, the U.S. Court of Appeals for the Federal Circuit affirmed the District Court' s judgment denying our infringement claim, and we have elected not to pursue further appeals. As a result, we paid TA Instruments $17.4 million during the fourth quarter of fiscal 2004. Also, during the fourth quarter of fiscal 2004, as a result of the final judgment and subsequent payment to TA Instruments, we recorded an after-tax benefit of $3.0 million related to the reversal of a portion of the patent lawsuit liability accrued in fiscal 2003.

During the fourth quarter of fiscal 2004, we also recorded a $7.6 million German tax benefit from tax refunds and other tax attributes (benefits) resulting from the tax write-off of our investment in one of our former German affiliates. Based on our discussions with the German tax authorities, we concluded that the write-off of our investment was appropriate and that refunds would be due to the Applied Biosystems group. The write-off also created loss carryforwards; however, since it is possible that the tax benefit attributable to the loss carryforwards may not be realized, a full valuation allowance of $6.2 million has been established against the asset.

Note 15–Segment, Geographic, Customer and Consolidating Information

Business Segments

discover and develop small molecule therapeutics. It is also seeking to advance therapeutic antibody and selected small molecule drug programs in collaboration with global technology and market leaders. Celera Diagnostics is 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 diagnostic products.

Refer to the consolidating information section of this note for additional information regarding our segments.

Geographic Areas

Information concerning principal geographical areas for fiscal years ended June 30 follows:

(Dollar amounts in millions)	2002	2003	**2004**
Net Revenues From External Customers			
United States	$ 822.6	$ 885.9	**$ 868.5**
Europe	452.5	487.5	**546.8**
Japan	287.9	250.4	**237.8**
Other Asia Pacific countries	90.1	102.0	**110.8**
Latin America and other	48.1	51.4	**61.3**
Consolidated	$1,701.2	$1,777.2	**$1,825.2**

Net revenues are attributable to geographic areas based on the region of destination.

Information concerning long-lived assets at June 30 follows:

(Dollar amounts in millions)	2002	2003	**2004**
Long-Lived Assets			
United States	$ 439.8	$ 475.8	**$ 391.5**
Europe	34.2	37.0	**41.0**
Japan	14.8	14.0	**14.0**
Other Asia Pacific countries	3.0	3.0	**2.7**

Latin America and other	0.5	0.4	**0.4**
Consolidated	$ 492.3	$ 530.2	**$ 449.6**

Long-lived assets exclude goodwill and other intangible assets.

We are organized based on the products and services that we offer. We operate in the life science industry through three reportable segments: the Applied Biosystems group, the Celera Genomics group, and Celera Diagnostics. We collectively refer to the Applied Biosystems group and the Celera Genomics group as the groups. The Applied Biosystems group serves the life science industry and research community by developing and marketing instrument-based systems, consumables, software, and services. Customers use these tools to analyze nucleic acids (DNA and RNA), small molecules, and proteins to make scientific discoveries, develop new pharmaceuticals, and conduct standardized testing. The Celera Genomics group is engaged principally in the discovery and development of targeted therapeutics for cancer, autoimmune and inflammatory diseases. The Celera Genomics group is leveraging its proteomic, bioinformatic, and genomic capabilities to identify and validate drug targets, and to

Customer Information

We have a large and diverse customer base. No single customer accounted for more than 10% of total net revenues during fiscal 2002, 2003, and 2004.

Consolidating Information

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

corresponding group calculated in accordance with GAAP, consistently applied.

The management and allocation policies applicable to the attribution of assets, liabilities, revenues and expenses to our segments may be modified or rescinded, or additional equitable and provide a reasonable estimate of the cost attributable to each segment. It is not practical to specifically identify a portion of corporate overhead expenses attributable to each of the segments. As a result, we allocate these corporate overhead expenses primarily based on headcount, total expenses, and

policies may be adopted, at the sole discretion of our board of directors at any time without stockholder approval. Our board of directors would make any decision in accordance with its good faith business judgment that its decision is in the best interests of Applera and all of its stockholders as a whole.

We primarily base the attribution of the assets, liabilities, revenues and expenses to each segment on specific identification of the businesses included in each segment. Where specific identification is not practical, we use other methods and criteria that we believe are equitable and provide a reasonable estimate of the assets, liabilities, revenues and expenses attributable to each segment.

Intersegment Revenues

We record the sales of products and services between the segments as intersegment revenues, which are eliminated in determining our consolidated net revenues. These sales are generally made on terms that would be available from third parties in commercial transactions. If similar transactions with third parties are not available for purposes of determining fair value, the purchasing business will pay fair value as determined by our board of directors for such products and services or at the cost (including overhead) of the selling business. The selling business records revenues on these transactions when the product is shipped, as the service is performed, or over the term of the lease, as applicable.

Access to Technology and Know-How

Each segment has free access to all of our technology and know-how (excluding products and services of the other segment) that may be useful in that segment' s business, subject to obligations and limitations applicable to us and to such exceptions that our board of directors may determine. The segments consult with each other on a regular basis concerning technology issues that affect each segment. The costs of developing technology remain in the segment responsible for its development.

Allocation of Corporate Overhead and Administrative Shared Services

Our shared corporate services (such as executive management, human resources, legal, accounting, auditing, tax, treasury, strategic planning and environmental services) and related balance sheet revenues attributable to each segment. We believe that the allocation methods developed are reasonable and have been consistently applied.

Joint Transactions Between Segments

The segments may from time to time engage in transactions jointly, including with third parties. Research and development and other services performed by one segment for a joint venture or other collaborative arrangement will be charged at fair value, as determined by our board of directors. The segments also may jointly undertake a project, such as the Applera Genomics Initiative, where the total costs and benefits of the project are shared. Shipments of products or performance of services related to such joint projects are not recorded as revenues by any of the businesses, but instead are included, at cost, in the total project costs that are shared based on each business' expected benefit.

Our businesses may perform services for one another, which are not directly atttributable to either businesses' revenue generating activities. In these cases the business performing the services charges the benefiting business the cost of performing the services, including overhead.

