

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

**APPLERA CORP**

CIK: **77551** | IRS No.: **061534213** | State of Incorporation: **DE** | Fiscal Year End: **0630**  
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SIC: **3826** Laboratory analytical instruments

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

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**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, 2005**

**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

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**Applera Corporation**

(Exact name of registrant as specified in its charter)

**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

**06-1534213**  
(I.R.S. Employer Identification No.)

**301 Merritt 7, Norwalk, Connecticut**  
(Address of principal executive offices)

**06851-1070**  
(Zip Code)

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of December 31, 2004, 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 \$4,106,530,516, 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 \$1,016,061,100. As of August 19, 2005, 195,335,563 shares of Applera Corporation-Applied Biosystems Group Common Stock and 74,472,343 shares of Applera Corporation-Celera Genomics Group Common Stock were outstanding.

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**DOCUMENTS INCORPORATED BY REFERENCE**

**Annual Report to Stockholders for Fiscal Year ended June 30, 2005 - Parts I, II, and IV.  
Proxy Statement for 2005 Annual Meeting of Stockholders - Part III.**

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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 products and services 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 also serve the needs of some markets outside of life science research, which we refer to as “applied markets,” such as the fields of: forensic testing and human identification; “biosecurity,” which refers to products needed in response to the threat of biological terrorism and other malicious, accidental, and natural biological dangers; and food and environmental testing. A description of this business segment and developments during our 2005 fiscal year is set forth below in this Item 1 under the heading “Business- 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 2005 fiscal year is set forth below in this Item 1 under the heading “Business- 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 2005 fiscal year is set forth below in this Item 1 under the heading “Business- 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 heading “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 shared 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 Genomics stock.”

More information about Applera-Applied Biosystems stock and Applera-Celera Genomics stock is set forth below in Item 5 of Part II of this report under the heading “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 common stock is set forth below in Item 5 of Part II of this report under the heading “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities- Forward-Looking Statements and Risk Factors- Risks Relating to a Capital Structure with Two Separate Classes of Common Stock.”

### ***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 our Applera, Applied Biosystems, and Celera Genomics 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.

The following table indicates how to access the documents described above on our Applera, Applied Biosystems, and Celera Genomics websites. 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.

<b>Website Addresses:</b>	<p>www.applera.com www.appliedbiosystems.com www.celera.com</p>
<b>SEC Filings:</b>	<p>Click on the link to “SEC Filings” in the “Investors &amp; Media” or “Investors” section, as applicable, of the website, and then click again on the link to “SEC Filings.”</p>
<b>“Insider Transaction” Reports:</b>	<p>Click on the link to “SEC Filings” in the “Investors &amp; Media” or “Investors” section of the website, as applicable, and then click again on the link to “SEC Insider Filings.”</p>
<b>Corporate Governance Information:</b>	<p>Click on the link to “Corporate Governance” in the “Corporate” section of the Applera website. Click on the link to “Corporate Governance” in the “Investors &amp; Media” or “Investors” section, as applicable, of the Applied Biosystems or Celera Genomics websites.</p>

Except for any 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 2005 fiscal year, which we refer to in this report as our “2005 Annual Report”; and
- our Proxy Statement relating to our Annual Meeting of Stockholders to be held on October 20, 2005, which we refer to in this report as our “2005 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 2005 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 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 30,000. 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 life science 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 products and services 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 and services 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 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; and agriculture research. Applied Biosystems' products also serve the needs of some markets outside of life science research, which we refer to as "applied markets," such as the fields of: forensic testing and human identification; "biosecurity," which refers to products needed in response to the threat of biological terrorism and other malicious, accidental, and natural biological dangers; and food and environmental testing.

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 was to identify opportunities for growth, increased profitability, and shareholder value creation. The project, which was conducted in three phases, was completed during the first half of our 2005 fiscal year, and Applied Biosystems has been formally integrating the output from the review into its strategic and business development planning process. The first phase included a rigorous fact-based analysis of Applied Biosystems' current product portfolio, and an evaluation of research and development investments in an attempt to achieve optimum alignment with future growth opportunities. This has led to changes in, and may in the future result in further changes in, Applied Biosystems' product and business mix and research and development programs. The second phase included an examination of Applied Biosystems' business processes with a goal of improving operational efficiency and productivity. As a result, Applied Biosystems implemented the organizational restructuring described in the next paragraph. In the third phase, Applied Biosystems sought to identify and analyze additional internal and external growth opportunities.

During the first half of our 2005 fiscal year, Applied Biosystems completed the implementation of a new organization structure which resulted from the strategic review described in the preceding paragraph. The new structure created the following four business divisions, each led by a division President: Molecular Biology; Proteomics and Small Molecules; Applied Markets; and Services and Solutions. Applied Biosystems believes these integrated and fully-functioning divisions have the resources necessary to execute their business plans, including strategic planning, research and development, marketing, and sales professionals. The four new business divisions are 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.

Subsequent to the implementation of this new organization structure, in June 2005, Applied Biosystems announced a reduction and rebalancing of its workforce. Applied Biosystems terminated about 250 positions, primarily in research and development, marketing, and operations. However, during our 2006 year, Applied Biosystems anticipates expanding personnel in other functional areas including field sales and support, manufacturing quality, and advanced research. Applied Biosystems took this action to better align its resources with the needs of its customers and to improve operational efficiency and quality.

Also, in August 2004, Michael W. Hunkapiller, Ph.D., retired as Senior Vice President and President, Applied Biosystems Group. At the same time, Catherine M. Burzik, formerly a Vice President of Applera and Executive Vice President and Chief Operating Officer of Applied Biosystems, was promoted to the position left by Dr. Hunkapiller.

For information on revenues from instruments and consumables for our 2003, 2004, and 2005 fiscal years, refer to pages 36 and 38 of Management's Discussion and Analysis in our 2005 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, known as real-time PCR systems, and reagents, disposables, and software necessary for the PCR amplification and detection process.

The following table lists the thermal cyclers offered by Applied Biosystems:

<b>Instrument</b>	<b>Capacity</b>
9800 Fast PCR System	96 well
GeneAmp® PCR System 9700 Thermal Cyclers	60, 96, Dual 96, and Dual 384 well
Applied Biosystems 2720 Thermal Cycler	96 well

Technologically, these instruments are distinguished primarily based on their capacity for simultaneously processing multiple samples, determined based on the number of consumable "wells" that can be accommodated, and the speed at which the thermal cycling process is completed. The model 9800 instrument is the most recent addition to this product line. Applied Biosystems began sales and marketing of this instrument in October 2004. This instrument is the

most advanced thermal cycler offered by Applied Biosystems, and can complete the thermal cycling process substantially faster than other instruments offered by Applied Biosystems and other commercial vendors of these types of instruments.

Applied Biosystems' real-time PCR systems, which it previously referred to as "sequence detection systems," include the following instruments:

<b>Instrument</b>	<b>Capacity/Speed</b>
Applied Biosystems 7900HT Real-Time PCR System	96 or 384 well/Available as Fast 96 well
Applied Biosystems 7500 Real-Time PCR System	96 well/Available as Fast
Applied Biosystems 7300 Real-Time PCR System	96 well
ABI PRISM 7000 Sequence Detection System	Dual 384 well

All of these real-time PCR instruments are enhanced versions of Applied Biosystems' thermal cyclers, which are described above. However, unlike a general PCR instrument, which is used only to amplify a sample, these instruments are used to detect and for some applications quantify a sample during the PCR amplification process for purposes of conducting, for example, genotyping or gene expression analysis. Technologically, these instruments are distinguished based on their capacity for simultaneously processing multiple samples, determined based on the number of consumable "wells" that can be accommodated, the speed at which the detection and quantification process is completed and the level of automation, and the applications for which the instruments can be used. The model 7900HT Fast system and the model 7500 Fast system are the most recent additions to this product line. Applied Biosystems began sales and marketing of the model 7900HT Fast system in October 2004, and for the model 7500 Fast system in January 2005. These instruments are the most advanced real-time PCR systems offered by Applied Biosystems, and can complete the detection and quantification process substantially faster than other instruments offered by Applied Biosystems and other commercial vendors of these types of instruments. The model 7900HT systems incorporate robotics to enable large-scale gene expression and genotyping studies.

Generally, the PCR and real-time PCR product lines are designed to offer instruments suitable for use by a wide range of users, from the individual researchers to research laboratories conducting high-volume research. 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. The model 7000 Sequence Detection System is an older real-time PCR system that was the precursor to the model 7300 and 7500 real-time PCR 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.

Applied Biosystems' PCR product line also includes reagents and disposables for use in the PCR process. PCR reagents include specialized enzymes to enable the PCR amplification process. Enzymes represent a class of proteins which activate biological processes. PCR enzymes are optimized to efficiently make copies of a segment of DNA while exposed to the high temperatures required by the PCR process. Applied Biosystems offers a range of products containing these PCR enzymes. These include products for use in general PCR, as well as special formulations designed for real-time PCR applications. Disposables include plastic devices which are used to hold DNA samples and PCR reagents throughout the PCR amplification process. A number of different disposable devices are available for use with the full range of PCR and real-time PCR instruments offered by Applied Biosystems.

Applied Biosystems' real-time PCR systems enable TaqMan<sup>®</sup> chemistry, a unique PCR technology that can be used both for measurement of gene expression and for genotyping. TaqMan gene expression chemistry detects the product of PCR amplification and quantifies the amount of the target gene sequence present in the 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 scientific 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 heading "Business- Applied Biosystems Group Business- Products for the Genomics Market- Genomic Assays."

Applied Biosystems' real-time PCR systems product line also includes its ABI PRISM<sup>™</sup> 6100 Nucleic Acid PrepStation for sample preparation. 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 such as proteins, can then be analyzed in instruments largely without interference from those other molecules. 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 offers a proprietary TaqMan Low Density Array, 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 plastic trays with sample wells generically referred to as 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 heading "Business- 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 or sequencers, 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. Genetic analysis 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. With the completion of human genome sequencing and the completion of the sequencing of other important genomes, Applied Biosystems believes that researchers are transitioning to performing an increasing amount of resequencing, which is also referred to by some researchers as medical sequencing or directed resequencing. Resequencing involves the sequencing of a selected segment or segments of a genome, such as a pre-selected set of genes, in one or more organisms after a reference genome for that organism has been determined. The DNA sequence information of these

organisms is then compared to the 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. This may be particularly true with a disease such as cancer, which scientists are finding to be associated with a large number of unique DNA mutations that may not be identified using commercially-available genotyping tools, including those offered by Applied Biosystems.

Applied Biosystems' genetic analysis instruments use a process referred to as electrophoresis to analyze DNA molecules. During electrophoresis, the DNA 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 electrophoresis, with each of the four different nucleotides of the DNA molecule - A, C, G, and T - being labeled with a different color tag. During electrophoresis, the genetic analysis instrument analyzes the molecules by directing a laser beam at them and then "reading" the fluorescent tags with an optical device that can detect the light that is emitted by the 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:

<b>Instrument</b>	<b>Capacity</b>
Applied Biosystems 3730 <i>xl</i> DNA Analyzer	96 capillaries
Applied Biosystems 3730 DNA Analyzer	48 capillaries
ABI PRISM <sup>®</sup> 3130 <i>xl</i> Genetic Analyzer	16 capillaries
ABI PRISM <sup>®</sup> 3130 Genetic Analyzer	4 capillaries
ABI PRISM <sup>®</sup> 310 Genetic Analyzer	1 capillary

The model 3730*xl*, 3730, 3130*xl*, and 3130 instruments all incorporate advanced sequencing technology that Applied Biosystems believes represents the leading industry standard for high-throughput sequencing. The model 3130*xl* and model 3130 instruments are the most recent additions to this product line, and were introduced for use by low- to medium- throughput laboratories to supersede the previously-marketed ABI PRISM<sup>®</sup> 3100 Genetic Analyzer and ABI PRISM<sup>®</sup> 3100-*Avant* Genetic Analyzer. Applied Biosystems began sales and marketing of these new instruments in November 2004. These instruments were designed to deliver enhanced automation, faster turnaround times, higher reliability, and higher data quality than previous generation technologies incorporated in the predecessor instruments.

Applied Biosystems provides servicing and customer support for all of these instruments. Applied Biosystems also provides servicing and support for the model 3100 and 3100-*Avant* instruments, which were phased out of production during our 2005 fiscal year with the introduction of the model 3130*xl* and 3130 instruments, and also for the model 3700 DNA Analyzer and the ABI PRISM 377 DNA Sequencer, both of which were discontinued in prior fiscal years but which are still used by some researchers. The model 3700 DNA Analyzer was the precursor to the model 3730*xl* 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 was also the principal instrument used by the Human Genome Project for its sequencing projects. The ABI PRISM 377 DNA Sequencer is the last of Applied Biosystems' instruments to use slab-gel technology.

Applied Biosystems believes that the growing importance of DNA resequencing to disease research, as described above, will be a significant factor in the continuing demand for its sequencing instruments and consumable products. Applied Biosystems has therefore developed the VariantSEQr™ Resequencing System, a product for detecting variants in 274 human genes. Applied Biosystems believes that the VariantSEQr system enables 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 VariantSEQr system integrates reagents and software for use on the Applied Biosystems 3730, 3730xI, 3130, and 3130xI genetic analysis instruments.

Applied Biosystems also offers 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, which can be used with the Applied Biosystems 3730 and 3730xI DNA Analyzers, customers can perform studies based on their own customized set of reference SNPs. Applied Biosystems developed this system as an alternative to the PCR-based genotyping that can be performed using Applied Biosystems' real-time PCR instrument systems. The suitability of this system for any particular researcher or research project compared to PCR-based genotyping depends on several factors, including the type of study being performed, scientific requirements, access to the needed instrumentation, and cost considerations.

*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, sometimes referred to as "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

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TaqMan<sup>®</sup> Gene Expression Assays

## Description

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Ready-made gene expression assays that can be ordered from Applied Biosystems' inventory

TaqMan<sup>®</sup> Pre-Designed Gene Expression Assays

Pre-designed gene expression assays that can be made to order

Custom TaqMan<sup>®</sup> Gene Expression Assays

Service for the manufacture of custom TaqMan chemistry-based gene expression assays based on targets supplied by researchers

## SNP Genotyping Assays

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## Description

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TaqMan<sup>®</sup> SNP Genotyping Assays

Ready-made SNP genotyping assays that can be ordered from Applied Biosystems' inventory

TaqMan<sup>®</sup> Pre-Designed SNP Genotyping Assays

Pre-designed SNP genotyping assays that can be made to order

TaqMan<sup>®</sup> 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<sup>®</sup> 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 approximately 2.3 million human SNP genotyping assays, 200,000 gene expression assays for the human genome, and 300,000 gene expression assays for the 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. Also, in May 2005 Applied Biosystems expanded this product line and commenced sales and marketing of Pre-Designed TaqMan Gene Expression Assays for two additional scientifically important model organisms, the Arabidopsis plant and the Drosophila fruit fly. Arabidopsis is a standard model genome used in plant science and agricultural studies, and Drosophila is a model for studying developmental biology with numerous potential implications for human disease research. The new assays include approximately 38,000 gene expression assays for the Drosophila genome, and approximately 95,000 gene expression assays for the Arabidopsis genome.

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 of the human, mouse, and rat genomes. 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 other 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.

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 the expression of a large number of genes in a sample in parallel. 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 other commercially-available microarray systems.

In January 2005, Applied Biosystems released an updated version of its human genome microarray for use with the Expression Array System. The updated human genome microarray can be used to analyze the expression of approximately 29,000 genes, which Applied Biosystems believes includes more than 8,000 genes not covered by any similar commercially-available gene expression microarray system. Also, in December 2004, Applied Biosystems commenced commercial sales of whole genome expression arrays for the rat genome, complementing the arrays for the mouse genome that it had begun marketing during our 2004 fiscal year.

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 using TaqMan<sup>®</sup> gene expression assays.

*DNA Synthesis.* DNA synthesizers produce synthetic single-stranded pieces of DNA for genetic analysis. These molecules, referred to as oligonucleotides or sometimes 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 2005 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 “carbohydrate 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 sensitive electronics of mass spectrometry instruments can measure fine differences in very small quantities of complex samples having multiple components. Mass spectrometry instruments incorporate the following key technological processes:

- 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 instruments 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, which are 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 50/50 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 been the exclusive worldwide distributor of LC/MS systems manufactured for the joint venture by the MDS SCIEX Division of MDS Inc. for the analytical instruments market. During our 2005 fiscal year, Applied Biosystems and MDS Inc. expanded the scope of their Applied Biosystems/MDS SCIEX Instruments joint venture. As part of the transaction, which was completed in October 2004, Applied Biosystems sold MDS a 50 percent interest in intellectual property assets related to Applied Biosystems’ MALDI TOF mass spectrometry systems and next-generation products then under development, together with a 100 percent interest in some MALDI TOF product-related manufacturing and research and development assets. Subsequent to the sale, the parties each contributed their MALDI TOF and related intellectual property to the joint venture. In exchange, Applied Biosystems received \$8 million in cash and a \$30 million promissory note, which is payable in five annual installments beginning in October 2006. 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, and the joint venture agreement was amended so that Applied Biosystems’

exclusive worldwide distribution rights now also include MALDI TOF products. MDS, through its MDS Sciex Division, as part of its responsibilities to the joint venture, has assumed substantially all research and development as well as primary manufacturing responsibility for MALDI TOF product lines.

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

<b>Instrument Name</b>	<b>Ionization</b>	<b>Mass Analyzer</b>
Voyager™-DE PRO Biospectrometry Workstation	MALDI	TOF
Voyager™-DE STR Biospectrometry Workstation	MALDI	TOF
4800 MALDI TOF/TOF™ Analyzer	MALDI	TOF/TOF™ Optics
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)
4000 Q TRAP® LC/MS/MS System	ESI	Hybrid quad/linear ion trap
3200 Q TRAP® LC/MS/MS System	ESI	Hybrid quad/linear ion trap

Technologically, these instruments are distinguished based on their: sensitivity, or ability to identify very small quantities of molecules within a sample; resolution, or ability to distinguish among several different types of molecules within a complex sample; mass accuracy, or ability to accurately quantify or determine the mass of the molecules being studied; and overall ease of use. The 4800 MALDI TOF/TOF Analyzer and the 3200 Q TRAP LC/MS/MS System are the most recent additions to this product line. Applied Biosystems began sales and marketing of the 4800 MALDI TOF/TOF Analyzer in May 2005, and for the 3200 Q TRAP LC/MS/MS Systems in April 2005. The 4800 MALDI TOF/TOF Analyzer is the first MALDI TOF instrument introduced under the Applied Biosystems/MDS Sciex Instruments joint venture subsequent to its expansion as described above. The 4800 MALDI TOF/TOF Analyzer includes innovative new optics and electronics that give the instrument 10 times the sensitivity of the 4700 Proteomics Discovery System, which had previously been the most sensitive mass spectrometry TOF/TOF system offered for this market by Applied Biosystems. Applied Biosystems believes that this improved performance may enable the identification and quantification of low abundance proteins in complex samples that previously could not be identified and quantified. The 3200 Q TRAP system was introduced to replace the Q TRAP LC/MS/MS System, which was phased out of production during the 2005 fiscal year. The 3200 Q TRAP system offers improved sensitivity over its predecessor, and is marketed as a more affordable alternative to the more technologically advanced 4000 Q TRAP LC/MS/MS System.

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 ICAT® and iTRAQ™ reagents. Researchers use the ICAT chemistry to “tag” or affix 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. Researchers use the iTRAQ reagents to 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 the iTRAQ 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. In June 2005, Applied Biosystems entered into a marketing and sales alliance agreement with Invitrogen Corporation. Pursuant to the alliance agreement, the two companies agreed to jointly market a suite of labeling technologies offered by them, including the ICAT and iTRAQ reagents. Applied Biosystems believes that the broader marketing of the reagents resulting from the alliance may increase the use of ICAT and iTRAQ reagents.

*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<sup>®</sup> 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<sup>®</sup> 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;
- drug 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 for studying small molecules is also important in the fields of human forensic and toxicology testing. Forensic testing involves the study of deceased individuals to determine their cause of death. The presence or absence of particular molecules may be an indication of cause of death. Toxicology testing involves the detection of substances such as drugs of abuse or prescription drugs in samples. For this application, laboratories need instruments that can be used to perform kinetic testing, which is the measurement of the relative amounts of different molecules in the body.

Also, mass spectrometry instruments are growing in importance in applications such as food, beverage, and environmental testing. 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.

The Applied Biosystems/MDS SCIEX Instruments joint venture offers the following broad product line of mass spectrometry instruments for small molecule and pharmacokinetics researchers, including for the applications described above:

<b>Instrument Name</b>	<b>Ionization</b>	<b>Mass Analyzer</b>
API 5000™ LC/MS/MS System	ESI	Triple quad
API 4000™ LC/MS/MS System	ESI	Triple quad
API 3200™ LC/MS/MS System	ESI	Triple quad
API 2000™ 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)
4000 Q TRAP® LC/MS/MS System	ESI	Hybrid quad/linear ion trap
3200 Q TRAP® LC/MS/MS System	ESI	Hybrid quad/linear ion trap

Technologically, these instruments are distinguished based on their: sensitivity, or ability to identify very small quantities of molecules within a sample; resolution, or ability to distinguish among several different types of molecules within a complex sample; mass accuracy, or ability to accurately quantify or determine the mass of the molecules being studied; throughput; and overall ease of use. 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 heading “Business- Applied Biosystems Group Business- Products for the Proteomics Market- Mass Spectrometry.”

The API 5000 system, API 3200 system, and 3200 Q TRAP system are the most recent additions to this product line. Applied Biosystems began sales and marketing of the API 5000 system in January 2005, and for the API 3200 and 3200 Q TRAP systems in April 2005. The API product line instruments offer a range of sensitivity at varying costs, the API 5000 system being the most sensitive. This product line has been widely accepted by pharmaceutical researchers, and we believe the API 5000 system is the most sensitive triple quad mass spectrometry instrument currently available to this research market. The API 3200 system was introduced to replace the API 3000 LC/MS/MS System, which Applied Biosystems expects to phase out of production during the 2006 fiscal year. The API 3200 system offers improved sensitivity for some applications over its predecessor in a smaller, easier to use design. The 3200 Q TRAP system was introduced to replace the Q TRAP LC/MS/MS System, which was phased out of production during the 2005 fiscal year. The 3200 Q TRAP system offers improved sensitivity over its predecessor, and is marketed as a more affordable alternative to the more technologically advanced 4000 Q TRAP system.

### ***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 within and between 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, which was completed in September 2004.

### ***Applied Genetic Analysis Products***

During our 2005 fiscal year, Applied Biosystems established an Applied Markets division focused exclusively on developing and marketing products for use in some markets outside of life science research, which we refer to as "applied markets." This division is one of the four principal integrated business divisions within Applied Biosystems that was formed as part of a new organizational structure that was implemented during the 2005 fiscal year. Applied Biosystems offers several products that it has designed for use in specific applied markets. The current focus of these products, which are discussed below in further detail, is in the areas of forensic testing and human identification, biosecurity, and environmental and food testing. Applied Biosystems believes that there is an opportunity to leverage its experience and success in forensic testing and human identification into other applied markets. In addition, some applied markets applications require instrument platforms such as Applied Biosystems' real-time PCR systems and mass spectrometry systems, and accordingly the marketing of these systems for use in applied markets is within the focus of the Applied Markets division.

*Forensic Testing and Human Identification.* Applied Biosystems develops systems that are used to identify individuals based on their DNA, commonly referred to as forensic analysis. Forensic analysis is often used, for example, in criminal investigations, to identify human remains, and for paternity testing. Applied Biosystems offers an extensive product line addressing key needs for this application, and the product line has been widely accepted by investigators and laboratories performing 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. Many jurisdictions in the U.S. and in Europe have passed legislation creating mandated DNA

databasing of, for example, individuals that are arrested and/or convicted of crimes. The growing recognition of the validity of the use of DNA in criminal matters is also evidenced by the increasing use of DNA analysis to exonerate individuals previously convicted of crimes by testing archived evidence.

Applied Biosystems' forensic testing product line includes a 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.

In December 2004, Applied Biosystems began sales and marketing of the AmpFLSTR<sup>®</sup>Yfiler<sup>™</sup> PCR Amplification Kit, a new forensic identification kit that enables forensic scientists to detect low levels of male DNA in the presence of large amounts of female DNA, a situation routinely encountered in cases of sexual assault. Identifying, segregating, and analyzing male DNA in cases involving complex evidence containing mixtures of male and female DNA has been a significant challenge for forensic analysts. The sensitivity and specificity of this new kit provides an additional tool for the analysis of these types of complex evidence.

*Quality and Safety Testing.* Applied Biosystems has developed technologies for bacterial and fungal detection, characterization, and identification. It offers the MicroSeq<sup>®</sup> Microbial Identification System to accurately identify microorganisms. It also offers TaqMan<sup>®</sup> 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.

*Biosecurity.* Applied Biosystems believes the need for products in response to the threat of biological terrorism and other malicious, accidental, and natural biological dangers, often referred to as "biothreat" or "biosecurity" products, represents a significant opportunity for the marketing of new products and services for surveillance and detection of threats. Heightened awareness of biological terrorism, combined with outbreaks of emerging infectious diseases, have caused the U.S. government to substantially increase funding in this area. Applied Biosystems has entered into contracts to manufacture biosecurity products which it believes have resulted from biothreat concerns and this increased governmental funding. For example, through a collaboration with Cepheid, Applied Biosystems provides reagents used in assays for the detection of several infectious diseases for use in U.S. Postal Service Biohazard Detection Systems. Applied Biosystems intends to develop or manufacture other products for this market using TaqMan<sup>®</sup>-based real-time PCR technology.

### ***Informatics Products and Services***

Applied Biosystems develops, markets, and distributes informatics software and services used to integrate and automate 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. In September 2004, Applied Biosystems began sales and marketing of its LS\*LIMS™ Software, a new workflow management and process automation solution designed to increase productivity, improve data quality, and integrate data from many different sources for genomics and proteomics laboratories. Also in September 2004, Applied Biosystems began sales and marketing of its SQL\*LIMS 5, an enterprise software system for use in managing quality assurance and quality control by manufacturers of pharmaceuticals and related products, and for use by companies in other industries requiring systems for the management of process and control such as food and beverage manufacturing, water treatment, and nuclear waste management. In April 2005, Applied Biosystems announced the introduction of a Forensics Toolkit, a software product for the management of crime scene DNA evidence. The Toolkit, which has not yet been commercially launched, was designed for tracking DNA evidence through its chain of custody, from initial discovery at a crime scene to the laboratory, to enable law enforcement personnel to maintain and document the integrity of DNA evidence as is required for admissibility in legal proceedings.

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 process-oriented 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, where required for the particular equipment, as well as 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; and agriculture research. Applied Biosystems products also serve the needs of some markets outside of life science research, which we refer to as "applied markets," such as the fields of: forensic testing and human identification; "biosecurity," which refers to products needed in response to the threat of biological terrorism and other malicious, accidental, and natural biological dangers; and food and environmental testing. Each of these markets has unique requirements and expectations that Applied Biosystems seeks to address in its product and service 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 but not limited to:

- technological innovation in methods for analyzing biological data;
- government funding for basic and disease-related research, such as in heart disease, AIDS, and cancer;
- research and development spending by biotechnology and pharmaceutical companies;
- awareness of biological contamination in food and the environment;
- governmental response to the threat of biological terrorism and other malicious, accidental, and natural biological dangers, including efforts to develop surveillance and detection capabilities; and
- application of biotechnology to basic agricultural processes.

In the U.S., Applied Biosystems markets almost all of its products and services directly through its own sales and distribution organizations, although some products and services are marketed through independent distributors. Similarly, in major markets outside of the U.S., Applied Biosystems generally markets its products and services directly through its own sales and distribution organizations, although some products and services are marketed 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.* Applied Biosystems has established an electronic commerce, or "e-commerce," Internet web site which Applied Biosystems refers to as the "Applied Biosystems Portal." The Applied Biosystems Portal is located on the Internet at [www.appliedbiosystems.com](http://www.appliedbiosystems.com). Applied Biosystems uses the Portal to market its full range of products and services. Many products are also available for purchase online directly through the Portal, including TaqMan<sup>®</sup> Gene Expression and SNP Genotyping Assays, TaqMan<sup>®</sup> Low Density Arrays, the SNPlex<sup>™</sup> Genotyping System, the VariantSeq<sup>™</sup> Resequencing System, and many other consumable products. Users of the Portal can access search tools and graphical viewers intended to help scientists plan their experiments and purchase corresponding Applied Biosystems products.

The Applied Biosystems Portal has become a growing source of direct sales since our 2003 fiscal year, when Applied Biosystems made the decision to use the Internet as a direct source of sales. However, during our 2005 fiscal year, Applied Biosystems engaged an international consulting firm to develop a new enhanced and redesigned Portal that would replace the existing Portal, and to operate, maintain, and support the new Portal. Applied Biosystems believes that the new Portal is necessary for the further growth of sales through the Internet consistent with Applied Biosystems' expectations. The first phase of the new Portal

implementation is scheduled for completion during our 2006 fiscal year. Applied Biosystems expects that the new Portal, as compared to the existing Portal, will among other things: be easier to use because it will have an improved graphical interface; and have enhanced performance and less “down time” during which it will be unavailable to users as a result of upgraded infrastructure technology. Applied Biosystems may continue the engagement of the consulting firm to further develop its new Portal subsequent to the completion of this first phase of the project.

### ***Marketing and Distribution Agreement with Celera Genomics***

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 genomic and other biological and medical information. As a result of this arrangement, Applied Biosystems integrated the Celera Discovery System and other genomic and biological information into its product offerings.

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, when exclusivity commenced under the agreement, through the end of our 2012 fiscal year. The royalty rate, as originally approved by our Board of Directors, was progressive, up to a maximum of 5%, with the level of sales through our 2008 fiscal year. The royalty rate became a fixed percentage of sales starting in our 2009 fiscal year, and the rate declined each succeeding fiscal year through our 2012 fiscal year. For our 2005 fiscal year, the royalty rate was 3%. The products subject to the royalties generally include some reagents, referred to as “probes” and “primers,” and arrays developed with reference to the genomic and biological information accessed by Applied Biosystems under the marketing and distribution agreement. As a result, current products that generate royalties include Applied Biosystems’ TaqMan® assays, SNPlex™ Genotyping System probes, VariantSEQR™ Resequencing System, arrays used with the Expression Array System, and TaqMan Low Density Arrays.

Based upon review by our Board of Directors of past performance, current business conditions, and future expectations with respect to the marketing and distribution agreement, as compared to original expectations, the Board approved the following amendments to the agreement, effective February 4, 2005. The Board took this action consistent with its authority under the agreement and its responsibility to monitor the performance of the groups thereunder.

- The term of the agreement was extended from ten to 15 years, so that the term now runs through the end of our 2017 fiscal year.
- The royalty rate was modified such that (i) for prior fiscal years and our 2005 fiscal year, the rate applied was as described above, but (ii) beginning in our 2006 fiscal year, the royalty rate will be fixed at 4% through the remaining term of the agreement.

In April 2005, Celera Genomics announced its intention to substantially discontinue the operations of its information products and services business, including the Celera Discovery System, effective June 30, 2005, concurrent with the expiration of substantially all of its outstanding contractual obligations to its customers of these products and services. Pursuant to

the marketing and distribution agreement, Celera Genomics has been responsible for the performance of its obligations under all contracts relating to its information products and services existing on June 30, 2002 (including some renewals of these contracts) and was entitled to receive all revenues and other benefits under, and was responsible for all costs and expenses associated with, those contracts. In July 2005, some of Celera Genomics' biological data, including some data previously available only to subscribers of the Celera Discovery System, was deposited into public data repositories. The deposited data included substantially all of Celera Genomics' raw genomic sequence information for human, mouse, and rat, and also human and mouse SNP data, but did not include any of the data described below in Item 1 of this report under the heading "Business- Celera Genomics Initiative."

Applied Biosystems agreed, subject to some conditions specified in the marketing and distribution agreement, to reimburse Celera Genomics for any shortfall in earnings before interest, taxes, depreciation, and amortization from the contracts described in the immediately preceding paragraph during the four fiscal years ending with our 2006 fiscal year below \$62.5 million. As of the end of our 2005 fiscal year, the obligations under this reimbursement provision had been fully satisfied. Celera Genomics will continue to receive royalties on sales of some products sold by Applied Biosystems under the marketing and distribution agreement as described above, but otherwise does not expect to receive any further significant revenue from its discontinued products and services business. Under the marketing and distribution agreement, Celera Discovery System database subscriptions were covered by the royalty provisions, but Applied Biosystems discontinued this product as of the end of our 2005 fiscal year.