Allocation of Federal and State Income Taxes

The federal income taxes of the Company and its subsidiaries that own assets allocated between the groups are determined on a consolidated basis using the asset and liability approach prescribed by SFAS No. 109, "Accounting for Income Taxes." If we had used the separate return basis of accounting for taxes, the tax provision for the Applied Biosystems group would not have changed, but more likely than not, a significant valuation allowance would have been recorded by the Celera Genomics group. We allocate the federal income tax provisions and related tax payments or refunds between the groups based on a consolidated return approach taking into account each group' s relative contribution (positive or negative) to our consolidated federal taxable income, tax liability and tax credit position. We taxed intersegment transactions as if each segment were a stand-alone company. We transferred tax benefits that cannot be used by the group generating those benefits, but can be used on a consolidated basis, to the group that can use such benefits. We will reimburse existing tax benefits acquired by either group in a

amounts have been allocated to the segments based upon identification of such services specifically benefiting each segment. A portion of our costs of administrative shared services (such as information technology services) has been allocated in a similar manner. Where determination based on specific usage alone is not practical, we use other methods and criteria that we believe are

business combination that are used by the other group, to the group that acquired such benefits. Tax benefits generated by the Celera Genomics group commencing July 1, 1998, which could be used on a consolidated basis, were reimbursed by the Applied Biosystems group to the Celera Genomics group up to a limit of $75 million.

Pursuant to the terms of the Celera Diagnostics joint venture agreement, the Applied Biosystems group reimburses the

Celera Genomics group for tax benefits generated by Celera Diagnostics to the extent such tax benefits are used by the Applied Biosystems group. These tax benefits are not subject to the $75 million limit described above. The amounts used by the Applied Biosystems group that were not reimbursed to the Celera Genomics group were recorded to allocated net worth of each group in the following Consolidating Statements of Financial Position.

We calculate, depending on the tax laws of the respective jurisdictions, state and local income taxes on either a separate, consolidated, or combined basis. We allocate state and local income tax provisions and related tax payments or refunds between the groups based on the respective contributions of the groups to our state or local tax liabilities.

Financing Activities

As a matter of policy, we manage most financing activities of the Applied Biosystems group and the Celera Genomics group on a centralized basis. These activities include the investment of surplus cash, the issuance and repayment of short-term and long-term debt, treasury stock repurchases, and the issuance and repayment of any preferred stock.

Our board of directors has adopted the following financing policy that affects the financial results of the Applied Biosystems group and the Celera Genomics group.

We allocate our debt between the groups (“pooled debt”) or, if we so determine, in its entirety to a particular group. We will allocate preferred stock, if issued, in a similar manner.

Cash allocated to one group that is used to repay pooled debt or redeem pooled preferred stock decreases such group’ s allocated portion of the pooled debt or preferred stock. Cash or other property allocated to one group that is transferred to the other group, if so determined by our board of directors, decreases the transferring group’ s allocated portion of the pooled debt or preferred stock will receive a credit for an amount equal to the difference as compensation for the use of our credit capacity. Any expense related to our debt or preferred stock that is allocated in its entirety to a group will be allocated in whole to that group.

Cash or other property that we allocate to one group that is transferred to the other group could, if so determined by our board of directors, be accounted for either as a short-term loan or as a long-term loan. Short-term loans bear interest at a rate equal to the weighted average interest rate of our pooled debt. If we do not have any pooled debt, our board of directors will determine the rate of interest for such loan. Our board of directors establishes the terms on which long-term loans between the groups will be made, including interest rate, amortization schedule, maturity, and redemption terms.

In addition, cash allocated to the Applied Biosystems group may be reallocated to the Celera Genomics group in exchange for Celera Genomics Designated Shares as provided under our Certificate of Incorporation. The number of Celera Genomics Designated Shares issued would be determined by dividing the amount of cash reallocated by the average market value of Applera-Celera stock over the 20-trading day period immediately prior to the date of the reallocation. As a result of such a reallocation, a relative percentage of future earnings or losses of the Celera Genomics group would be attributed to the Applied Biosystems group. There were no Celera Genomics Designated Shares issued during fiscal 2003 and 2004.

Although we may allocate our debt and preferred stock between the groups, the debt and preferred stock remain obligations of the Company and all stockholders of the Company are subject to the risks associated with those obligations.

Transfers of Assets Between Groups

Transfers of assets can be made between groups without stockholder approval. Such transfers will be made at fair

and, correspondingly, increases the recipient group' s allocated portion of the pooled debt or preferred stock.

Pooled debt bears interest for the groups at a rate equal to the weighted average interest rate of the debt calculated on a quarterly basis and applied to the average pooled debt balance during the period. Preferred stock, if issued and if pooled in a manner similar to the pooled debt, will bear dividends for the groups at a rate based on the weighted average dividend rate of the preferred stock similarly calculated and applied. Any expense related to increases in pooled debt or preferred stock will be reflected in the weighted average interest or dividend rate of such pooled debt or preferred stock as a whole. During fiscal 2003 and 2004, there was no pooled debt.

If we allocate debt for a particular financing in its entirety to one group, that debt will bear interest for that group at a rate determined by our board of directors. If we allocate preferred stock in its entirety to one group, we will charge the dividend cost to that group in a similar manner. If the interest or dividend cost is higher than our actual cost, the other group value, as determined by our board of directors. The consideration for such transfers may be paid by one group to the other in cash or other consideration, as determined by our board of directors.

Celera Diagnostics

The Applied Biosystems group contributed, among other things, its existing molecular diagnostics business to Celera Diagnostics as part of its initial contribution to the joint venture. The Celera Genomics group contributed, among other things, access to its genome databases and agreed to fund all of the cash operating losses of Celera Diagnostics up to a maximum of $300 million (''initial losses''), after which, operating losses, if any, would be shared equally by the groups. Celera Diagnostics has accumulated cash operating losses of approximately $125 million through June 30, 2004. Celera Diagnostics' profits, if any, will be shared in the ratio of 65 percent to the Celera Genomics group and 35 percent to the Applied Biosystems group until the cumulative profits of Celera Diagnostics equal the initial losses. Subsequently, profits

and losses and cash flows would be shared equally. Capital expenditures and working capital requirements of the joint venture are funded equally by the groups. The Applied Biosystems group will reimburse the Celera Genomics group for all tax benefits generated by Celera

and SNP Genotyping Assays, Custom Tagman® Gene Expression and SNP Genotyping Assays, some reagents for arrays, and new database subscriptions sold by the Applied Biosystems group are the products subject to royalties. During fiscal 2004, the Applied Biosystems group reorganized its internal operations and, among

Diagnostics to the extent such tax benefits are used by the Applied Biosystems group.