### ***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***

*General.* 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 most important to its current business are described below.

Applied Biosystems is currently, and could in the future be, subject to lawsuits, arbitrations, investigations, and other legal actions with private parties and governmental entities, particularly involving claims for infringement of patents and other intellectual property rights.

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. More information about the risk factors associated with Applied Biosystems' reliance on intellectual property is set forth below in Item 5 of Part II of this report under the heading "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities- Forward-Looking Statements and Risk Factors- Factors Relating to Applied Biosystems."

*PCR and Real-Time PCR Reagents; PCR and Real-Time PCR Methods.* Applied Biosystems derives some rights to PCR technology under a series of agreements with Hoffmann-La Roche Inc. and its affiliates, which we refer to below collectively as "Roche", which owns 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 expired in March 2005 in the U.S., and will expire in March 2006 in Europe and some other jurisdictions. As further discussed in the following paragraph, Applied Biosystems believes that reduced PCR royalties resulting from the expiration of these patents should be offset to a substantial degree by income from real-time PCR and other PCR-related technologies that it owns or licenses.

The agreements with Roche, and Applied Biosystems' and Roche's rights to and commercialization of PCR technology, were previously the subject of litigation and arbitration proceedings. In May 2005, Applied Biosystems reached definitive agreement with Roche to settle all of these outstanding legal proceedings, as described below in Item 3 of this report under the heading "Legal Proceedings- Settled Roche Legal Proceedings." The parties subsequently sought and received dismissal of the litigation and arbitration proceedings. In connection with the settlement, the parties amended some licenses granted by each party to the other in the research, applied, and diagnostic fields, worldwide. In addition, Applera has become the exclusive licensor of some Roche patents covering reagents, kits, and methods for practicing PCR and real-time PCR in the research and applied fields. This will allow Applied Biosystems to expand the existing PCR licensing program to include PCR and real-time PCR patents not previously part of its licensing program. Applied Biosystems believes that, if successful, the expanded licensing program should generate significant income that should substantially offset income lost from the patent expirations. The settlement also releases Applied Biosystems, beginning in May 2007, from its obligations to purchase some enzymes and other PCR-related reagent products from Roche under pre-existing supply agreements.

During our 2005 fiscal year, the following additional developments relating to Applied Biosystems' real-time PCR technology occurred:

- In November 2004, the U.S. Patent & Trademark Office granted Applera a fundamental patent, U.S. Patent No. 6,814,934, pertaining to real-time instrumentation. Upon issuance of this patent, Applied Biosystems initiated a patent infringement lawsuit against Bio-Rad Laboratories, Inc., MJ Research, Inc., and Stratagene Corporation for infringement of this patent. More information about this lawsuit, and counterclaims that were subsequently filed against us, is set forth below

in Item 3 of this report under the heading “Legal Proceedings- Commercial Litigation.”

In December 2004, the European Patent Office, or EPO, revoked Applera’s European Patent No. 872562, covering real-time PCR thermal cycler technology. Applied Biosystems is seeking to overturn this decision through the appeal process. Following this decision of the EPO, the Duesseldorf District Court in Germany suspended injunctions that had been in force against Bio-Rad and MJ Research since May 2004, pending the outcome of our appeal of the EPO decision.

In March 2005, the Japanese Patent Office, or JPO, held invalid Applera’s Japanese Patent No. 3136129 covering real-time PCR thermal cycler technology. We have appealed the decision. Following this decision of the JPO, in June 2005 the Japanese IP High Court suspended an injunction that had been in force against Bio-Rad.

*California Institute of Technology License.* Applied Biosystems also licenses rights under some patents owned by the California Institute of Technology relating to DNA sequencing instruments. These patents expire between 2009 and 2018 in the U.S., and have already expired in the rest of the world.

### ***Backlog***

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. Applied Biosystems’ total recorded backlog at June 30, 2005, was \$244.8 million, which included \$0.1 million of orders from Celera Genomics and \$1.0 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, 2005, will be delivered before the close of our 2006 fiscal year.

### ***Competition***

While the absence of reliable statistics makes it difficult to determine Applied Biosystems’ relative market position in its industry segments, Applied Biosystems believes it is one of the principal suppliers in its fields, marketing a broad line of life science systems, consumables, software, and services. However, the markets for these products and services are highly competitive and are characterized by the application of advanced technology. Competition is intensified by the ever-changing nature of the technologies used in these markets. New technologies in life sciences could make Applied Biosystems’ products and services obsolete unless it continues to develop new and improved products and services and pursue new market opportunities. Given the breadth of Applied Biosystems’ product and service offerings, Applied Biosystems’ competition comes from a wide array of competitors with a high degree of technical proficiency, ranging from specialized companies that have strengths in narrow segments of the life science markets to well known manufacturers offering a broad array of biotechnology products and services. Applied Biosystems competes principally in terms of the technology incorporated into its products and services, the breadth and quality of its product and service offerings, and its service and distribution capabilities.

### ***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 \$221.2 million in our 2003 fiscal year, \$214.2 million in our 2004 fiscal year, and \$192.2 million in our 2005 fiscal year. Applera expensed \$381.3 million in our 2003 fiscal year, \$354.2 million in our 2004 fiscal year, and \$330.7 million in our 2005 fiscal year for Applera research, development, and engineering activities. The numbers reported in this paragraph for our 2003 and 2004 fiscal years reflect reclassifications, for comparative purposes, of some patent-related costs from research and development expenses to selling, general, and administrative expenses.

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.

### ***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.



### **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 “Business- Applera Genomics Initiative.” Celera Genomics has been using this information to select and validate therapeutic targets for new drugs, and may use this information 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 proteins 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 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***

*Overview.* During our 2001 fiscal year, Celera Genomics expanded its operations to include therapeutics discovery and development, and since then it has established the therapeutics business as its primary focus and has continued to develop this business. Its scientists have advanced several small molecule therapeutic programs, including its histone deacetylase, or HDAC, program for cancer. Also, Celera Genomics has made significant progress in its proteomic studies of pancreatic, lung, colon, and breast cancer, and during our 2005 fiscal year initiated studies of additional cancers including kidney and gastric cancer. Additional information about these programs and studies is set forth below in this description of the Celera Genomics 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. In furtherance of this purpose, Celera Genomics developed an information products and services business, and a key component of this business was the Celera Discovery System™, an online information and discovery system used to access Celera Genomics’ genomic and related biological and medical information. In 2002, Applied Biosystems became the exclusive

distributor of Celera Genomics' proprietary human genomic and other biological and medical information, including the Celera Discovery System, pursuant to a marketing and distribution agreement between Celera Genomics and Applied Biosystems. This agreement enabled Celera Genomics' executive team to focus on developing its new business operations in therapeutics discovery and development. Consistent with the intent of the agreement, Celera Genomics substantially discontinued the operations of its information products and services business during our 2005 fiscal year concurrent with the expiration of substantially all of its outstanding contractual obligations to its customers of its information products and services. Under the marketing and distribution agreement, Celera Genomics continues to have access to proprietary information covered by the agreement for its therapeutic programs. Celera Genomics expects that such data and intellectual property may have a significant role in its drug discovery and development efforts. More information about the marketing and distribution agreement, including amendments made during our 2005 fiscal year, and Celera Genomics' decision to substantially discontinue its operations relating to its information products and services business, is set forth above in Item 1 of this report under the heading "Business- 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 heading "Market for Registrant' s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities- Forward-Looking Statements and Risk Factors- Factors Relating to Celera Genomics."

During and subsequent to the end of our 2005 fiscal year, Celera Genomics announced several important developments in its business, including several new collaborations and several developments in its therapeutics programs. These developments are described below.

*Abbott Collaboration.* In July 2004, Celera Genomics announced the formation of a strategic collaboration with Abbott Laboratories to jointly discover, develop, and commercialize targeted therapies for 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. In April 2005, Celera Genomics announced that two of its protein targets had been selected for further investigation by Abbott Laboratories for possible therapeutic development. These are the first targets to be selected for advancement pursuant to this collaboration.

*GE Collaboration.* Also in July 2004, 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. In the first project under this collaboration, General Electric is pursuing the development of novel *in vivo* imaging agents targeted to cell surface proteins that Celera Genomics has identified to be associated with cancer. *In vivo* refers to testing performed in the living body, in contrast with *in vitro*, which refers to testing performed outside the living body. The companies had originally agreed to this project in 2004, but they amended the project in July 2005 and work was not commenced until after the amendment was entered into.

*Merck Collaboration.* Also in July 2004, Celera Genomics announced receipt of a milestone payment from Merck & Co. Inc. under the cathepsin K inhibitor collaboration agreement between the companies. 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.

*Seattle Genetics Collaboration.* Also in July 2004, Celera Genomics announced a strategic collaboration with Seattle Genetics, Inc. to jointly discover, develop, and commercialize 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 alone may not be potent enough to kill cancer cells but they can target cancer cells and deliver the cell-killing, or cytotoxic, drugs. In August 2005, Celera Genomics announced that one of its protein targets had been selected for further investigation by Seattle Genetics for possible therapeutic development. This is the first target to be selected for advancement pursuant to this collaboration.

*Genentech Collaboration.* In September 2004, Celera Genomics announced a collaboration with Genentech to discover and develop targeted therapies for cancer. Pursuant to the collaboration, Celera Genomics will nominate cell-surface proteins discovered and validated through Celera Genomics' proteomics research as targets. Genentech may then designate these targets for further validation and research to identify therapeutics for subsequent development and commercialization solely by Genentech. However, if Genentech pursues the development of any products, Genentech would have to make progress payments to Celera Genomics based on agreed milestones and would also have to pay Celera Genomics a royalty based on sales of each commercialized product.

*Sale of Rockville Facility.* In April 2005, Celera Genomics sold its Rockville, Maryland facility and received net proceeds of \$42.4 million. Celera Genomics is leasing back a portion of the facility pursuant to a five year lease that includes two renewal options of five years each.

*Small Molecule Program Developments.* In May 2005, Celera Genomics announced that it had submitted an Investigational New Drug, or IND, application to the U.S. Food and Drug Administration for a novel histone deacetylase, or HDAC, inhibitor as a cancer therapeutic. In July 2005, Celera Genomics reported the initiation of Phase I clinical testing for this compound in patients with refractory solid cancers, which refers to non-leukemia cancers that do not respond to currently available treatments. Celera Genomics believes that its small molecule capability and pipeline of compounds is now sufficiently mature to seek partners to maximize the value of its programs in the most cost effective manner.

In July 2005 Celera Genomics announced that it had advanced a cathepsin S inhibitor into late preclinical development for the treatment of psoriasis. This compound was developed by Celera Genomics as part of a proprietary non-partnered program to develop inhibitors of cathepsin S. Cathepsin S was also the focus of a collaboration between Celera Genomics and sanofi-aventis, formerly Aventis Pharmaceuticals. However, sanofi-aventis informed Celera Genomics in July 2005 that it had terminated this collaborative cathepsin S program.

In January 2005, Celera Genomics announced that it had initiated two new small molecule research programs, one for the possible treatment of cancer and one for an autoimmune disease. The cancer program is Celera Genomics' first small molecule program based on a target arising from its proteomics research, and the autoimmune program is Celera Genomics' first small molecule program based on a target arising from the gene-disease association studies conducted at Celera Diagnostics.

In May 2005, Celera Genomics announced that one of its small molecule compounds, a tryptase inhibitor, showed efficacy in treating allergic asthma in mice.

### ***Target Discovery Programs; Proteomics and Genomics Research***

*Overview.* Therapeutic target discovery, including identification and validation, continues to be an important part of Celera Genomics' business, although it has directed its resources primarily to small molecule therapeutics research and 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 heading "Business- Celera Diagnostics, a 50/50 Joint Venture between Applied Biosystems and Celera Genomics- Large Scale Studies."

Currently, the primary purpose of our target discovery efforts is to identify and validate targets for antibody therapeutics and small molecule therapeutics. Celera Genomics has entered into collaborations to advance therapeutic development efforts arising from our validated targets, including antibody and small molecule therapeutic collaborations with Abbott Laboratories and Genentech, and an antibody therapeutic collaboration with Seattle Genetics. These collaborations are for development of therapeutics targeted to cell-surface proteins associated with cancer. They are described above in Item 1 of this report under the heading "Business- Celera Genomics Group Business- Development of Therapeutics Business." 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 has been developing internal capabilities for the advancement of its small molecule program, but it is currently seeking partners to maximize the value of its programs in the most cost effective manner. Celera Genomics' development capabilities are described below in Item 1 of this report under the heading "Business- 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 July 2004, Celera Genomics and Celera Diagnostics announced a collaboration with General Electric Company 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 Item 1 of this report under the heading "Business- Celera Genomics Group Business- Development of Therapeutics 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 biomarkers into the design of clinical studies. In this context, a "biomarker" refers to a biological characteristic that can be objectively measured and which is an indicator of potential response to a therapy. Celera Genomics believes that its biomarker research, which includes its proteomics studies, its analysis of the results of Celera Diagnostics' gene-disease association studies, and other internal research, may generate information that is useful in stratifying patient populations to improve drug treatment.

*Proteomics Studies.* Celera Genomics uses 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 are associated with particular diseases such as cancer. 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 is also studying proteins that are "shed" from cancer cells within the body, as it believes this class of proteins could also result in drug targets or diagnostic tests. The diseases that Celera Genomics has initially selected for proteomics study are various forms of cancer. Celera Genomics conducts its proteomics research at its own proteomics facility, which became fully operational during our 2003 fiscal year.

During our 2005 fiscal year, Celera Genomics made significant progress in its proteomic studies of pancreatic, lung, colon, and breast cancer and initiated studies of additional cancers including kidney and gastric cancer. As a result of these studies, Celera Genomics has identified differentially-expressed proteins on the surface of cancer cells, some of which its scientists have further analyzed through extensive validation studies to determine their potential as therapeutic targets for cancer. Celera Genomics has offered some of the resulting validated targets for further investigation by collaborators, including Abbott Laboratories, Seattle Genetics, and Genentech, to meet its responsibilities under its collaboration agreements with these companies.

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 spectrometry systems that can perform quantitation and identification of proteins from separated biological samples. Celera Genomics is also using human genomic information and proprietary software and algorithms to identify proteins associated with diseases.

For target validation, Celera Genomics uses a variety of methodologies, including 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 is performing tests to determine their relevance across a broad range of normal and diseased tissues.

*Bioinformatics.* Celera Genomics is using bioinformatics to develop the capability to perform simulated, computer-based experimentation. Celera Genomics believes this capability will reduce the need to perform more labor-intensive experiments in the laboratory. Also, Celera

Genomics is developing proprietary algorithms for use in its large scale computing infrastructure for the extraction of data from proteomics experiments. This data is integrated 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 is useful to facilitate the identification of targets.

*Genomics Studies.* Celera Genomics is using genomics capabilities from its discontinued information products and services business, as a complementary approach to the proteomics methods and the gene-disease association studies described above, in its efforts to identify and validate therapeutic targets. Celera Genomics is further characterizing 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 is incorporating its bioinformatics capabilities into this process. After the functions of genes are determined, Celera Genomics establishes 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 discover 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, particularly by expanding its small molecule drug pre-clinical and clinical development capabilities. Celera Genomics' small molecule drug research and development expertise and programs are described below. Celera Genomics believes that its small molecule capability and pipeline of compounds is now sufficiently mature to seek partners to maximize the value of its programs in the most cost effective manner.

*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 images of the molecule taken using X-ray crystallography and also by performing molecular modeling based on the known properties 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 and enhance its compound libraries through the purchase of additional compound collections.

*Compound Development Programs Generally.* Celera Genomics has several internal small molecule development programs and one that is partnered with a major pharmaceutical company. Celera Genomics' most advanced programs include its histone deacetylase, cathepsin K, and cathepsin S programs. Other therapeutic programs include Factor VIIa and tryptase. Some of Celera Genomics' existing programs were acquired with Axys Pharmaceuticals and advanced since then by Celera Genomics. During our 2005 fiscal year, Celera Genomics initiated new small molecule research programs. These programs include a cancer program, which is Celera Genomics' first small molecule program based on a target arising from its proteomics research, and an autoimmune disease program, which is Celera Genomics' first small molecule program based on a target arising from the gene-disease association studies conducted at Celera Diagnostics.