The groups account for their investments in Celera Diagnostics under the equity method of accounting, with the Celera Genomics group recording 100 percent of the initial losses in its statement of operations as loss from joint venture. The Celera Genomics group recorded 100% of the losses of Celera Diagnostics from fiscal 2001 through fiscal 2004. Additionally, the Celera Genomics group recorded the tax benefit associated with the loss generated by Celera Diagnostics.

In the event of liquidation of the assets attributable to Celera Diagnostics, including sale of such assets, the proceeds upon liquidation would be distributed to the groups based on a proportion similar to their relative investment accounts. If the proceeds upon liquidation are in excess of the groups' combined investment accounts, the excess liquidation proceeds would be shared in the ratio of 65 percent to the Celera Genomics group and 35 percent to the Applied Biosystems group until the cumulative amount of the distributed excess proceeds equals the initial losses funded by the Celera Genomics group. Any additional liquidation proceeds would be allocated equally to the Celera Genomics group and the Applied Biosystems group.

Online Marketing and Distribution Agreement

Beginning July 1, 2002, the Applied Biosystems group became the exclusive distributor of the CDS online platform operated by the Celera Genomics group and related human genetic and other biological and medical information. As a result of this arrangement, the Applied Biosystems group integrated CDS and other genomic and biological information into its product offerings. In exchange for the rights it acquired under the marketing and distribution agreement, the Applied Biosystems group agreed to pay royalties to the Celera Genomics group based on revenues generated by sales of some products of the Applied Biosystems group from July 1, 2002 through the end of fiscal 2012. The royalty rate is progressive, up to a maximum of 5%, with the level of sales through fiscal 2008. The royalty rate becomes a fixed percentage of sales starting in fiscal 2009, and the rate declines each succeeding fiscal year through fiscal 2012. TaqMan® Gene Expression and SNP Genotyping Assays, Taqman® Pre-Designed Gene Expression

other things, integrated the operations of the former Knowledge Business into other business units of the Applied Biosystems group. However, the Applied Biosystems group and the Celera Genomics group continue to operate under the marketing and distribution agreement on the same terms and conditions as in effect prior to the reorganization.

The Celera Genomics group will continue to be responsible for the performance of its obligations under all contracts relating to its information products and services either existing on June 30, 2002 (including certain renewals, if any, of these contracts) and will receive all revenues and other benefits under, and be responsible for all costs and expenses associated with, such contracts. Assuming the Celera Genomics group continues to perform under its existing contracts, 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 during the four fiscal years ending with fiscal year 2006 below $62.5 million, if the shortfall is due to the actions of the Applied Biosystems group including changes in marketing strategy for CDS. However, this commitment is also subject to the Celera Genomics group otherwise continuing to perform under these contracts, and does not protect the Celera Genomics group from lost revenue due to other circumstances such as customer bankruptcy or default.

Transfer of Business Unit from the Celera Genomics Group to the Applied Biosystems Group

Effective July 1, 2001, we transferred the assets, liabilities and personnel of a business unit from the Celera Genomics group to the Applied Biosystems group. Our board of directors determined that the assets of the business transferred and the liabilities of the business assumed by the Applied Biosystems group constituted fair value for the transfer. The net assets were transferred at recorded book value as an increase to the Applied Biosystems group' s allocated net worth and a decrease to the Celera Genomics group' s allocated net worth. The Applied Biosystems group is using the resources of this business unit for initiatives, including validation of single nucleotide polymorphisms, among others.

The following table summarizes the related party transactions between our segments:

(Dollar amounts in millions)	2002	2003	**2004**
Applied Biosystems Group			
Sales to the Celera Genomics group (a)	$22.4	$ 4.4	**$ 2.8**
Sales to Celera Diagnostics (a)	1.7	5.1	**7.2**
Nonreimbursable utilization of tax benefits (b)	19.0	28.1	**12.3**
Payments for reimbursable utilization of tax benefits (c)	19.4	20.5	**16.4**
Funding of Celera Diagnostics (d)	2.3	7.1	**4.6**
Celera Genomics Group			
Royalties from the Applied Biosystems group (e)	$ –	$ 1.9	**$ 2.7**
Funding of Celera Diagnostics (f)	43.6	52.3	**38.7**
Celera Diagnostics			
Sales to the Applied Biosystems group (g)	$ 8.7	$ 3.3	**$ –**

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

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

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

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

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

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

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

In the following tables, the "Eliminations" column represents the elimination of intersegment activity and the loss on Celera Diagnostics, which is included once, in the "Celera Diagnostics" column, and again net within the "Celera Genomics group" column as "Loss from joint venture."

Consolidating Statement of Operations for the Year Ended June 30, 2004

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Consolidated
Products	$1,441,759	$5,011	$9,189	$−	$1,455,959
Services	178,239	4,201			182,440

Other sources	111,105	48,204	27,485		186,794
Total net revenues from external customers	1,731,103	57,416	36,674	–	1,825,193
Intersegment revenues	9,995	2,710	28	(12,733)	
Total Net Revenues	1,741,098	60,126	36,702	(12,733)	1,825,193
Products	724,410	3,228	7,079	(4,023)	730,694
Services	95,205	800		(770)	95,235
Other sources	15,753	6,804	13,041	(3,017)	32,581
Total Cost of Sales	835,368	10,832	20,120	(7,810)	858,510
Gross Margin	905,730	49,294	16,582	(4,923)	966,683
Selling, general and administrative	392,627	22,087	11,630	56,541	482,885
Corporate allocated expenses	46,339	7,100	3,102	(56,541)	
Research, development and engineering	233,834	104,603	43,818	(5,194)	377,061
Amortization of intangible assets		2,900			2,900
Employee-related charges, asset impairments and other	23,741	18,083			41,824
Litigation settlements	(6,660)				(6,660)
Operating Income (Loss)					
	215,849	(105,479)	(41,968)	271	68,673
Gain on investments, net	11,235	24,294			35,529
Interest income, net	12,068	10,769			22,837
Other income (expense), net	592	1,856			2,448
Loss from joint venture		(41,968)		41,968	
Income (Loss) before Income Taxes	239,744	(110,528)	(41,968)	42,239	129,487
Provision (benefit) for income taxes	67,491	(53,052)		95	14,534
Income (Loss) from Continuing Operations	172,253	(57,476)	(41,968)	42,144	114,953
Income from discontinued operations, net of income taxes	10,628				10,628
Net Income (Loss)	$182,881	$(57,476)	$(41,968)	$42,144	$125,581

Consolidating Statement of Financial Position at June 30, 2004

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Consolidated
Assets					
Current assets					
Cash and cash equivalents	$504,947	$56,988	$ –	$–	$561,935
Short-term investments		688,806			688,806
Accounts receivable, net	382,977	4,082	6,704	(1,593)	392,170
Inventories, net	129,342	1,924	9,530		140,796
Prepaid expenses and other current assets	92,440	47,346	4,590	(4,675)	139,701
Total current assets	1,109,706	799,146	20,824	(6,268)	1,923,408
Property, plant and equipment, net	402,908	34,093	9,245	(219)	446,027
Other long-term assets	435,146	184,475	6,834	(23,039)	603,416
Total Assets	$1,947,760	$1,017,714	$ 36,903	$(29,526)	$2,972,851
Liabilities and Stockholders' Equity					
Current liabilities					
Current portion of long-term debt	$–	$6,081	$ –	$–	$6,081
Accounts payable	139,866	9,223	4,767	(5,861)	147,995
Accrued salaries and wages	72,513	12,733	4,458		89,704
Accrued taxes on income	66,967	13,632			80,599
Other accrued expenses	238,340	30,715	3,741	(407)	272,389
Total current liabilities	517,686	72,384	12,966	(6,268)	596,768
Other long-term liabilities	186,516	7,901	617		195,034
Total Liabilities	704,202	80,285	13,583	(6,268)	791,802
Total Stockholders' Equity	1,243,558	937,429	23,320	(23,258)	2,181,049
Total Liabilities and Stockholders' Equity	$1,947,760	$1,017,714	$ 36,903	$(29,526)	$ 2,972,851

Consolidating Statement of Cash Flows for the Year Ended June 30, 2004

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Consolidated
Operating Activities of Continuing Operations					
Income (loss) from continuing operations	$172,253	$(57,476	)$ (41,968)	$42,144	$ 114,953

Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:					
Depreciation and amortization	96,776	20,834	7,789	(132)	125,267
Asset impairments	19,205	18,083			37,288
Provisions for office closures and severance costs	5,456				5,456
Long-term compensation programs	2,410	899			3,309
Deferred income taxes	(21,395)	(27,270)		(571)	(49,236)
Gains from investments and sales of assets	(11,411)	(24,052)			(35,463)
Loss from joint venture and equity method investees		42,456		(41,968)	488
Nonreimbursable utilization of intergroup tax benefits	12,334	(12,334)			
Changes in operating assets and liabilities:					
Accounts receivable	39,910	12,626	(1,601)	(1,597)	49,338
Inventories	11,966	650	(690)	(139)	11,787
Prepaid expenses and other assets	(12,329)	493	(4,179)	2,792	(13,223)
Accounts payable and other liabilities	(25,917)	(28,768)	(315)	(529)	(55,529)
Net Cash Provided (Used) by Operating Activities of Continuing Operations	289,258	(53,859)	(40,964)	–	194,435
Investing Activities of Continuing Operations					
Additions to property, plant and equipment, net	(60,410)	(5,977)	(2,320)	316	(68,391)
Proceeds from maturities of available-for-sale investments		2,230,846			2,230,846
Proceeds from sales of available-for-sale investments	26,364	667,932			694,296
Purchases of available-for-sale investments		(2,823,874)			(2,823,874)
Acquisitions and investments in joint venture and other, net	(4,840)	(38,732)		43,284	(288)
Proceeds from the sale of assets, net	3,241	32,296		(316)	35,221
Net Cash Provided (Used) by Investing Activities of Continuing Operations	(35,645)	62,491	(2,320)	43,284	67,810
Net Cash Used by Operating Activities of Discontinued Operations	(17,738)				(17,738)
Financing Activities					
Principal payments on debt		(10,000)			(10,000)
Dividends	(43,528)				(43,528)
Net cash funding from groups			43,284	(43,284)	
Purchases of common stock for treasury	(324,999)				(324,999)
Proceeds from stock issued for stock plans	23,062	5,739			28,801
Net Cash Provided (Used) by Financing Activities	(345,465)	(4,261)	43,284	(43,284)	(349,726)
Effect of Exchange Rate Changes on Cash	12,871				12,871
Net Change in Cash and Cash Equivalents	(96,719)	4,371			(92,348)
Cash and Cash Equivalents Beginning of Year	601,666	52,617			654,283
Cash and Cash Equivalents End of Year	$504,947	$56,988	$–	$–	$561,935

Consolidating Statement of Operations for the Year Ended June 30, 2003

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Consolidated
Products	$1,392,841	$5,563	$ 6,659	$–	$ 1,405,063
Services	159,260	7,386			166,646
Other sources	121,281	73,405	10,837		205,523
Total net revenues from external customers	1,673,382	86,354	17,496		1,777,232
Intersegment revenues	9,561	1,910	3,267	(14,738)	
Total Net Revenues	1,682,943	88,264	20,763	(14,738)	1,777,232
Products	722,351	1,767	3,192	(6,922)	720,388
Services	91,104	3,064		(626)	93,542
Other sources	20,067	9,245	8,108	(1,694)	35,726
Total Cost of Sales	833,522	14,076	11,300	(9,242)	849,656
Gross Margin	849,421	74,188	9,463	(5,496)	927,576
Selling, general and administrative	352,091	23,593	9,229	50,113	435,026
Corporate allocated expenses	41,016	6,634	2,463	(50,113)	
Research, development and engineering	238,389	120,849	49,008	(6,715)	401,531
Amortization of intangible assets		5,873			5,873
Employee-related charges, asset impairments and other	20,041				20,041
Litigation settlements	(25,776)				(25,776)
Operating Income (Loss)	223,660	(82,761)	(51,237)	1,219	90,881
Loss on investments, net	(2,281)	(334)			(2,615)
Interest income, net	12,684	16,933			29,617
Other income (expense), net	4,604	(16,910)			(12,306)
Loss from joint venture		(51,237)		51,237	
Income (Loss) before Income Taxes	238,667	(134,309)	(51,237)	52,456	105,577
Provision (benefit) for income taxes	39,050	(52,380)		427	(12,903)
Income (Loss) from Continuing Operations	199,617	(81,929)	(51,237)	52,029	118,480
Loss from discontinued operations, net of income taxes	(16,400)				(16,400)
Net Income (Loss)	$183,217	$(81,929)	$ (51,237)	$52,029	$ 102,080

Consolidating Statement of Financial Position at June 30, 2003

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Consolidated
Assets					
Current assets					