Celera Genomics has developed a general expertise in discovering and developing potential therapeutic compounds that target proteases. Several of Celera Genomics' programs, including its Factor VIIa, cathepsin K, cathepsin S, and tryptase programs, but not its histone deacetylase program, are for compounds that target proteases. Proteases are enzymes that break down chemical bonds in proteins. Proteases are known to be a druggable class of proteins, which means that some proteins within this class have in the past been shown to be effective drug targets. 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.

*Histone Deacetylase Program.* Celera Genomics' most advanced internal program is for the development of 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. In April 2005, Celera Genomics scientists presented data at the American Association for Cancer Research demonstrating that an HDAC inhibitor exhibited significant *in vivo* efficacy against cancer in animal studies. In May 2005, Celera Genomics announced that it had submitted an Investigational New Drug, or IND, application to the U.S. Food and Drug Administration for a novel HDAC inhibitor as a cancer therapeutic. In July 2005, Celera Genomics reported the initiation of Phase I clinical testing for this compound in patients with refractory solid cancers, which refers to non-leukemia cancers that do not respond to currently available treatments.

*Cathepsin K and Cathepsin S Programs.* Celera Genomics has a collaboration with Merck & Co. Inc., which it acquired with Axys Pharmaceuticals, 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. In July 2004, Celera Genomics announced

receipt of a milestone payment from Merck & Co. Inc. under the cathepsin K program. This payment recognized 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. This collaboration remains active. Celera Genomics' portion of this program was completed prior to our 2005 fiscal year, and further development under this collaboration has since then been the responsibility of Merck, which will make all clinical development decisions.

Celera Genomics also had a second collaboration which was acquired with Axys Pharmaceuticals. This collaboration was with sanofi-aventis, formerly Aventis Pharmaceuticals, to develop inhibitors of cathepsin S, another type of cysteine protease. In July 2005, sanofi-aventis informed Celera Genomics that it had terminated this collaborative cathepsin S inhibitor program. During our 2005 fiscal year, Celera Genomics independently progressed an internal program for the development of inhibitors of cathepsin S. The primary indication for this non-partnered program is treatment of psoriasis, and other immune-mediated diseases are under consideration. Celera Genomics has advanced a cathepsin S inhibitor into late preclinical development for the treatment of psoriasis.

*Other Programs.* 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 prolonged bleeding time and therapeutic efficacy compared to existing therapies. Celera Genomics has identified a lead compound and has advanced its Factor VIIa program to a stage where it is seeking a partner for its further development.

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 tryptase 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 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. In May 2005, Celera Genomics announced that one of its tryptase inhibitors showed efficacy in treating allergic asthma in mice.

*Development of Preclinical and Clinical Resources and Expertise.* Celera Genomics' has established therapeutic development capabilities for both preclinical and clinical activities, and it may continue to increase these capabilities so that its most promising therapeutic programs can be advanced through one or more phases of 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' clinical and preclinical programs are described above. Celera Genomics currently has one non-partnered compound, HDAC, 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 a limited number of 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; and project management personnel, who help integrate the different drug development project teams and facilitate communications among these different teams.

### ***Regulation of Therapeutic Products***

In the U.S., therapeutic products are subject to regulation by the U.S. Food and Drug Administration, which administers requirements covering the testing, safety, effectiveness, manufacturing, labeling, marketing, advertising and post-marketing surveillance of pharmaceutical products. Generally, a therapeutic cannot be marketed in the U.S. until, among other things, it is shown through pre-clinical research and testing and controlled clinical human testing that the therapeutic is safe and effective. Therapeutic products are subject to similar regulation by foreign governments.

In the U.S., testing of compounds as possible therapeutics cannot move into the human clinical testing phase until the process is cleared by the FDA. The FDA approval process begins with the filing of an Investigational New Drug, or IND, application.

Once a compound' s IND application is cleared by the FDA, it generally undergoes three phases of clinical testing to determine human safety and efficacy. The clinical testing begins with Phase I studies which are used to determine that the compound is safe in humans. Phase I studies are concerned with detecting adverse effects and usually do not provide data on the efficacy of the compound to treat the targeted medical condition. If Phase I studies do not identify human tolerability problems, the compound may then enter Phase II, during which the compound is studied in patients with the disease that the compound is being studied to treat. Phase II dose and efficacy trials are commenced to determine the appropriate dosing for the compound, to confirm the compound' s efficacy, and to determine whether any adverse effects will limit the compound' s usefulness. If the results from the Phase II trials are satisfactory, Phase III trials may commence to confirm the compound' s efficacy and safety in a larger patient population. Upon completion of those trials, if satisfactory, regulatory filings may be submitted with the

appropriate regulatory agencies around the world to have the product candidate approved for marketing.

Clinical trials can take several years, can be expensive, and are subject to many risks and uncertainties that may cause them to fail. More information about these risks and uncertainties is set forth below in item 5 of Part II of this report under the heading “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities- Forward-Looking Statements and Risk Factors- Factors Relating to Celera Genomics.”

### ***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 relies on other companies to manufacture compounds that will be tested in Celera Genomics’ clinical trials. These manufacturers need raw materials to manufacture those compounds, and Celera Genomics is responsible for obtaining some of these raw materials from suppliers. Suppliers may not sell these materials at the time when they are needed or on commercially reasonable terms. If it becomes necessary to change suppliers for any of these materials or if any suppliers of these materials experience a shutdown or disruption in their facilities used to produce these materials, due to technical, regulatory, or other problems, it could adversely affect a manufacturer’s ability to manufacture adequate quantities of Celera Genomics’ compounds. If Celera Genomics or its manufacturers are unable to obtain the materials needed for the manufacture of compounds used in Celera Genomics’ clinical trials, product testing and potential regulatory approval could be delayed, adversely impacting Celera Genomics’ ability to develop the product candidates.

In addition, for its research and product development, 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 has developed and anticipates that it will further 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, customers, or others for some combination of license fees, milestone payments, and royalty payments.

Celera Genomics’ ability to compete and to achieve and maintain profitability depends, in part, on its ability to protect its proprietary discoveries and technologies 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. Celera Genomics may infringe the intellectual property rights of third parties, and may become involved in expensive intellectual property legal proceedings to determine the scope and validity of its patent rights with respect to third parties. To avoid infringing the intellectual property rights of others, Celera Genomics may need to obtain intellectual property licenses from them, but Celera Genomics may not be able to obtain these licenses on commercially acceptable terms, or at all. More information about the risk factors associated with Celera Genomics' reliance on intellectual property is set forth below in Item 5 of Part II of this report under the heading "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities- Forward-Looking Statements and Risk Factors- Factors Relating to Celera Genomics."

Celera Genomics has filed for patent protection in the U.S. and in some cases worldwide for inventions relating to its discoveries. This includes patent applications for genomics discoveries arising from its discontinued information products and services business, which have resulted in some issued patents, as well as applications for discoveries relating to existing therapeutics programs. Celera Genomics expects to continue seeking patent protection for inventions relating to its DNA, including SNP, protein, therapeutic, and diagnostic discoveries. These inventions may be for novel pharmaceuticals and novel formulations or methods of manufacture thereof, or novel methods of treating and diagnosing disease. Celera Genomics' current strategy is to continue prosecuting patent applications already filed for these types of inventions, and to apply for patent protection for inventions that are subsequently made, in all cases subject to an ongoing case-by-case assessment of the potential value of those inventions consistent with Celera Genomics' business and scientific plan. Celera Genomics' failure to receive patent protection for its therapeutic inventions could adversely affect the commercial value of these discoveries and could adversely affect its business. Obtaining patent protection for other types of inventions such as those relating to its genomics discoveries might enhance Celera Genomics' business, but Celera Genomics does not believe that its commercial success will be materially dependent on its ability to do so.

### ***Backlog***

Celera Genomics' total recorded backlog at June 30, 2004, was \$25.2 million. Celera Genomics' total recorded backlog at June 30, 2005, was \$1.6 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, 2005, will be delivered before the close of our 2006 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. Celera Genomics is aware of products in research or development by its competitors that address the diseases Celera Genomics is targeting. 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 previously was also engaged in research and development to support commitments under contracts relating to its former information products and services business. Research and development expenses for Celera Genomics totaled \$117.8 million in our 2003 fiscal year, \$101.4 million in our 2004 fiscal year, and \$103.5 million in our 2005 fiscal year. Applera expensed \$381.3 million in our 2003 fiscal year, \$354.2 million in our 2004 fiscal year, and \$330.7 million in our 2005 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. The numbers reported in this paragraph for our 2003 and 2004 fiscal years reflect reclassifications, for comparative purposes, of some patent-related costs from research and development expenses to selling, general, and administrative expenses.

### ***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 to interferon treatment, in breast cancer patients to identify patients who respond to hormonal therapy, and in heart disease patients 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 “Business- 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 has been using this information to select and validate therapeutic targets for new drugs, and may use this information 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 heading “Business- 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 for sales and marketing in the U.S. and also CE mark registration, which is needed for sales and marketing in the European Union. Key developments during our 2005 fiscal year included the following:

- In July 2004, Celera Diagnostics, with Celera Genomics, entered into a joint research collaboration with General Electric Company intended to accelerate the discovery and development of new products for personalized, or targeted medicine.
- Also in July 2004, Celera Diagnostics entered into collaboration with Merck & Co., Inc., to identify novel drug targets and diagnostic markers related to Alzheimer's disease. During our 2005 fiscal year, Celera Diagnostics fulfilled its obligations pursuant to this collaboration and received all research milestone payments due from Merck.
- In November 2004, Celera Diagnostics met the self-certifying requirements to CE mark its cystic fibrosis product for sales and marketing as a diagnostic kit in the European Union, and Celera Diagnostics then began marketing this diagnostic product in the EU.
- In addition to its large-scale disease association studies, Celera Diagnostics commenced new product development programs for Fragile X disease and human papillomavirus, or HPV.

Also, in June and July 2005, two Abbott Laboratories viral load assay products received CE mark certification for use on the Abbott m2000™ system. Receipt of these certifications enabled Abbott to commence marketing these diagnostic products in the EU. The products are included within Celera Diagnostics' strategic alliance with Abbott, and are currently expected to be the most significant products contributed to the alliance by Abbott.

Additional information about these matters is set forth below in this description of the Celera Diagnostics business.

### ***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 such time as Celera Genomics is reimbursed for any excess funding of initial losses after consideration of tax reimbursements received from Applied Biosystems, which are described below. Once the excess funding is reimbursed, profits and losses and cash flows would be shared equally between Applied Biosystems and Celera Genomics. Applied Biosystems and Celera Genomics fund

Celera Diagnostics' capital expenditures and working capital requirements equally. Applied Biosystems reimburses 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 Celera Genomics has been reimbursed for its excess funding of initial losses after consideration of tax reimbursements. 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 is limited to diagnostic products that detect nucleic acids, for example DNA or RNA. Under the agreement, Abbott 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. Development of 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.

Under the Abbott Laboratories agreement, Celera Diagnostics and Abbott jointly fund their separate but coordinated research and development activities that are within the scope of the alliance. Generally, Abbott markets products developed and manufactured by the parties that are covered by the alliance. Celera Diagnostics believes that Abbott's expertise in the diagnostics industry and its global distribution system enhances Celera Diagnostics' ability to bring products to market. Celera Diagnostics' alliance with Abbott, including the economic arrangements, covers all nucleic acid diagnostic products marketed by Abbott, 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 these 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 will perform its obligations as expected. If Abbott terminates the alliance or otherwise fails to conduct its collaborative activities in a timely manner, Celera Diagnostics' development or commercialization of diagnostic 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 heading “Business- Celera Diagnostics, a 50/50 Joint Venture between Applied Biosystems and Celera Genomics- Marketing and Distribution.”

### ***Research and Development***

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. Since then, Celera Diagnostics has substantially expanded its research and development efforts, and it is currently conducting several large scale disease studies, which are described below. 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. SNPs, or single nucleotide polymorphisms, are naturally occurring genetic variations in the human genome. Scientists believe that some 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.

Pursuant to their strategic alliance, 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 \$49.0 million in our 2003 fiscal year, \$43.8 million in our 2004 fiscal year, and \$37.9 million in our 2005 fiscal year. Applera expensed \$381.3 million in our 2003 fiscal year, \$354.2 million in our 2004 fiscal year, and \$330.7 million in our 2005 fiscal year for Applera research, development, and engineering activities.

### ***Large Scale Studies***

Celera Diagnostics is currently conducting large-scale gene-disease association studies in the following areas: Alzheimer’ s disease; autoimmune and inflammatory diseases, including rheumatoid arthritis; breast cancer; cardiovascular, or 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. A second aspect of the breast cancer study is to identify gene expression patterns that could predict a patient’ s likelihood to respond to hormonal therapy of the cancer. In addition, Celera Diagnostics is conducting host response studies analyzing SNPs or gene expression patterns, or both, in cells from patients infected with the Hepatitis C virus and patients with heart disease. The goal of these studies is to identify genetic markers that will indicate an individual’ s likelihood of response to one or more forms of treatment.

During our 2005 fiscal year, Celera Diagnostics continued to advance its large-scale studies. They are all ongoing and are at different stages of progression. A key aspect of Celera Diagnostics' disease study program is to seek validation of results through replication by repeating its analysis on multiple populations 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.

Further detail regarding important developments in several of Celera Diagnostics' large scale studies is set forth below.

*Cardiovascular Disease.* In March 2005, Celera Diagnostics and its collaborators reported findings related to studies of cardiovascular disease. In a discovery and replicated study of SNPs that are associated with myocardial infarction, commonly known as heart attack, a variant in a gene that is a member of a family of targets for drug therapies was identified that conferred approximately twice the risk for myocardial infarction. These results broaden the understanding of the genetic risk for myocardial infarction, and may have implications for therapeutic development. Previously Celera Diagnostics had disclosed other key scientific findings. For example, 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. None of these genes were in previously recognized disease pathways associated with myocardial infarction.

*Liver Disease.* In April and May 2005, Celera Diagnostics reported that it found two SNPs associated with risk for Non-Alcoholic Steatohepatitis, or NASH, a common progressive liver disease that often leads to cirrhosis of the liver. Liver cirrhosis is a medical condition that refers to progressive liver damage which ultimately causes the liver to fail to function. Celera Diagnostics also found one of these SNPs to be associated with the progression of liver disease resulting from Hepatitis C virus infection. Celera Diagnostics is now seeking to determine if the other SNP and other genetic markers can be used as a predictor of the progression of liver disease resulting from causes other than NASH, such as Hepatitis C virus infection. Celera Diagnostics believes that this information may lead to new tests for detecting liver disease and determining the best treatment, which may help prevent irreversible liver damage, and may be used to enable more rapid demonstration of efficacy of new drug therapies for treatment of liver cirrhosis.

*Alzheimer's Disease.* Some of Celera Diagnostics' Alzheimer's work has been funded pursuant to a collaboration with Merck & Co., Inc. entered into in July 2004. Prior to entering into this collaboration, Celera Diagnostics had conducted its own gene-disease association study for this disease and had identified some SNPs associated with the disease, including two associated with late-onset Alzheimer's disease that were reported by Celera Diagnostics during our 2005 fiscal year. The Merck collaboration was entered into for the purpose of identifying novel drug targets and diagnostic markers related to Alzheimer's disease. Merck has the therapeutic rights to targets identified for the treatment of Alzheimer's disease and some other neurological disorders, and Celera Diagnostics has the rights to all diagnostic applications for markers identified. During our 2005 fiscal year, Celera Diagnostics fulfilled its obligations pursuant to this collaboration and received all research milestone payments due from Merck.

Celera Diagnostics' review and analysis of the diagnostic potential of the results of the completed research is ongoing. In July 2005, the two companies extended this collaboration to study additional genes. Merck is obligated to make additional research milestone payments to Celera Diagnostics in connection with this additional work, which is being performed primarily for the purpose of supporting Merck's therapeutic efforts.

*Other Large Scale Studies.* Celera Diagnostics has previously disclosed key scientific findings from some of its other large scale disease association studies. 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 and interferon responsiveness in hepatitis C patients. In June 2004, Celera Diagnostics reported discovery of a SNP in a gene that is a marker associated with an increased risk for rheumatoid arthritis and also reported its potential use as a new drug target.

#### ***Other Product Development Programs***

In January 2005, Celera Diagnostics announced the initiation of two product development programs, independent of its large-scale disease association studies. One is for Fragile X, the leading cause of inherited mental retardation, and a second is for the detection and genotyping of the human papillomavirus, or HPV, which has been linked to the development of cervical cancer in women. In both of these programs, Celera Diagnostics is seeking to develop diagnostic tests, substantially based on publicly-available biological information, which are better than other commercially available tests. Celera Diagnostics is collaborating with several major clinical reference laboratories to develop testing procedures for Fragile X. In April 2005, Celera Diagnostics disclosed the results of a study of a prototype assay for detection of high risk HPV strains that are associated with cervical cancer. The study demonstrated the potential of the Celera Diagnostics' prototype assay to detect high risk HPV in samples that were inconclusive when typed by a commercially available HPV diagnostic test.

#### ***Collaborations and Other Relationships Supporting Research***

Celera Diagnostics has entered into several research collaboration agreements to support its large-scale research programs, including agreements with Merck & Co., Inc. and General Electric Company. A research collaboration with Merck was entered into for the purpose of identifying and validating 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. This collaboration is initially focused on breast cancer but may be expanded to other cancers by mutual consent. Celera Diagnostics has another research collaboration with Merck relating to Alzheimer's disease, which is described above under the heading "Business- Celera Diagnostics, a 50/50 Joint Venture between Applied Biosystems and Celera Genomics- Large Scale Studies."

The General Electric collaboration agreement was entered into for the purpose of accelerating the discovery and development of new products for personalized, or targeted, medicine. Pursuant this collaboration, the parties intend to seek an understanding of, and to 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. In the first project under this collaboration, General Electric is pursuing the development of novel *in vivo* imaging agents targeted to cell surface proteins that Celera Genomics has identified to be associated with cancer.

*In vivo* refers to testing performed in the living body, in contrast with *in vitro*, which refers to testing performed outside the living body. The companies had originally agreed to this project in 2004, but they amended the project in July 2005, and work was not commenced until after the amendment was entered into. Celera Diagnostics expects that any *in vitro* diagnostics derived from this collaboration would be commercialized, if at all, through Celera Diagnostics because these types of diagnostics are currently within Celera Diagnostics' field of business.

Also, Celera Diagnostics has entered into collaboration, research, and material transfer agreements with more than 30 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 70,000 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 SeraCare Life Sciences, Inc., formerly 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.

During our 2005 fiscal year, Celera Diagnostics began transferring information to Laboratory Corporation of America relating to breast cancer metastasis for analysis by Laboratory Corporation of America pursuant to the collaboration with them described above. Although not covered by the existing collaboration agreement, Celera Diagnostics has also transferred information to Laboratory Corporation of America relating to breast cancer patients' responsiveness to hormonal therapy for analysis. Celera Diagnostics believes that multiple test procedures for predicting the risk of breast cancer metastasis and/or the likelihood of a patient' s response to hormonal therapy could result from this work.

### ***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 U.S. Food and Drug Administration, 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 manufacturing four products that are sold through its alliance with Abbott Laboratories, including its ViroSeq™ HIV-1 Genotyping System, a cystic fibrosis product, and two types of Hepatitis C virus analyte specific reagents. Celera Diagnostics also derives revenue from other products that it does not manufacture but which are sold through its alliance with Abbott, which is described above in Item 1 of this report under the heading “Business- 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 heading “Business- Celera Diagnostics, a 50/50 Joint Venture between Applied Biosystems and Celera Genomics- Marketing and Distribution.” These products are described below.

*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<sup>®</sup> HIV-1 Genotyping System Software. The ViroSeq HIV-1 Genotyping System 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<sup>®</sup> 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 heading "Business- 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 European Union. Additional information regarding the regulation of Celera Diagnostics' products is set forth below in Item 1 of this report under the heading "Business- Celera Diagnostics, a 50/50 Joint Venture between Applied Biosystems and Celera Genomics- Regulation of Diagnostic Products."

*Cystic Fibrosis Products.* 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 manufactures analyte specific reagents that can be used by appropriately licensed clinical laboratories in the U.S. 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. Until our 2005 fiscal year, these reagents were marketed primarily as analyte specific reagents in the U.S. However, in November 2004, Celera Diagnostics met the self-certifying requirements to CE mark its cystic fibrosis product for sales and marketing as a diagnostic kit in the European Union, and Celera Diagnostics then began marketing this diagnostic product in the EU. Additional information regarding the regulation of Celera Diagnostics' products is set forth below in Item 1 of this report under the heading "Business- Celera Diagnostics, a 50/50 Joint Venture between Applied Biosystems and Celera Genomics- Regulation of Diagnostic Products."

*Hepatitis C Virus Analyte Specific Reagents.* Hepatitis C virus causes a chronic liver disease. Hepatitis C virus, or HCV, infection is currently the leading reason that patients need liver transplants. There are several distinct strains of HCV 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 HCV. 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 HCV. 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. These reagents are marketed primarily in the U.S.

*Abbott Products.* Abbott Laboratories is currently marketing several other nucleic acid diagnostic products that are being manufactured by Abbott and other companies. Celera Diagnostics does not include these products in its product portfolio. However, because Celera Diagnostics' alliance with Abbott covers all nucleic acid diagnostic products marketed by Abbott, including these products, Celera Diagnostics shares in the revenues generated through the sale of these products.

These other nucleic acid diagnostic products include 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. This 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. 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 previously manufactured and marketed a research-use-only HLA-typing kit that was included within the Abbott alliance, but Celera Diagnostics discontinued this product as of the end of our 2005 fiscal year and Abbott has contributed a replacement HLA-typing product to the alliance, which is manufactured by another company partnered with Abbott. Additional products marketed by Abbott that are part of the alliance include another HLA-typing product which is CE-marked and is sold in the European Union, several other diagnostic products for the detection of viruses such as Hepatitis B virus and cytomegalovirus, and the viral load assays described in the following paragraph.

The products manufactured and marketed by Abbott for the alliance also include an HIV-1 assay and an HCV assay, both used for measuring viral load. These assays have been developed for use on the Abbott m2000™ system, which is a real-time PCR instrument coupled with a sample preparation module. The HIV-1 assay received CE mark certification for use on the m2000 system in June 2005, and the HCV assay received CE mark certification for use on the m2000 system in July 2005, and Abbott has begun marketing these assays as diagnostic products in the EU. Currently, these products are expected to be the most significant products contributed to the alliance by Abbott. While these products did not contribute to Celera Diagnostics' revenues in our 2005 fiscal year, Celera Diagnostics expects that sales of these and possibly other products marketed by Abbott could contribute significant revenues to the alliance in the future, particularly if the products receive clearance or approval from the U.S. Food and Drug Administration. The HCV diagnostic product marketed by Abbott in the EU, described in this paragraph, is distinct from the HCV analyte specific reagents described above that are marketed by the alliance in the U.S.

*Other Products and Services.* 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.

*Licensing Programs.* 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, as applicable, have been or 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.

### ***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 Food and Drug Administration 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 FFDCFA, 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 heading "Business- 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 FFDCFA. 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, for some products Celera Diagnostics is required to self-certify that the products to be marketed meet all of the applicable essential requirements, and for other products Celera Diagnostics is required to obtain a CE mark registration from a certification organization, referred to as a "Notified Body," by providing documented evidence 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 from a Notified Body for its ViroSeq HIV-1 Genotyping System for use on the ABI PRISM 3100 Genetic Analyzer. During our 2005 fiscal year, Celera Diagnostics met the self-certifying requirements to CE mark its cystic fibrosis product. Celera Diagnostics is in the process of completing, or intends to prepare, required documentation for CE marking 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 will serve as Celera

Diagnostics' exclusive worldwide distributor of nucleic acid-based diagnostic products developed under the agreement. The Abbott alliance agreement is discussed above in Item 1 of this report under the heading "Business-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 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 agreement so long as it remains in effect and will be marketed, distributed, and sold through Abbott. 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, Franchises, and other Intellectual Property***

Through its internal research programs and collaborative programs, including its use of the information derived from 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 party collaborators, customers, or others for some combination of license fees, milestone payments, and royalty payments. In addition, Celera Diagnostics' alliance with Abbott Laboratories provides Celera Diagnostics with rights to some intellectual property owned or licensed by Abbott that Celera Diagnostics needs for its business and products.

Celera Diagnostics' ability to compete and to achieve and maintain profitability depends, in part, on its ability to protect its proprietary discoveries and technologies through obtaining and enforcing patent rights, maintaining its trade secrets, and operating without infringing the intellectual property rights of others. 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. Celera Diagnostics' ability to obtain patent protection for the inventions it makes is uncertain. Celera Diagnostics may infringe the intellectual property rights

of third parties, and may become involved in expensive intellectual property legal proceedings to determine the scope and validity of its patent rights with respect to third parties. To avoid infringing the intellectual property rights of others, Celera Diagnostics may need to obtain intellectual property licenses from them, but Celera Diagnostics may not be able to obtain these licenses on commercially acceptable terms, or at all. More information about the risk factors associated with Celera Diagnostics' reliance on intellectual property is set forth below in Item 5 of Part II of this report under the heading "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities-Forward-Looking Statements and Risk Factors-Factors Relating to Celera Diagnostics, a 50/50 Joint Venture between Applied Biosystems and Celera Genomics."

Celera Diagnostics has filed for patent protection in the U.S. and in some foreign countries for inventions relating to its diagnostic discoveries, and Celera Diagnostics expects to continue seeking patent protection for its diagnostic inventions. Celera Diagnostics' failure to receive patent protection for its diagnostic inventions could adversely affect the commercial value of these discoveries and could adversely affect its business.

### ***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' 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 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 is 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.

## Employees

As of the end of our 2005 fiscal year, we had approximately 4,930 employees allocated as follows:

<b>Business/Function</b>	<b>Number</b>
Applied Biosystems	4,030
Celera Genomics	480
Celera Diagnostics	210
Corporate Staff	210

In June 2005, Applied Biosystems announced a reduction and rebalancing of its workforce. Applied Biosystems terminated about 250 positions, primarily in research and development, marketing, and operations. The number of Applied Biosystems employees in the table above excludes employees who, as a result of this action, were terminated or who were employed but not actively working for us as of the end of our 2005 fiscal year. Approximately 50 additional individuals, included in the table above, are affected by this action and their employment is expected to terminate by the end of the first quarter of our 2006 fiscal year.

Our corporate staff provides accounting, tax, treasury, legal, information technology, human resources, and other shared 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, 2003, 2004 and 2005, is incorporated herein by reference to Note 14 on pages 78 through 90 of our 2005 Annual Report. Total assets as of June 30, 2003, 2004 and 2005 were as follows:

- 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;
- 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; and
- June 30, 2005, were \$2,290.1 million for Applied Biosystems, \$869.2 million for Celera Genomics, \$37.1 million for Celera Diagnostics, and \$3,164.2 million for Applera after the effects of (\$32.2) million related to intercompany eliminations.

## **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 2003, 2004, and 2005 fiscal years is incorporated herein by reference to Note 14 on pages 78 through 90 of our 2005 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:

- \$891.3 million, or 50.2% of our consolidated net revenues, for our 2003 fiscal year;
- \$956.7 million, or 52.4% of our consolidated net revenues, for our 2004 fiscal year; and
- \$1,020.4 million, or 55.3% of our consolidated net revenues, for our 2005 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 “Directors and Executive Officers of the Registrant- Identification and Business Experience of Executive Officers” on pages 104 and 105 of this report.

**Item 2. Properties****Applied Biosystems Group Facilities**

Applied Biosystems' headquarters are located in leased and owned 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.

<b>Location (Approximate Floor Area in Sq. Ft.)</b>	<b>Owned or Leased (Expiration Date of Leases)</b>
Foster City, CA (320,000) - several buildings	Leased (several leases expiring 2006-2015)
Foster City, CA (280,000) - several buildings	Owned
Pleasanton, CA (149,000) - three buildings	Owned
Framingham, MA (140,000) - two buildings	Leased (2009)
Warrington, United Kingdom (88,000) - two buildings	Owned
Hayward, CA (66,000)	Leased (2009)
Rotterdam, Netherlands (64,000)	Leased (2010)
Bedford, MA (59,000) - two buildings	Leased (two leases expiring 2010 and 2023)
Singapore (45,000)	Leased (two leases expiring 2005 and 2006)
Rockville, MD (34,000)	Leased (2010)
Narita, Japan (24,000)	Owned

The Pleasanton, California facilities listed in the table above are located on an 80-acre property owned by Applied Biosystems. The listed facilities include a manufacturing facility constructed by Applied Biosystems, as well as two warehouses that Applied Biosystems acquired with the property and which it intends use to support further construction on the site, if any. Applied Biosystems has also completed construction of the shell of another building at the same site comprised of approximately 164,000 square feet. Applied Biosystems intends to construct improvements needed for occupancy in this other building as additional space is needed for its operations or possibly the operations of our other businesses. Applied Biosystems may construct additional research and development, manufacturing, administrative, or other facilities at this property, up to a maximum of approximately 700,000 additional square feet, as may be required for the future growth of our businesses.

Applied Biosystems also owns or leases several other facilities that have been vacated by Applied Biosystems, which are not reflected in the table above. Applied Biosystems is seeking to sublease several of these leased facilities. Also, in August 2005 Applied Biosystems vacated an 81,000 square foot owned facility in San Jose, California, and Applied Biosystems is seeking to sell this facility. Applied Biosystems also owns approximately 15 acres of undeveloped land in Vacaville, California, which it is seeking to sell. In June 2005, Applied Biosystems transferred the lease of a Houston, Texas, facility with approximately 50,000 square feet of space to another company in connection with the sale of related assets to that company.

**Celera Genomics Group Facilities**

Celera Genomics' business is primarily located in leased 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 operations. 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.

<b>Location (Approximate Floor Area in Sq. ft.)</b>	<b>Owned or Leased (Expiration Date of Leases)</b>
Rockville, MD (75,000)	Leased (2010)
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 previously owned a facility in Rockville, Maryland, that included the leased building described above, a second building, and undeveloped land. In April 2005, Celera Genomics sold this facility and leased back the building described above. This building includes approximately 34,000 square feet of space, in addition to the space listed in the table above, which is occupied by Applied Biosystems. Celera Genomics is also temporarily leasing a portion of the second previously-owned building to facilitate the transition of its data center and other related assets out of the building. This transition is expected to be completed by the end of 2005.

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 more than half of the vacated space has been subleased. Celera Genomics is seeking to sublease 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.

<b>Location (Approximate Floor Area in Sq. ft.)</b>	<b>Owned or Leased (Expiration Date of Leases)</b>
Alameda, CA (48,000)	Leased (2011)
Alameda, CA (19,000)	Leased (2011)
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 additional square feet of vacant space, not reflected in the table above, that Celera Diagnostics leases and intends to build out and use by the end of 2005.

## 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 have contracted to sell this facility, and expect the sale to close no later than March 2006.

## Item 3. Legal Proceedings

We are involved in various lawsuits, arbitrations, investigations, and other legal actions from time to time with both private parties and governmental entities. These legal actions currently involve, for example, commercial, intellectual property, antitrust, environmental, securities, and employment matters. The following is a description of some claims we are currently defending, including some counterclaims brought against us in response to claims filed by us against third parties. 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 legal actions is inherently uncertain, and we cannot be sure that we will prevail in our defense of claims currently asserted against us. An adverse determination in the cases we are currently defending, particularly the claims against us described below under the heading "Commercial Litigation," could have a material adverse effect on us, Applied Biosystems, Celera Genomics, or Celera Diagnostics.

### Commercial Litigation

Our company and some of our officers are defendants in a lawsuit brought on behalf of purchasers of Applera-Celera Genomics stock in our follow-on public offering of Applera-Celera Genomics stock completed on March 6, 2000. In the offering, we sold an aggregate of approximately 4.4 million shares of Applera-Celera Genomics stock at a public offering price of \$225 per share. The lawsuit, which was commenced with the filing of several complaints in April and May 2000, is pending in the U.S. District Court for the District of Connecticut, and an amended consolidated complaint was filed on August 21, 2001. The consolidated complaint generally alleges that the prospectus used in connection with the offering was inaccurate or misleading because it failed to adequately disclose the alleged opposition of the Human Genome Project and two of its supporters, the governments of the U.S. and the U.K., to providing patent protection to our genomic-based products. Although 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. On March 31, 2005, the Court certified the case as a class action.