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

Consolidating Statement of Cash Flows for the Year Ended June 30, 2003

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Consolidated
Operating Activities of Continuing Operations					
Income (loss) from continuing operations	$199,617	$(81,929)	$ (51,237)	$52,029	$118,480
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:					
Depreciation and amortization	106,392	35,504	5,970	(1,211)	146,655
Asset impairments	9,991				9,991
Provisions for office closures and severance costs	19,498				19,498
Long-term compensation programs	3,943	1,171			5,114
Deferred income taxes	(49,617)	(8,241)		(156)	(58,014)
Losses from investments and sales of assets	1,191	309			1,500
Loss from joint venture and equity method investees		70,131		(51,237)	18,894
Nonreimbursable utilization of intergroup tax benefits	28,129	(28,129)			
Changes in operating assets and liabilities:					
Accounts receivable	(8,299)	13,242	(4,926)	2,932	2,949
Inventories	452	(666)	(6,625)	(8)	(6,847)
Prepaid expenses and other assets	(22,896)	(1,058)	(752)	1,825	(22,881)
Accounts payable and other liabilities	(8,960)	(32,250)	5,903	(4,174)	(39,481)
Net Cash Provided (Used) by Operating Activities of Continuing Operations	279,441	(31,916)	(51,667)	–	195,858
Investing Activities of Continuing Operations					
Additions to property, plant and equipment, net	(131,940)	(5,991)	(7,743)	1,279	(144,395)
Proceeds from maturities of available-for-sale investments	29,646	3,861,558			3,891,204
Proceeds from sales of available-for-sale investments		520,349			520,349
Purchases of available-for-sale investments		(4,271,258)			(4,271,258)
Purchases of long-term investments		(16,834)			(16,834)
Acquisitions and investments in joint venture and other, net	(7,396)	(52,339)		59,411	(324)
Proceeds from the sale of assets, net	5,463	2,425		(1,280)	6,608
Net Cash Provided (Used) by Investing Activities of Continuing Operations	(104,227)	37,910	(7,743)	59,410	(14,650)
Net Cash Used by Operating Activities of Discontinued Operations	(3,677)				(3,677)
Financing Activities					
Net change in loans payable	(290)				(290)

Dividends	(35,567)				(35,567)
Net cash funding from groups			59,410	(59,410)	
Purchases of common stock for treasury	(19,779)				(19,779)
Proceeds from stock issued for stock plans	15,314	17,733			33,047
Net Cash Provided (Used) by Financing Activities	(40,322)	17,733	59,410	(59,410)	(22,589)
Effect of Exchange Rate Changes on Cash	29,123				29,123
Net Change in Cash and Cash Equivalents	160,338	23,727			184,065
Cash and Cash Equivalents Beginning of Year	441,328	28,890			470,218
Cash and Cash Equivalents End of Year	$601,666	$52,617	$–	$–	$654,283

Consolidating Statement of Operations for the Year Ended June 30, 2002

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Consolidated
Products	$1,344,386	$6,027	$ –	$–	$1,350,413
Services	135,192	41,025			176,217

Other sources	100,329	73,785	474		174,588
Total net revenues from external customers	1,579,907	120,837	474		1,701,218
Intersegment revenues	24,112	49	8,732	(32,893)	
Total Net Revenues	1,604,019	120,886	9,206	(32,893)	1,701,218
Products	662,738	6,367	1,602	(10,472)	660,235
Services	85,922	35,845		(17,149)	104,618
Other sources	19,856	9,686	4,628	(36)	34,134
Total Cost of Sales	768,516	51,898	6,230	(27,657)	798,987
Gross Margin	835,503	68,988	2,976	(5,236)	902,231
Selling, general and administrative	340,561	42,768	6,644	48,396	438,369
Corporate allocated expenses	38,648	7,675	2,073	(48,396)	
Research, development and engineering	219,630	132,655	39,022	(9,405)	381,902
Amortization of intangible assets		7,443			7,443
Goodwill impairment		12,043			12,043
Employee-related charges, asset impairments and other		13,711			13,711
Acquired research and development	2,200	98,981			101,181
Operating Income (Loss)	234,464	(246,288)	(44,763)	4,169	(52,418)
Loss on investments, net	(8,536)	(5,960)			(14,496)
Interest income, net	12,177	31,330			43,507
Other income (expense), net	(601)	(4,542)			(5,143)
Loss from joint venture		(44,763)		44,763	
Income (Loss) before Income Taxes	237,504	(270,223)	(44,763)	48,932	(28,550)
Provision (benefit) for income taxes	69,023	(58,451)		1,459	12,031
Net Income (Loss)	$168,481	$(211,772)	$ (44,763)	$47,473	$ (40,581)

Consolidating Statement of Cash Flows for the Year Ended June 30, 2002

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Consolidated
Operating Activities of Continuing Operations					
Net income (loss)	$168,481	$(211,772)	$ (44,763)	$47,473	$ (40,581)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	81,184	36,499	3,259	(4,148)	116,794
Asset impairments		15,563			15,563
Provisions for excess lease space and severance costs		13,106			13,106
Long-term compensation programs	3,799	1,441			5,240
Deferred income taxes	(12,431)	(26,700)		(8,404)	(47,535)
Losses from investments and sales of assets	8,536	5,559			14,095
Loss from joint venture and equity method investees		49,552		(44,763)	4,789
Nonreimbursable utilization of intergroup tax benefits	18,994	(18,994)			
Acquired research and development	2,200	98,981			101,181
Changes in operating assets and liabilities:					
Accounts receivable	27,258	(5,739)	(177)	(5,518)	15,824
Inventories	(455)	1,174	559	(21)	1,257
Prepaid expenses and other assets	(27,460)	1,962	(3,279)	58	(28,719)
Accounts payable and other liabilities	30,515	(10,501)	6,506	15,323	41,843
Net Cash Provided (Used) by Operating Activities	300,621	(49,869)	(37,895)	–	212,857
Investing Activities of Continuing Operations					
Additions to property, plant and equipment, net	(88,274)	(17,809)	(8,024)		(114,107)
Proceeds from maturities of available-for-sale investments		3,732,525			3,732,525
Proceeds from sales of available-for-sale investments	5,228	839,287			844,515
Purchases of available-for-sale investments	(29,653)	(4,650,787)			(4,680,440)
Acquisitions and investments in joint venture and other, net	(39,473)	(48,347)		45,919	(41,901)
Net Cash Used by Investing Activities	(152,172)	(145,131)	(8,024)	45,919	(259,408)
Net Cash Used by Operating Activities of Discontinued Operations	(2,843)				(2,843)
Financing Activities					
Net change in loans payable	(15,278)	(8,443)			(23,721)
Principal payments on debt	(28,973)	(10,000)			(38,973)
Dividends	(36,020)				(36,020)
Net cash funding from groups			45,919	(45,919)	

Purchases of common stock for treasury	(68,950)	(941)			(69,891)
Proceeds from stock issued for stock plans	21,017	27,198			48,215
Net Cash Provided (Used) by Financing Activities	(128,204)	7,814	45,919	(45,919)	(120,390)
Effect of Exchange Rate Changes on Cash	31,467				31,467
Net Change in Cash and Cash Equivalents	48,869	(187,186)			(138,317)
Cash and Cash Equivalents Beginning of Year	392,459	216,076			608,535
Cash and Cash Equivalents End of Year	$441,328	$28,890	$ –	$–	$470,218

Report of Management

To the Stockholders of Applera Corporation

We are responsible for the accompanying consolidated financial statements. We prepared the financial statements in conformity with accounting principles generally accepted in the United States of America, which requires us to make informed judgments and estimates that we believe are appropriate under the circumstances.

Report of Independent Registered Public Accounting Firm

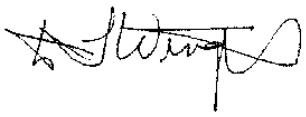
To the Stockholders and Board of Directors of Applera Corporation

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of operations, of stockholders' equity, and of cash flows present fairly, in all material respects, the financial position of Applera Corporation and

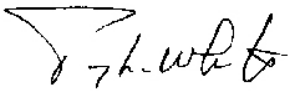
Financial information presented elsewhere in this annual report is consistent with that in the financial statements.

In meeting our responsibility for preparing reliable financial statements, we maintain a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and transactions are properly recorded and executed in accordance with corporate policy and management authorization. We believe our accounting controls provide reasonable assurance that errors or irregularities which could be material to the financial statements are prevented or would be detected within a timely period. In designing such control procedures, we recognize judgments are required to assess and balance the costs and expected benefits of a system of internal accounting controls. Adherence to these policies and procedures is reviewed through a coordinated audit effort of our internal audit staff and independent auditors.

The Audit/Finance Committee of our board of directors is comprised solely of outside directors and is responsible for overseeing and monitoring the quality of our accounting and auditing practices. The independent auditors and internal auditors have full and free access to the Audit/Finance Committee and meet periodically with the committee to discuss accounting, auditing, and financial reporting matters.



Dennis L. Winger
Senior Vice President and
Chief Financial Officer



Tony L. White
Chairman, President, and
Chief Executive Officer

its subsidiaries at June 30, 2004 and 2003, and the results of their operations and their cash flows for each of the three fiscal years in the period ended June 30, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company' s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Stamford, Connecticut
July 28, 2004

Board of Directors

Tony L. White
Chairman, President, and Chief Executive Officer,
Director Since 1995(1)

Richard H. Ayers
Retired Chairman and Chief Executive Officer
The Stanley Works
Director since 1988(1,2)

Jean-Luc Bélingard
President and Chief Executive Officer
Ipsen Group
Director since 1993(3,4,5)

Robert H. Hayes, Ph.D.
Phillip Caldwell Professor, Emeritus
Harvard Business School
Director Since 1985
(1,2,5)

Arnold J. Levine, Ph.D.
Professor, Institute for Advanced Study
Director since 1999(3,4,5)

William H. Longfield
Retired Chairman and Chief Executive Officer
C.R. Bard
Director since 2003(3,4)

Theodore E. Martin
Retired President and Chief Executive Officer
Barnes Group Inc.
Director since 1999(2)

Carolyn W. Slayman, Ph.D.
Sterling Professor and Deputy Dean
Yale University School of Medicine
Director since 1994
(1,3,4,5)

Orin R. Smith
Retired Chairman and Chief Executive Officer
Engelhard Corporation
Director since 1995 (3,4)

James R. Tobin
President and Chief Executive Officer
Boston Scientific Corporation
Director since 1999 (2)

Committee Memberships:
1 Executive Committee
2 Audit/Finance Committee
3 Management Resources Committee
4 Nominating/Corporate Governance Committee
5 Technology Advisory Committee

Corporate Officers

Tony L. White*
Chairman, President, and Chief Executive Officer

Robert F. G. Booth, Ph.D.
Vice President
Celera Genomics

Samuel E. Broder, M.D.
Vice President
Celera Genomics

Catherine M. Burzik*
Senior Vice President and President
Applied Biosystems

Ugo D. DeBlasi
Vice President and Controller

Paul D. Grossman, Ph.D.
Intellectual Property
Applied Biosystems

Vikram Jog
Vice President
Celera Genomics and Celera Diagnostics

Barbara J. Kerr*
Vice President
Human Resources

Laura C. Lauman
Vice President
Applied Biosystems

Thomas P. Livingston
Vice President and Secretary

Wayne W. Montgomery
Intellectual Property
Celera Genomics

Sandeep Nayyar
Finance
Applied Biosystems

Tama Olver
Vice President and Chief Information Officer

Kathy Ordoñez*
Senior Vice President and President
Celera Genomics and Celera Diagnostics

John S. Ostaszewski
Vice President and Treasurer

Robert P. Ragusa
Vice President
Applied Biosystems

William B. Sawch*
Senior Vice President and
General Counsel

Michael G. Schneider
Vice President
Applied Biosystems

Victor K. Lee, Ph.D.
Intellectual Property
Celera Diagnostics

Mark N. Stevenson
Vice President
Applied Biosystems

Thomas J. White, Ph.D.
Vice President
Celera Diagnostics

Dennis L. Winger*
Senior Vice President
and
Chief Financial Officer

* Member, Management
Executive Committee

Principal Offices

Applera Corporation
301 Merritt 7
Norwalk, CT 06851-1070
Tel 203.840.2000

Stockholder Publications

Applera Corporation information, including quarterly earnings

Investor Relations & Corporate Communications

Peter Dworkin, Vice President

Toll Free 800.761.5381
www.applera.com

Mailing address:
Applera Corporation
301 Merritt 7
P.O. Box 5435
Norwalk, CT 06856-5435