We are involved in several litigation matters with MJ Research, Inc. (acquired by Bio-Rad Laboratories, Inc. since the commencement of litigation), which commenced with our filing

claims against MJ Research on June 24, 1998, in the U.S. District Court for the District of Connecticut 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, that some of our patents are unenforceable because of patent misuse, and that some of our patents are invalid and unenforceable because of inequitable conduct. MJ Research is seeking injunctive relief, monetary damages, costs and expenses, and other relief. These matters were adjudicated in part through a jury trial, which resulted in a verdict in our favor rendered in April 2004, and the remaining issues were resolved through a series of summary judgments granted by the District Court in several rulings issued in our favor between December 2004 and April 2005. As a result, MJ Research's counterclaims were rejected and MJ Research has been held liable to us and Roche Molecular Systems, also a party to the litigation, for infringement of 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). Further, the infringement of the '195, '202, '188 and '493 patents was held to be willful. As a result of these decisions in our favor, in April 2005, the District Court awarded us and Roche Molecular Systems damages of \$35.4 million plus reasonable attorneys' fees, an enhancement of the original damages award granted by the jury in the amount of \$19.8 million. MJ Research has filed a notice of appeal. Additionally, on August 30, 2005, the Court issued an order enjoining MJ Research from infringing U.S. Patent Nos. 5,333,675, 5,656,493 and 5,475,610.

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

Promega Corporation filed a patent infringement action against Lifecodes Corporation, Cellmark Diagnostics, Genomics International Corporation, and us in the U.S. District Court for the Western District of Wisconsin on April 24, 2001. The complaint alleges that the defendants are infringing Promega's U.S. Patent Nos. 6,221,598 and 5,843,660, both entitled "Multiplex Amplification of Short Tandem Repeat Loci," due to the defendants' sale of forensic identification and paternity testing kits. Promega is seeking monetary damages, costs and expenses, injunctive relief, and other relief as the court deems proper. The defendants answered the complaint on July 9, 2001, and we asserted counterclaims alleging that Promega is infringing our U.S. Patent No. 6,200,748, entitled "Tagged Extendable Primers and Extension Products," due to Promega's sale of forensic identification and paternity testing kits. As a result of

settlement negotiations, the case was dismissed without prejudice on October 29, 2002, but could be re-filed against us if settlement negotiations are not successful.

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 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<sup>®</sup> genotyping and gene expression assay products for non-coding regions, TaqMan genotyping and gene expression assay services for non-coding regions, AmpFLSTR<sup>®</sup> kits, the SNPlex<sup>™</sup> Genotyping System, the SNPbrowser<sup>™</sup> tool, and the Celera Discovery System<sup>™</sup>. 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 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. On-Line Technologies filed an appeal with the U.S. Court of Appeals for the Federal Circuit seeking reinstatement of its claims, and on October 13, 2004, the Court of Appeals upheld dismissal of all claims except for the patent infringement claim, which will be decided by the District Court in subsequent proceedings.

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 and dismissed the case with prejudice on August 20, 2004. Promega has filed an appeal with the U.S. Court of Appeals for the Fourth Circuit.

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.

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<sup>®</sup> 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 monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper.

Molecular Diagnostics Laboratories filed a class action complaint against us and Hoffmann-La Roche, Inc. in the U.S. District Court for the District of Columbia on September 23, 2004. The complaint alleges anticompetitive conduct in connection with the sale of Taq

DNA polymerase and PCR-related products. The anticompetitive conduct is alleged to arise from the prosecution and enforcement of U.S. Patent No. 4,889,818. This patent is assigned to Hoffmann-La Roche, with whom we have a commercial relationship covering, among other things, this patent and the sale of Taq DNA polymerase. The complaint seeks monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper. This case is largely based on the same set of contentions underlying a claim filed against us by Promega Corporation in the U.S. District Court for the Eastern District of Virginia, which is described above. The Promega claim was dismissed in August 2004 for, among other reasons, failure to state a claim upon which relief could be granted.

We filed a patent infringement action against Bio-Rad Laboratories, Inc., MJ Research, Inc., and Stratagene Corporation in the U.S. District Court for the District of Connecticut on November 9, 2004. The complaint alleges that the defendants infringe U.S. Patent No. 6,814,934. The complaint specifically alleges that the defendants' activities involving instruments for real-time PCR detection result in infringement. We are seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper. Bio-Rad, MJ Research, and Stratagene have each answered the complaint and counterclaimed for declaratory relief that the '934 patent is invalid and not infringed. Bio-Rad, MJ Research, and Stratagene are seeking dismissal of our complaint, a judgment that the '934 patent is invalid and not infringed, costs and expenses, and other relief as the court deems proper.

Thermo Finnigan LLC filed a patent infringement action against us in the U.S. District Court for the District of Delaware on December 8, 2004. The complaint alleges that we have infringed U.S. Patent No. 5,385,654 as a result of, for example, Applied Biosystems' commercialization of the ABI PRISM 3700 Genetic Analyzer. Thermo Finnigan is seeking monetary damages, costs, expenses, and other relief as the court deems proper.

#### **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.

#### **Settled Roche Legal Proceedings**

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 asserted, 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 asserted 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 formed the basis of the complaint included, 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 was based on our allegation that the defendants (i) had 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, had undermined the value of our exclusive PCR rights. In both the legal complaint and the arbitration, we were 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 alleged 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 sought a request for declaratory judgment confirming its assertions, interest, costs, and other relief as the arbitrator deems proper.

Effective May 6, 2005, the parties signed agreements settling these disputes, and they subsequently sought dismissal of the litigation and arbitration proceedings. The litigation was dismissed on June 10, 2005, and the dismissal of the arbitration was confirmed on June 16, 2005. More information about the settlement of these disputes is set forth above in Item 1 of this report under the heading "Business- Applied Biosystems Group Business- Patents, Licenses, and Franchises." These legal proceedings had involved PCR rights used by Applied Biosystems and also rights that Applied Biosystems contributed to Celera Diagnostics.

#### **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 Genomics 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 Genomics 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 Genomics 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, including all of the risks described below in this Item 5 under the heading "Forward-Looking Statements and Risk Factors."

The high and low sales prices of Applera-Applied Biosystems stock and Applera-Celera Genomics stock for each quarterly period during our 2004 and 2005 fiscal years is incorporated herein by reference to Note 11, page 76, of our 2005 Annual Report.

##### *Holdings*

On August 19, 2005, the approximate number of holders of Applera-Applied Biosystems stock was 5,896, and the approximate number of holders of Applera-Celera Genomics stock was 6,087. 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 2004 and 2005 fiscal years is incorporated herein by reference to Note 11, page 76, of our 2005 Annual Report.

***Sale of Unregistered Securities***

We have not sold any securities during our 2005 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 2005 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)
April 1-30, 2005	7,335	\$20.16	–	\$ –
May 1-31, 2005	–	\$ –	–	\$ –
June 1-30, 2005	293,734	\$21.43	283,900	\$ –
Total	301,069	\$21.40	283,900	\$ –

- (1) Consists of (a) the shares referred to in footnote (3) below, and (b) shares tendered by employees to cover the exercise of employee stock options and taxes relating to the vesting of restricted stock.

- (2) On July 27, 2005, Applied Biosystems announced that our Board of Directors has authorized the repurchase of up to 19,450,000 shares of Applera-Applied Biosystems stock, in addition to the authorization described in footnote (3) below. The new authorization has no time restrictions and delegates to company management discretion to purchase shares at times and prices it deems appropriate through open market purchases, privately negotiated transactions, tender offers, exchange offers, or otherwise. It is anticipated that repurchases will be made from time to time depending on market conditions and will be funded using Applied Biosystems' U.S. cash reserves and cash generated from domestic operations, as well as funds to be borrowed under our revolving corporate credit facility, if and when required.

- (3) We previously announced that our Board of Directors has authorized the repurchase of shares of Applera-Applied Biosystems stock from time to time to replenish shares issued under our various employee stock benefit plans. This authorization has no set dollar or time limits and delegates to Company management discretion to purchase shares at times and prices it deems appropriate through open market or negotiated purchases. Accordingly, the amounts in this column do not reflect this authorization. 283,900 shares of Applera-Applied Biosystems stock were purchased under this authorization during the fourth quarter of our 2005 fiscal year

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This table provides information regarding our purchases of shares of Applera-Celera Genomics stock during the fourth quarter of our 2005 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)
April 1-30, 2005	6,292	\$10.20	—	\$ —
May 1-31, 2005	—	\$ —	—	\$ —
June 1-30, 2005	3,278	\$10.89	—	\$ —
Total	9,570	\$10.44	—	\$ —

(1) Consists of shares tendered by employees to cover 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 Genomics stock from time to time to replenish shares issued under our various employee stock benefit plans. This authorization has no set dollar or time limits and delegates to Company management discretion to purchase shares at times and prices it deems appropriate through open market or negotiated purchases. Accordingly, the amounts in this column do not reflect this authorization. No shares of Applera-Celera Genomics stock were purchased under this authorization during the fourth quarter of our 2005 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 Genomics 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 services, and pursue new market opportunities.**

A significant portion of the net revenues for Applied Biosystems each year is derived from products and services that did not exist in the prior year. Applied Biosystems’ products and services 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 and services, develop and introduce, on a timely and cost-effective basis, new products and services 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 and services with new products and services 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 services 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. Research funding for life science research has increased more slowly during the past several years compared to previous years and has declined in some countries, and some grants have 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 lawsuits, arbitrations, investigations, and other legal actions with private parties and governmental entities, particularly involving claims for infringement of patents and other intellectual property rights, and it may need to obtain licenses to intellectual property from others.**

Applied Biosystems believes that it has meritorious defenses against the claims currently asserted against it and intends to defend them vigorously. However, the outcome of legal actions is inherently uncertain, and Applied Biosystems cannot be sure that it will prevail in any of these actions. An adverse determination in some of the group's current legal actions, particularly the cases described below, could have a material adverse effect on our consolidated financial statements.

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, because patent litigation is complex and the outcome inherently uncertain, Applied Biosystems' belief that its products do not infringe the technology covered by valid and enforceable patents could be successfully challenged by third parties. Applied Biosystems has from time to time been notified that it may be infringing patents and other intellectual property rights of others. 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. Due to these factors, there remains a constant risk of intellectual property litigation and other legal actions, which could include antitrust claims, affecting the group. Applied Biosystems has been made a party to litigation and has been subject to other legal actions regarding intellectual property matters, which have included claims of violations of antitrust laws. Such actions currently include the legal proceedings described in the following paragraph, some of which, if determined adversely, could have a material adverse effect on Applied Biosystems. To avoid or settle legal claims, 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, or at all.

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. These claims have been rejected as a result of a jury verdict and a series of summary judgment rulings by the court, but MJ Research has filed a notice of appeal. 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<sup>®</sup> genotyping and gene expression products and services, AmpFLSTR<sup>®</sup> kits, the SNPlex<sup>™</sup> Genotyping System, the SNPbrowser<sup>™</sup> tool, and the Celera Discovery System<sup>™</sup>. Genetic Technologies has also alleged that haplotyping analysis performed by our businesses infringes these patents.
- 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<sup>®</sup> 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.

Molecular Diagnostics Laboratories has filed a class action complaint against us and Hoffmann-La Roche, Inc. alleging anticompetitive conduct in connection with the sale of Taq DNA polymerase and PCR-related products. The anticompetitive conduct is alleged to arise from the prosecution and enforcement of U.S. Patent No 4,889,818. This patent is assigned to Hoffmann-La Roche, with whom we have a commercial relationship covering, among other things, this patent and the sale of Taq DNA polymerase.

- In response to patent infringement claims made by us against Bio-Rad Laboratories, Inc., MJ Research, Inc. and Stratagene Corporation, Bio-Rad, MJ Research, and Stratagene have filed counterclaims seeking declaratory judgments that our U.S. Patent No. 6,814,934 in the field of real-time PCR is invalid and not infringed.
- Thermo Finnigan LLC has filed a lawsuit against us alleging that we are infringing one of its patents as a result of, for example, Applied Biosystems' commercialization of the ABI PRISM 3700 Genetic Analyzer.

These cases are described in further detail above in Part I, Item 3 of this report under the heading "Legal Proceedings- Commercial Litigation."

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 55% of Applied Biosystems' net revenues for our 2005 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.

**The future growth of Applied Biosystems depends in part on its ability to acquire complementary technologies through acquisitions, investments, or other strategic relationships or alliances, which may absorb significant resources, may be unsuccessful, and could dilute holders of Applera-Applied Biosystems stock.**

Acquisitions, investments and other strategic relationships and alliances, if pursued, may involve significant cash expenditures, debt incurrence, and expenses that could have a material effect on Applied Biosystems' financial condition and operating results. If these types of transactions are pursued, it may be difficult for Applied Biosystems to complete these transactions quickly and to integrate these acquired operations efficiently into its current business operations. Potential technological advances resulting from the integration of technologies may not be achieved as successfully or rapidly as anticipated, if at all. Any acquisitions, investments or other strategic relationships and alliances by Applied Biosystems may ultimately have a negative impact on its business and financial condition. In addition, future acquisitions may not be as successful as originally anticipated and may result in impairment charges. We have incurred these charges in recent years in relation to acquisitions. For example, 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, \$25.9 million during our 2002 fiscal year, and \$4.5 million during our 2005 fiscal year in relation to Celera Genomics' acquisition of Paracel, Inc. Similarly, we incurred charges for the impairment of patents and acquired technology in the amount of \$14.9 million during our 2004 fiscal year in relation to Applied Biosystems' acquisition of Boston Probes, Inc. In addition, acquisitions and other transactions may involve the issuance of a substantial amount of Applera-Applied Biosystems stock without the approval of the holders of Applera-Applied Biosystems stock. Any issuances of this nature could be dilutive to holders of Applera-Applied Biosystems stock.

**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.

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.

**Applied Biosystems' operations involve the use, manufacture, sale, and distribution of hazardous materials, and the mishandling of these hazardous materials could result in substantial liabilities and harm to Applied Biosystems.**

Applied Biosystems' research and development and manufacturing activities involve the controlled use of potentially hazardous materials, including biological materials, chemicals, and various radioactive compounds. Also, some of Applied Biosystems' products are hazardous materials or include hazardous materials. Applied Biosystems cannot completely eliminate the risk of accidental or other contamination or injury from these materials, and Applied Biosystems could be held liable for resulting damages, which could be substantial. Under some laws and regulations, a party can be subject to "strict liability" for damages caused by some hazardous materials, which means that a party can be liable without regard to fault or negligence. In addition, Applied Biosystems is subject to federal, state, local, and foreign laws, regulations, and permits governing the use, storage, handling, and disposal of hazardous materials and specified waste products, as well as the shipment and labeling of materials and products containing hazardous materials. If Applied Biosystems fails to comply with any of these laws, regulations, or permits, we could be subject to substantial fine or penalty, payment of remediation costs, loss of permits, and/or other adverse governmental action. Any of these events could have a material adverse effect on Applied Biosystems' business and financial condition.

**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 may be volatile.**

The market price of Applera-Applied Biosystems stock has in the past been and may in the future 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 \$794 million as of June 30, 2005, 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 \$148 million as of June 30, 2005. 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 Celera Genomics' human genomic and other biological and medical information under the terms of a marketing and distribution agreement that was effective in April 2002, the term of which was originally ten years but which was extended to 15 years in February 2005. 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. 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, and sales of these products may not meet expectations. Such sales will depend on several factors that are not controlled by Celera Genomics, including general market conditions, customer acceptance, and the efforts of Applied Biosystems.

#### **Celera Genomics' ability to develop and commercialize proprietary therapeutic products is unproven and several of its programs rely on the use of novel discovery methods.**

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. Furthermore, Celera Genomics is seeking to identify novel methods of treating disease through the use of technology in the field of proteomics, the study of

proteins. Celera Genomics is also seeking to capitalize on its relationship with Celera Diagnostics by incorporating novel findings arising from Celera Diagnostics' disease association studies into its research. Celera Genomics is using the results of studies performed by Celera Diagnostics on its own behalf and also studies performed specifically for Celera Genomics. To our knowledge, neither of these approaches to therapeutic product discovery and development has to date been effectively used to develop a therapeutic product that has been commercialized, and therefore the potential benefit to Celera Genomics of its use of proteomics technology and Celera Diagnostics' disease association studies is unknown. Also, Celera Diagnostics is not obligated to continue performing disease association studies on its own or on Celera Genomics' behalf, and if Celera Diagnostics discontinues performing these studies Celera Genomics' business and scientific plan could be adversely affected.