Applied Biosystems
850 Lincoln Centre Drive
Foster City, CA 94404
Tel 650.570.6667
Toll Free 800.874.9868
www.appliedbiosystems.com

Celera Genomics
45 West Gude Drive
Rockville, MD 20850
Tel 240.453.3000
Toll Free 877.235.3721
www.celera.com

Celera Diagnostics
1401 Harbor Bay Parkway
Alameda, CA 94502
Tel 510.749.4200
Toll Free 866.235.3723
www.celeradiagnostics.com

Stockholder Response Center

Equiserve Trust Company, N.A., the stockholder services and transfer agent, will answer questions about accounts, certificates, and dividends. Please call toll-free 800.730.4001 or write to:

Equiserve Trust Company, N.A.
P.O. Box 43010
Providence, RI 02940-3010
www.equiserve.com

releases, is available by calling 800.762.6923. This menu-driven system allows callers to receive specific news releases by fax within minutes of a request. Corporate publications, including the annual report, proxy statement, and Securities and Exchange Commission filings (Forms 10-K, 10-Q, etc.), may also be requested and will be sent by mail.

Stock Exchange Listings

The Applera-Applied Biosystems and Applera-Celera Genomics stock are listed on the New York and Pacific exchanges under the symbols ABI and CRA, respectively.

Form 10-K

A copy of the annual report to the Securities and Exchange Commission on Form 10-K may be obtained without charge by writing to the Secretary at the 301 Merritt 7 corporate address.

Information Via Internet

Internet users can access information on Applera Corporation, its public announcements, including press releases, quarterly conference calls, products, and services, and other items

Investment professionals should call 650.554.2449.

News media representatives and others seeking general information should call 650.638.6227.

Equal Employment Opportunity and Affirmative Action

Applera Corporation has long been committed to Equal Employment Opportunity and Affirmative Action. A policy of positive action is the foundation of this commitment and is typified at Applera Corporation by programs directed toward responsible community involvement.

Dividend Reinvestment

The Applied Biosystems Dividend Reinvestment Plan provides owners of Applera-Applied Biosystems stock with a convenient, automatic, and inexpensive way to purchase additional shares. For information and an enrollment form, contact EquiServe Trust Company at the address above.

of interest, at the following addresses:

www.applera.com
www.appliedbiosystems.com
www.celera.com
www.celeradiagnostics.com

Alternatively, you may request this information by writing to:

Applera Corporation
Corporate Communications
850 Lincoln Centre Drive
Foster City, CA 94404

Annual Meeting

The Annual Meeting of Stockholders will be held on Thursday, October 21, 2004, at 9:30 a.m. at 301 Merritt 7, Norwalk, CT 06851.

Glossary

Analyte specific reagents (ASRs)	The active ingredient used by appropriately licensed clinical laboratories for developing in-house, or "home brew" diagnostic tests. The clinical laboratory must independently establish and maintain the performance of the test. ASRs have not been evaluated by the U.S. Food and Drug Administration (FDA).
Bioinformatics	The use of advanced computing techniques to manage and analyze large amounts of biological data.
Biomarkers	A distinctive segment of DNA (e.g., a gene, a SNP, or several SNPs) or a protein that has been determined to be an indicator of a relevant biological condition, such as disease, predisposition to a disease, disease progression, disease regression, drug response, etc.
Disease association studies	Large-scale studies seeking to link genetic markers to disease or to therapeutic response. The studies compare genotype and/or gene expression profiles in various sample populations to identify and validate novel genetic markers. Findings may be relevant for diagnostic and/or therapeutic applications.
Genome	The total hereditary material, or DNA, of a cell, contained in the chromosomes located in the cell nucleus.
Genomics	The scientific study of genes and their role in an organism' s structure, growth, health, disease, resistance to disease, etc.
Genotyping	Studies to determine variations in DNA sequence among individuals, groups, or populations. Single Nucleotide Polymorphisms (SNPs), one type of genetic variations, may serve as genetic markers for disease or drug response.
Gene expression analysis	Studies to identify patterns in gene activity, determining if a gene is "switched on" or "switched off." Differences in gene expression patterns can serve as genetic markers for disease progression or response to therapy.
Mass spectrometer	An instrument that determines the exact mass of charged particles or ions, used to find the mass of proteins and nucleic acids, sequence proteins and peptides, and analyze biological samples in complex mixtures.
Microarray	Artificially constructed grids of DNA such that each element of the grid probes for a specific RNA sequence and allows researchers to determine the expression of genes from different tissue samples.
Polymerase chain reaction (PCR)	A method for creating millions of copies of a particular segment of DNA so that a scientist may be better able to study its composition or characteristics.
Pharmacogenomics	The science of understanding the correlation between an individual patient' s genetic make-up (genotype), and his or her response to drug treatment.
Proteomics	The scientific study of proteins and their role in an organism' s structure, growth, health, disease, resistance to disease, etc.
Real-time PCR	PCR that during the amplification cycle measures with high precision the level of gene expression.
Sequencing / Resequencing	Sequencing is the process of determining the order of nucleotides in a DNA or RNA molecule. Resequencing is the comparative sequencing of candidate genes or other genomic regions of interest in patients and control populations to find the inherited basis of disease and individual drug response.
SNP	See "Genotyping."
Systems biology / Integrated science	Rather than focusing on individual genes, proteins or other component parts, systems biology is an integrative approach that unites technology, informatics and traditional laboratory research to study networks of these components in the context of the whole organism.

Targeted medicine	**Prevention and earlier detection of disease and the tailoring of treatments to patients based on genetic factors and understanding the molecular basis of disease. Encompasses new diagnostic tests to help physicians predict, characterize, monitor, and select therapies. This new paradigm is sometimes referred to as "personalized medicine".**
Therapeutic antibodies	**Laboratory-engineered chemicals that recognize and bind with a specific protein target to disrupt a disease process or to carry a drug to the target.**

For a broader reference of biotechnology terms, see www.geneticmedicine.org

Applera Corporation
301 Merritt 7
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tel 203.840.2000
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0604-AR-04 211PU08-01

EXHIBIT 21

SUBSIDIARIES OF APPLERA CORPORATION

Name	State or Jurisdiction of Incorporation or Organization
Applera Overseas Corporation	(New York, USA)
Applied Biosystems Pty Ltd.	(Australia)
Applied Biosystems (Canada) Limited	(Canada)
Applied Biosystems/MDS SCIEX Instruments (1)	(Canada)
Applied Biosystems (Thailand) Limited	(Thailand)
PE AG	(Switzerland)
Applera France S.A.	(France)
PE (Sweden) AB	(Sweden)
PE Stockholm AB	(Sweden)
Applied Biosystems Finland OY	(Finland)
Applera Holding BV	(The Netherlands)
Applera Finance BV	(The Netherlands)
Nelson Analytical GmbH	(Germany)
Applera Europe BV	(The Netherlands)
Applied Biosystems Holdings Limited	(UK)
Applied Biosystems Ltd	(UK)
PE (GB) Ltd.	(UK)
Applera Polska Sp.zo.o.	(Poland)
Applera Magyarorszag Kft (2)	(Hungary)
Applera Ceska republic s.r.o.	(Czech Republic)
Spartan Ltd. (3)	(Channel Isles)
Listronagh Company (4)	(Ireland)
Applied Biosystems Asia Pte. Ltd.	(Singapore)
Applied Biosystems Malaysia Sdn. Bhd.	(Malaysia)
Applera Holding GmbH	(Germany)
Applera South Africa (PTY) Limited	(South Africa)
PE Manufacturing GmbH (5)	(Germany)
Applied Biosystems Manufacturing GmbH	(Germany)
BSW Wohnstatten GmbH	(Germany)
Applera Austria Handels GmbH	(Austria)
Applied Biosystems Hong Kong, Ltd.	(Hong Kong)
Applied Biosystems do Brasil Ltda.	(Brazil)
ZAO PE Biosystems (6)	(Russia)
Applied Biosystems Korea LLC (7)	(Korea)
Applied Biosystems Taiwan Corporation	(Delaware, USA)
Applied Biosystems de Mexico S. de R.L. de C.V.	(Mexico)
Applera Insurance Company Limited	(Bermuda)
PE FSC, Inc.	(U.S.Virgin Islands)
Applera Hispania SA	(Spain)
Applera International, Inc.	(Delaware, USA)
PE Korea Corporation	(Delaware, USA)
Applied Biosystems China, Inc.	(Delaware, USA)
GenScope, Inc.	(Delaware, USA)
PerSeptive Biosystems, Inc.	(Delaware, USA)
Applera Deutschland GmbH	(Germany)
Applied Biosystems Japan, Ltd.	(Japan)

Name	State or Jurisdiction of Incorporation or Organization
PerSeptive Biosystems (Canada) Ltd.	(Canada)
PNA Diagnostics ApS	(Denmark)
Boston Probes, Inc. (8)	(Delaware, USA)
Paracel, Inc.	(California, USA)
Paracel Government Systems, Inc.	(Delaware, USA)
Axys Pharmaceuticals, Inc.	(Delaware, USA)
Axys 468 Littlefield LLC	(California, USA)
Foster City Holdings, LLC	(Delaware, USA)
Celera Diagnostics, LLC (9)	(Delaware, USA)
Rockville Holdings, LLC	(Delaware, USA)
Celera Diagnostics, LLC (9)	(Delaware, USA)

Note: Entities directly owned by subsidiaries of Applera Corporation are indented and listed below their immediate parent. Ownership is 100% unless otherwise indicated.

(1) 50.0% ownership.

(2) 90.0% owned by Applera Holding BV, 10.0% by Applera Finance BV (indirectly wholly owned by Applera Corporation).

(3) 51.0% ownership by Applera Overseas Corporation, and 49.0% by Applera Europe BV (indirectly wholly owned by Applera Corporation).

(4) 25.0% owned by PE (Sweden) AB, 18.2% by Applera Holding BV, 55.8% by Spartan Ltd, and 1.0% by Applera Overseas Corporation (indirectly wholly owned by Applera Corporation).

(5) 98.8% owned by Applera Holding GmbH, .5% by Applera Overseas Corporation, and .7% by Listronagh Company (indirectly wholly owned by Applera Corporation).

(6) 0.1% owned by Applera Corporation, 99.9% by Applera Overseas Corporation (directly and indirectly, in the aggregate, wholly owned by Applera Corporation).

(7) 20.0% owned by Applera Corporation, and 80.0% by Applera Overseas Corporation (directly and indirectly, in the aggregate, wholly owned by Applera Corporation).

(8) 84.9% owned by Applera Corporation, and 15.1% by PNA Diagnostics ApS (directly and indirectly, in the aggregate, wholly owned by Applera Corporation).

(9) 50.0% owned by Foster City Holdings, LLC and 50.0% owned by Rockville Holdings, LLC (indirectly wholly owned by Applera Corporation).

Applera Corporation conducts its business through its Applied Biosystems Group, its Celera Genomics Group, and its Celera Diagnostics joint venture between these two groups. Applera Corporation and its direct and indirect wholly owned subsidiaries conduct business under the names of these businesses and variants thereof. In addition, Boston Probes, Inc., Paracel, Inc., and Axys Pharmaceuticals, Inc. may from time to time conduct business under their respective corporate names and variants thereof.

Applied Biosystems/MDS SCIEX Instruments conducts business under its business name and variants thereof.

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-39549, 333-92225, and 333-72858) and Form S-8 (Nos. 33-50847, 33-50849, 333-15189, 333-15259, 333-38713, 333-38881, 333-42683, 333-68147, 333-82679, 333-82677, 333-91771, 333-91951, 333-91955, 333-35080, 333-51644, 333-51648, 333-73980, 333-74252, 333-74254, 333-101542, 333-101844, 333-101846, and 333-102063) of Applera Corporation of our report dated July 28, 2004 relating to the consolidated financial statements, which appears in the Annual Report to Stockholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated July 28, 2004 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP

Stamford, Connecticut
September 9, 2004

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/15d-14(a),
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Tony L. White, certify that:

1. I have reviewed this annual report on Form 10-K of Applera Corporation;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

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

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   (b) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: September 9, 2004

/s/ Tony L. White

Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/15d-14(a),
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Dennis L. Winger, certify that:

1. I have reviewed this annual report on Form 10-K of Applera Corporation;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

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

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   (b) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: September 9, 2004

/s/ Dennis L. Winger

Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Applera Corporation (the "Company") on Form 10-K for the fiscal year ended June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tony L. White, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Tony L. White
Chief Executive Officer

Date: September 9, 2004

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Applera Corporation (the "Company") on Form 10-K for the fiscal year ended June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dennis L. Winger, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Dennis L. Winger

Chief Financial Officer

Date: September 9, 2004