**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.

**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 for approval by the U.S. Food and Drug Administration 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 any 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 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/or 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 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 U.S. Food and Drug Administration, 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 approval from the FDA for the commercial sale of that product. Outside of the U.S., the regulatory requirements for commercialization 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 regulatory review and approval process can take many years and require substantial expense and may not be successful.

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.

**Clinical trials may not be successful.**

Numerous unforeseen events during, or as a result of, clinical testing could delay or prevent commercialization of Celera Genomics' or its collaborators' therapeutic product candidates. Many companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in advanced clinical trials, even after promising results in earlier studies. The results from pre-clinical studies may be different from the results that are obtained in clinical trials. Factors that could affect the success of clinical trials include:

- Celera Genomics' or its collaborators' product candidates may not prove to be efficacious or may cause unacceptable toxicity or other harmful side effects;
- negative or inconclusive clinical trial results may require Celera Genomics or its collaborators to conduct further testing or to abandon projects that appeared promising in preliminary studies;
- registration or enrollment of patients or other volunteer participants in Celera Genomics' or its collaborators' clinical testing may be lower than anticipated, resulting in delay or cancellation of clinical testing; and
- regulators or institutional review boards may prevent, delay, suspend, or terminate clinical research for various reasons, including noncompliance with regulatory requirements or their determination that participating patients or other volunteers are being exposed to unacceptable health risks.

If any of these events were to occur, significant delays in or termination of Celera Genomics' or its collaborators' clinical testing may result. Celera Genomics has limited experience in conducting clinical trials and may not be able to rapidly or effectively continue the further development of its product candidates and meet current or future requirements, if any, identified by the U.S. Food and Drug Administration. Furthermore, clinical trials planned by Celera Genomics or its collaborators may not begin on time, may not be completed on schedule, or at all, or may not be sufficient for registration of the candidate compounds or to result in approvable products. Also, Celera Genomics' or its collaborators' research and clinical testing of their therapeutic product candidates may be delayed or abandoned if they later discover other compounds that show significantly improved safety or efficacy compared to the current product candidates. Any of the foregoing events could limit Celera Genomics' ability to generate revenues, cause Celera Genomics to incur additional expenses, and adversely affect Celera Genomics' financial results.

**Clinical trials may take several years or more and can be very expensive.**

The length of time for clinical trials generally varies substantially according to the type, complexity, novelty, and intended use of a product candidate. The duration and costs of clinical trials may vary significantly over the life of a project as a result of factors relating to the trial, including, among others:

- the number of patients or other volunteers that ultimately participate in the trial;
- the duration of participant follow-up that is appropriate in view of the results;
- the number of clinical sites included in the trials; and
- the length of time required to enroll suitable participants.

**Celera Genomics relies on other companies to conduct clinical trials.**

Celera Genomics does not have the ability to independently conduct clinical trials for its therapeutic product candidates, and must rely on other companies, such as contract research organizations, medical institutions, clinical investigators, and contract laboratories to conduct clinical trials. If these other companies do not successfully perform their contractual duties or regulatory obligations or meet expected deadlines, if the other companies need to be replaced, or if the quality or accuracy of the data they obtain is compromised due to the failure to adhere to Celera Genomics' clinical protocols or regulatory requirements or for other reasons, Celera Genomics' product development activities and clinical trials may be extended, delayed, suspended, or terminated.

**Celera Genomics' relies on suppliers for materials needed to manufacture compounds for clinical trials.**

Celera Genomics relies on other companies to manufacture compounds that will be tested in Celera Genomics' clinical trials. These manufacturers need access to raw materials to manufacture those compounds, and Celera Genomics is responsible for obtaining some of these raw materials from suppliers. Suppliers may not sell these materials at the time when they are needed or on commercially reasonable terms. If it becomes necessary to change suppliers for any

of these materials or if any of suppliers of these materials experience a shutdown or disruption in their facilities used to produce these materials, due to technical, regulatory, or other problems, it could adversely affect a manufacturer's ability to manufacture adequate quantities of Celera Genomics' compounds. If Celera Genomics or its manufacturers are unable to obtain the materials needed for the manufacture of compounds used in Celera Genomics' clinical trials, product testing and potential regulatory approval could be delayed, adversely impacting Celera Genomics' ability to develop the product candidates.

**Celera Genomics relies on other companies to manufacture its therapeutic product candidates.**

Celera Genomics currently does not have manufacturing capabilities or experience necessary to produce materials for pre-clinical testing or clinical trials, including its cathepsin S compound in late pre-clinical development and its HDAC inhibitor in Phase I clinical trials. As a result, Celera Genomics must rely on other companies to produce Celera Genomics' compounds for pre-clinical testing and clinical trials. These manufacturers must comply with applicable regulatory requirements, including the U.S. Food and Drug Administration's current Good Manufacturing Practices, or GMP, regulations. Celera Genomics' current and anticipated future dependence upon these manufacturers may adversely affect Celera Genomics' ability to develop and commercialize therapeutic products on a timely and competitive basis. These manufacturers may not be able to produce material on a timely basis or manufacture material at the quality level or in the quantity required to meet Celera Genomics' development timelines and applicable regulatory requirements, including the GMP regulations, other applicable FDA regulatory requirements, or similar regulations applicable outside of the U.S. Celera Genomics may not be able to maintain or renew its existing manufacturing arrangements, or enter into new arrangements, on a timely basis on commercially acceptable terms, or at all. Celera Genomics' manufacturers could terminate or decline to renew Celera Genomics' arrangements based on their own business priorities, at a time that is costly or inconvenient for Celera Genomics. If Celera Genomics is unable to contract on a timely basis for the production of materials in sufficient quantity and of sufficient quality on commercially acceptable terms, Celera Genomics' pre-clinical work or clinical trials may be delayed or prevented. Additionally, if Celera Genomics is required to enter into new manufacturing arrangements, it may not be able to obtain approval from the FDA of any alternate manufacturer in a timely manner, or at all, which could delay or prevent the clinical development and commercialization of any related product candidates.

**Celera Genomics' collaborations with outside experts may be subject to restriction and change.**

Celera Genomics collaborates with scientific and clinical experts at academic and other institutions that provide assistance and guidance to Celera Genomics' research and development efforts. These advisors and collaborators are not Celera Genomics' employees and may have other commitments that limit their availability to Celera Genomics. Although they generally agree not to do competing work, if a conflict of interest arises between their work for Celera Genomics and their work for another entity, Celera Genomics may lose the services of these experts. In addition, although Celera Genomics' advisors and collaborators sign agreements not to disclose Celera Genomics' confidential information, it is possible that valuable proprietary knowledge may become publicly known or otherwise available to other parties, including Celera Genomics' competitors, through them.

**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 continue to recruit and retain scientific and management personnel having specialized training and/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 potentially hazardous materials, including biological materials, chemicals, and various

radioactive compounds. Celera Genomics cannot completely eliminate the risk of accidental or other contamination or injury from these materials, and Celera Genomics could be held liable for resulting damages, which could be substantial. Under some laws and regulations, a party can be subject to “strict liability” for damages caused by some hazardous materials, which means that a party can be liable without regard to fault or negligence. In addition, Celera Genomics is subject to federal, state, local, and foreign laws, regulations, and permits governing the use, storage, handling, and disposal of hazardous materials and specified waste products. If Celera Genomics fails to comply with any of these laws, regulations, or permits, we could be subject to substantial fine or penalty, payment of remediation costs, loss of permits, and/or other adverse governmental action. Any of these events could have a material adverse effect on Celera Genomics’ business and financial condition.

**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 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 through the Internet is interrupted, the group’ s business could suffer.

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. If Celera Genomics fails to maintain and further develop the necessary computer capacity and data to support its therapeutic products discovery and development programs, 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.**

Celera Genomics’ ability to compete and to achieve and maintain profitability depends, in part, on its ability to protect its proprietary discoveries and technologies 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, scientific, 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. Also, Celera Genomics cannot ensure that changes in policies or to laws, or interpretations of these policies or laws,

relevant to the patenting of biotechnology and pharmaceutical inventions will not adversely affect its patent position in the U.S. or other countries. Opposition to the protection of these inventions in the U.S. or other countries could result in stricter standards for obtaining or enforcing biotechnology or pharmaceutical patent rights.

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.

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, may become involved in expensive intellectual property legal proceedings, and may need to obtain licenses to intellectual property from others.**

There has been substantial litigation and other legal proceedings regarding patents and other intellectual property rights in the biotechnology, pharmaceutical, and diagnostic industries. The intellectual property rights of biotechnology companies, including Celera Genomics, are generally uncertain and involve complex factual, scientific, and legal 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.

Celera Genomics may initiate proceedings at the U.S. Patent and Trademark Office to determine its patent rights with respect to third parties, referred to as "interference proceedings." Also, Celera Genomics may initiate patent litigation to enforce its patent rights or invalidate patents held by third parties. These legal actions may similarly be initiated against Celera Genomics by third parties alleging that Celera Genomics is infringing their rights. The cost to Celera Genomics of any patent litigation or proceedings, even if Celera Genomics is successful, could be substantial, and these legal actions may absorb significant management time. If infringement claims against Celera Genomics are 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, and Celera Genomics may not be able to obtain a license on commercially acceptable terms, or at all. Also, Celera Genomics could become subject to significant liabilities to third parties if these claims are resolved unfavorably to Celera Genomics.

**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.

**Celera Genomics may pursue acquisitions, investments, or other strategic relationships or alliances, which may consume significant resources, may be unsuccessful, and could dilute the holders of Applera-Celera Genomics stock.**

Acquisitions, investments and other strategic relationships and alliances, if pursued, 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:

- diversion of management from daily operations;
- difficulties integrating acquired technologies and personnel into the business of Celera Genomics;
- 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.

If these types of transactions are pursued, 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. In addition, future acquisitions may not be as successful as originally anticipated and may result in impairment charges. We have incurred these charges in recent years in relation to acquisitions. For example, 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, \$25.9 million during our 2002 fiscal year, and \$4.5 million during our 2005 fiscal year in relation to Celera Genomics' acquisition of Paracel, Inc. Similarly, we incurred charges for the impairment of patents and acquired technology in the amount of \$14.9 million during our 2004 fiscal year in relation to Applied Biosystems' acquisition of Boston Probes, Inc.

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

The market price of Applera-Celera Genomics stock has in the past been and may in the future 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 class action lawsuit relating to its 2000 offering of shares of Applera-Celera Genomics stock that may be expensive and time consuming.**

Our company and some of our officers are defendants in a lawsuit brought on behalf of purchasers of Applera-Celera Genomics stock in our follow-on public offering of Applera-Celera Genomics stock completed on March 6, 2000. In the offering, we sold an aggregate of approximately 4.4 million shares of Applera-Celera Genomics 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 which has been certified by the court as a class action. 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 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 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 U.S. Food and Drug Administration 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, which relate to

manufacturing of diagnostic products. 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 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 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 strategic alliances, if any, with other third parties are likely to be subject to similar terms and conditions.

**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 the existing alliance agreement, work with another distributor, or pursue 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 any set period 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 U.S. Food and Drug Administration 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' operations involve the use, manufacture, sale, and distribution of hazardous materials, and the mishandling of these hazardous materials could result in substantial liabilities and harm to Celera Diagnostics.**

Celera Diagnostics' research and development and manufacturing activities involve the controlled use of potentially hazardous materials, including biological materials and chemicals. Also, some of Celera Diagnostics' products, including products sold through its strategic alliance with Abbott Laboratories, are hazardous materials or include hazardous materials. Celera Diagnostics cannot completely eliminate the risk of accidental or other contamination or injury from these materials, and Celera Diagnostics could be held liable for resulting damages, which could be substantial. Under some laws and regulations, a party can be subject to "strict liability" for damages caused by some hazardous materials, which means that a party can be liable without regard to fault or negligence. Furthermore, Celera Diagnostics could be held indirectly responsible for contamination or injury arising from the conduct of Abbott Laboratories in manufacturing, selling, or distributing alliance products. In addition, Celera Diagnostics is subject to federal, state, local, and foreign laws, regulations, and permits governing the use, storage, handling, and disposal of hazardous materials and specified waste products, as well as the shipment and labeling of materials and products containing hazardous materials. If Celera Diagnostics fails to comply with any of these laws, regulations, or permits, or if Celera Diagnostics is held indirectly responsible for conduct of Abbott Laboratories found to be non-

compliant, we could be subject to substantial fine or penalty, payment of remediation costs, loss of permits, and/or other adverse governmental action. Similar consequences could arise if Celera Diagnostics is held indirectly responsible for conduct of Abbott Laboratories found to be non-compliant. Any of these events could have a material adverse effect on Celera Diagnostics' business and financial condition.

**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 Diagnostics' data by Celera Diagnostics' internal research personnel or collaborators through the Internet is interrupted, its business could suffer.

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.**

Celera Diagnostics' ability to compete and to achieve and maintain profitability depends, in part, on its ability to protect its proprietary discoveries and technologies 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, scientific, 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. Also, Celera Diagnostics cannot ensure that changes in policies or to laws, or interpretations of these policies or laws, relevant to the patenting of biotechnology inventions will not adversely affect its patent position in the U.S. or other countries. Opposition to the protection of these inventions in the U.S. or other countries could result in stricter standards for obtaining or enforcing biotechnology patent rights.

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.

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, may become involved in expensive intellectual property legal proceedings, and may need to obtain licenses to intellectual property from others.**

There has been substantial litigation and other legal proceedings regarding patents and other intellectual property rights in the biotechnology, pharmaceutical, and diagnostic industries. The intellectual property rights of biotechnology companies, including Celera Diagnostics, are generally uncertain and involve complex factual, scientific, and legal 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.

Celera Diagnostics may initiate proceedings at the U.S. Patent and Trademark Office to determine its patent rights with respect to third parties, referred to as interference proceedings. Also, Celera Diagnostics may initiate patent litigation to enforce its patent rights or invalidate patents held by third parties. These legal actions may similarly be initiated against Celera Diagnostics by third parties alleging that Celera Diagnostics is infringing their rights. 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. This case is described in further detail above in Part I, Item 3 of this report under the heading "Legal Proceedings- Commercial Litigation." The cost to Celera Diagnostics of any patent litigation or proceedings,

even if Celera Diagnostics is successful, could be substantial, and these legal actions may absorb significant management time. If infringement claims against Celera Diagnostics are 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, and Celera Diagnostics may not be able to obtain a license on commercially acceptable terms, or at all. Also, Celera Diagnostics could become subject to significant liabilities to third parties if these claims are resolved unfavorably to Celera Diagnostics. Similarly, contractual disputes related to existing license rights under third party patents may affect Celera Diagnostics' ability to develop, manufacture, and sell its products.

**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 operations of Celera Diagnostics are located in Alameda, California. Alameda is 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 Genomics 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 Genomics 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 Genomics 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 Genomics 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 Genomics 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 Genomics 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% of

the voting power as of September 1, 2005, the record date for our 2005 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 Genomics 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 Genomics 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 Genomics 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 Genomics 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 as 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 Genomics 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 Genomics 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 Genomics 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 Genomics 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 19, 2005, our directors and executive officers held shares of Applera-Applied Biosystems stock and Applera-Celera Genomics stock representing approximately equal percentages of the total shares outstanding of Applera-Applied Biosystems stock and Applera-Celera Genomics stock. The stock market value of these shares will vary with fluctuations in the market price of Applera-Applied Biosystems stock and Applera-Celera Genomics 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 Genomics 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 Genomics stock in any amount and could, in its sole discretion, declare and pay dividends exclusively on Applera-Applied Biosystems stock, exclusively on Applera-Celera Genomics 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 Genomics 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 Genomics 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 Genomics 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 Genomics 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 Genomics 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 Genomics 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 Genomics 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 \$28.1 million in our 2003 fiscal year, \$12.3 million in our 2004 fiscal year, and \$51.1 million in our 2005 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 Genomics 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 19 and 20 of our 2005 Annual Report.

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

We incorporate herein by reference pages 21 through 46 of our 2005 Annual Report.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

We incorporate herein by reference page 44 of our 2005 Annual Report.

**Item 8. Financial Statements and Supplementary Data**

The following financial statements and the supplementary financial information included in our 2005 Annual Report are incorporated herein by reference: the Consolidated Financial Statements and the report thereon of PricewaterhouseCoopers LLP dated August 31, 2005, on pages 47 through 92 of our 2005 Annual Report, including Note 11, page 76, 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 are responsible for maintaining adequate disclosure controls and procedures as defined by the Securities and Exchange Commission in its Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Generally, these are 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 SEC'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 2005 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**

*General.* We are responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined by the Securities and Exchange Commission in its Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Generally, internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

*Management's Report on Internal Control Over Financial Reporting.* Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our internal control over financial reporting as of the end of our 2005 fiscal year, the period covered by this report. The report of our management on internal control over financial reporting, based on this evaluation, appears on page 91 of our 2005 Annual Report. The management report is incorporated into this report by reference.

*Attestation Report of our Registered Public Accounting Firm.* The report of our independent registered public accounting firm on our management's assessment of the effectiveness of our internal control over financial reporting appears on page 92 of our 2005 Annual Report. The attestation report is incorporated into this report by reference.

*Changes in Internal Control Over Financial Reporting.* Based on our management's review of internal control over financial reporting as described above, we have determined that no changes were made to our internal control over financial reporting during the fourth fiscal

quarter of our 2005 fiscal year that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

Not applicable.

**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 pages 24- 26 of our 2005 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 8, 2005, 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, Ph.D.	51	Vice President (2002)	Chief Scientific Officer, Celera Genomics Group
Catherine M. Burzik	54	Senior Vice President, and President, Applied Biosystems Group (2004)	Not applicable
Ugo D. DeBlasi	43	Vice President and Controller (2003)	Not applicable
Dennis A. Gilbert, Ph.D.	47	Vice President (2004)	Vice President-Research and Chief Scientific Officer, Applied Biosystems
Barbara J. Kerr	59	Vice President, Human Resources (2000)	Not applicable
Sandeep Nayyar	45	Assistant Controller (2002)	Vice President, Finance, Applied Biosystems Group
Kathy P. Ordoñez	54	Senior Vice President, and President, Celera Genomics Group and Celera Diagnostics (2002)	Not applicable
William B. Sawch	50	Senior Vice President (1997) and General Counsel (1993)	Not applicable
Tony L. White	59	Chairman, President, and Chief Executive Officer (1995)	Not applicable

Dennis L. Winger	57	Senior Vice President and Chief Financial Officer (1997)	Not applicable
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Each of the executive officers identified above was most recently elected to the corporate offices identified above by our Board of Directors in August 2005. 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, Dr. Gilbert, 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.

Dr. Gilbert was elected Vice President on November 18, 2004. Dr. Gilbert was first employed by us in 1994 as a research scientist, and since then he has held positions of increasing responsibility at Applera, including most recently Vice President, Advanced Research and Technology at Applied Biosystems. Prior to that he held various other management positions within Applera businesses, including Vice President, Genomics Applications at Applied Biosystems and Vice President, Gene Discovery at Celera Genomics.

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, Robert H. Hayes (co-chair), Theodore E. Martin, and James R. Tobin (co-chair). 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, constituting all members of the Committee except 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 pages 4 and 5 of our 2005 Proxy Statement under the heading “Board of Directors and Committees- Board 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 pages 5 and 6 of our 2005 Proxy Statement under the heading “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 page 11 of our 2005 Proxy Statement under the heading “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 pages 2 and 3 under the heading “Business- 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 pages 12- 23 of our 2005 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**

The following table provides information about shares of Applera common stock that may be issued under our equity compensation plans, including compensation plans that were approved by our stockholders as well as compensation plans that were not approved by our stockholders. Information in the table is as of the end of our 2005 fiscal year.

Plan Category	Number of shares to be issued upon exercise of outstanding options, warrants, and rights (a)	Weighted-average exercise price of outstanding options, warrants, and rights (b)	Number of shares remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
<b><i>Applera-Applied Biosystems stock</i></b>			
Equity compensation plans approved by stockholders	35,479,922 <sup>1</sup>	\$30.9027	12,637,523 <sup>2</sup>
Equity compensation plans not approved by stockholders	0 <sup>3</sup>		
<b>Total</b>	<b>35,479,922</b>	<b>\$30.9027</b>	<b>12,637,523</b>
<b><i>Applera-Celera Genomics stock</i></b>			
Equity compensation plans approved by stockholders	10,254,952 <sup>4</sup>	\$18.8438	7,279,691 <sup>5</sup>
Equity compensation plans not approved by stockholders	77,616 <sup>6,7</sup>	\$27.6148	581,496 <sup>7</sup>
<b>Total</b>	<b>10,332,568</b>	<b>\$18.9096</b>	<b>7,861,187</b>

<sup>1</sup> Represents shares of Applera-Applied Biosystems stock issuable upon the exercise of options outstanding under the following equity compensation plans: The Perkin-Elmer Corporation 1993 Stock Incentive Plan for Key Employees; The Perkin-Elmer Corporation 1996 Stock Incentive Plan; The Perkin-Elmer Corporation 1997 Stock Incentive Plan; and The Perkin-Elmer Corporation 1998 Stock Incentive Plan (collectively, the “Frozen Applera Equity Plans”); and the Applera Corporation/Applied Biosystems Group Amended and Restated 1999 Stock Incentive Plan.

- 2 Represents shares of Applera-Applied Biosystems stock issuable pursuant to options and other rights authorized for future issuance under the Applera Corporation/Applied Biosystems Group Amended and Restated 1999 Stock Incentive Plan and the Applera Corporation 1999 Employee Stock Purchase Plan. Also includes 194,858 shares of Applera-Applied Biosystems stock remaining available for future issuance under the Applera Corporation 1993 Director Stock Purchase and Deferred Compensation Plan.
- 3 As of the end of our 2005 fiscal year, options to purchase 66,494 shares of Applera-Applied Biosystems stock were outstanding under the following equity compensation plans: the Molecular Informatics, Inc. 1997 Equity Ownership Plan; the PerSeptive Biosystems 1992 Stock Plan; and the PerSeptive Biosystems 1997 Non-Qualified Stock Option Plan. These options were assumed in connection with merger and acquisition transactions. The weighted-average exercise price of these options as of such date was \$8.1846. No new options or other rights to equity compensation will be issued under these equity compensation plans, and the options outstanding under these equity compensation plans are not reflected in the table above.
- 4 Represents shares of Applera-Celera Genomics stock issuable upon the exercise of options outstanding under the Frozen Applera Equity Plans and the Applera Corporation/Celera Genomics Group Amended and Restated 1999 Stock Incentive Plan.
- 5 Represents shares of Applera-Celera Genomics stock issuable pursuant to options and other rights authorized for future issuance under the Applera Corporation/Celera Genomics Group Amended and Restated 1999 Stock Incentive Plan and the Applera Corporation 1999 Employee Stock Purchase Plan. Also includes 43,208 shares of Applera-Celera Genomics stock remaining available for future issuance under the Applera Corporation 1993 Director Stock Purchase and Deferred Compensation Plan.
- 6 As of the end of our 2005 fiscal year, options to purchase 214,182 shares of Applera-Celera Genomics stock were outstanding under the following equity compensation plans: the Molecular Informatics, Inc. 1997 Equity Ownership Plan; the Axys Pharmaceuticals, Inc. 1989 Stock Plan; the Axys Pharmaceuticals, Inc. 1997 Equity Incentive Plan; the Axys Pharmaceuticals, Inc. 1997 Non-Officer Equity Incentive Plan; the PerSeptive Biosystems 1992 Stock Plan; the PerSeptive Biosystems 1997 Non-Qualified Stock Option Plan; and the Paracel, Inc. Stock Option Plan. These options were assumed in connection with merger and acquisition transactions. The weighted average exercise price of these options as of such date was \$24.6228. No new options or other rights to equity compensation will be issued under these equity compensation plans, and the options outstanding under these equity compensation plans are not reflected in the table above, except for the Axys Pharmaceuticals, Inc. 1997 Equity Incentive Plan.
- 7 Represents shares of Applera-Celera Genomics stock issuable pursuant to options outstanding under the Axys Pharmaceuticals, Inc. 1997 Equity Incentive Plan, and shares of Applera-Celera Genomics stock issuable pursuant to options and other rights authorized for future issuance under that plan.

The following is a description of the material features of our equity compensation plans that were not approved by our stockholders:

*Molecular Informatics, Inc. 1997 Equity Ownership Plan.* We assumed this plan in connection with the acquisition of Molecular Informatics, Inc. No new options or other rights to equity compensation will be issued under this plan. As of the end of our 2005 fiscal year, there were options to purchase 5,544 shares of Applera-Applied Biosystems stock and 2,004 shares of Applera-Celera Genomics stock outstanding under this plan. The last of these options that were issued are scheduled to terminate in July 2007.

*PerSeptive Biosystems 1992 Stock Plan.* We assumed this plan in connection with the acquisition of PerSeptive Biosystems, Inc. No new options or other rights to equity compensation will be issued under this plan. As of the end of our 2005 fiscal year, there were options to purchase 56,334 shares of Applera-Applied Biosystems stock and 18,072 shares of Applera-Celera Genomics stock outstanding under this plan. The last of these options that were issued are scheduled to terminate in July 2007.

*PerSeptive Biosystems 1997 Non-Qualified Stock Option Plan.* We assumed this plan in connection with the acquisition of PerSeptive Biosystems, Inc. No new options or other rights to equity compensation will be issued under this plan. As of the end of our 2005 fiscal year, there were options to purchase 4,616 shares of Applera-Applied Biosystems stock and 578 shares of Applera-Celera Genomics stock outstanding under this plan. The last of these options that were issued are scheduled to terminate in August 2007.

*Paracel, Inc. Stock Option Plan.* We assumed this plan in connection with the acquisition of Paracel, Inc. No new options or other rights to equity compensation will be issued under this plan. As of the end of our 2005 fiscal year, there were options to purchase 23,915 shares of Applera-Celera Genomics stock outstanding under this plan. The last of these options that were issued are scheduled to terminate in February 2007.

*Axys Pharmaceuticals, Inc. 1989 Stock Plan.* We assumed this plan in connection with the acquisition of Axys Pharmaceuticals, Inc. No new options or other rights to equity compensation will be issued under this plan. As of the end of our 2005 fiscal year, there were options to purchase 35,288 shares of Applera-Celera Genomics stock outstanding under this plan. The last of these options that were issued are scheduled to terminate in May 2009.

*Axys Pharmaceuticals, Inc. 1997 Equity Incentive Plan.* We assumed this plan in connection with the acquisition of Axys Pharmaceuticals, Inc. As of the end of our 2005 fiscal year, there were options to purchase 77,616 shares of Applera-Celera Genomics stock outstanding under this plan. The last of these options that were issued are scheduled to terminate in November 2011. 581,496 shares of Applera-Celera Genomics stock are authorized for future issuance as equity compensation under this plan pursuant to stock options, stock awards, and stock purchase awards. Employees and directors of and consultants to Axys Pharmaceuticals, one of our wholly owned subsidiaries, and its affiliates are generally eligible for the grant of equity compensation under this plan. The exercise price, vesting period, and all other terms and conditions of each option granted under this plan will be determined by our Management Resources Committee, except that the exercise price may not be less than the fair market value on the date of grant, and the term of each option may not be more than 10 years. Stock awards and stock purchase awards under this plan may be subject to such restrictions as may be determined by the Committee and may be subject to repurchase rights in favor of the Company. Stock purchase awards under this plan may

not have a purchase price less than the fair market value on the date of the award. This plan expires in November 2007, after which no equity compensation may be issued under this plan.

*Axys Pharmaceuticals, Inc. 1997 Non-Officer Equity Incentive Plan.* We assumed this plan in connection with the acquisition of Axys Pharmaceuticals, Inc. No new options or other rights to equity compensation will be issued under this plan. As of the end of our 2005 fiscal year, there were options to purchase 56,709 shares of Applera-Celera Genomics stock outstanding under this plan. The last of these options that were issued are scheduled to terminate in October 2011.

### **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 page 9 of our 2005 Proxy Statement under the heading “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 pages 10 and 11 of our 2005 Proxy Statement under the heading “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 pages 21- 23 of our 2005 Proxy Statement under the heading “Executive Compensation–Employment Agreements and Other Relationships.”

### **Item 14. Principal Accountant Fees and Services**

Information concerning fees billed by PricewaterhouseCoopers LLP, our independent registered public accounting firm, during our 2004 and 2005 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 pages 26 and 27 of our 2005 Proxy Statement under the heading “Proposal 2- Ratification of the Selection of Independent Registered Public Accounting Firm.”

**PART IV****Item 15. Exhibits and Financial Statement Schedules****Financial Statements**

The following financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated August 31, 2005, appearing in our 2005 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 2005 Annual Report is not to be deemed filed as part of this report.

	Annual Report Page No.
<a href="#">Consolidated Statements of Operations</a> <a href="#">Fiscal years 2003, 2004, and 2005</a>	<a href="#">47</a>
<a href="#">Consolidated Statements of Financial Position</a> <a href="#">At June 30, 2004 and 2005</a>	<a href="#">48</a>
<a href="#">Consolidated Statements of Cash Flows</a> <a href="#">Fiscal years 2003, 2004, and 2005</a>	<a href="#">49</a>
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<a href="#">Notes to Consolidated Financial Statements</a>	<a href="#">51 - 90</a>
<a href="#">Report of Management</a>	<a href="#">91</a>
<a href="#">Report of Independent Registered Public Accounting Firm</a>	<a href="#">92</a>

## Financial Statement Schedule

The following additional financial data should be read in conjunction with the consolidated financial statements in our 2005 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.

	10-K Page No.
Report of Independent Registered Public Accounting Firm on Financial Statement Schedule	121
Schedule II - Valuation and Qualifying Accounts and Reserves	122

## 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)).
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 15, 2005, among Applera, the initial lenders named therein, Citigroup Global Markets Inc., as sole arranger, JPMorgan Chase Bank, N.A., as syndication agent, Bank of America, N.A. and ABN AMRO Bank N.V., as co-documentation agents, and Citibank, N.A., as administrative agent (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated April 15, 2005, and filed April 20, 2005 (Commission file number 1-4389)).

- 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)).\*
- 10.2.1 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)).\*
- 10.2.2 Form of Non-Qualified Stock Option Agreement for executive officers pursuant to The Perkin-Elmer Corporation 1996 Stock Incentive Plan.\*
- 10.2.3 Form of Incentive Stock Option Agreement for executive officers pursuant to The Perkin-Elmer Corporation 1996 Stock Incentive Plan.\*
- 10.2.4 Form of Director Stock Option Agreement pursuant to The Perkin-Elmer Corporation 1996 Stock Incentive Plan.\*
- 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)).\*
- 10.4.1 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)).\*
- 10.4.2 Form of Non-Qualified Stock Option Agreement for executive officers pursuant to The Perkin-Elmer Corporation 1997 Stock Incentive Plan.\*
- 10.5.1 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)).\*
- 10.5.2 Form of Director Stock Option Agreement pursuant to The Perkin-Elmer Corporation 1998 Stock Incentive Plan.\*
- 10.6 Applera Corporation 1999 Employee Stock Purchase Plan, as amended October 21, 2004 (incorporated by reference to Annex A to Schedule 14A, filed September 17, 2004, containing our definitive Proxy Statement for our 2004 Annual Meeting of Stockholders (Commission file number 1-4389)).\*
- 10.7.1 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)).\*
- 10.7.2 Form of Non-Qualified Stock Option Agreement for executive officers pursuant to the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan.\*
- 10.7.3 Form of Incentive Stock Option Agreement for executive officers pursuant to the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan.\*
- 10.7.4 Forms of Stock Option Agreements for executive officers pursuant to the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan, relating to non-qualified options issued in conjunction with awards under the Applera Corporation Performance Unit Bonus Plan.\*
- 10.7.5 Form of Employee Stock Award Agreement for executive officers pursuant to the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan.\*

- 10.7.6 Form of Director Stock Option Agreement pursuant to the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan.\*
- 10.7.7 Forms of Performance Stock Option Agreements for executive officers pursuant to the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan.\*
- 10.7.8 Form of Performance Share Award Agreement for executive officers pursuant to the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan.\*

- 10.8.1 Applera Corporation/Applied Biosystems Group Amended and Restated 1999 Stock Incentive Plan, effective October 21, 2004 (incorporated by reference to Annex B to Schedule 14A, filed September 17, 2004, containing our definitive Proxy Statement for our 2004 Annual Meeting of Stockholders (Commission file number 1-4389)).\*
- 10.8.2 Form of Non-Qualified Stock Option Agreement for executive officers pursuant to the Applera Corporation/Applied Biosystems Group Amended and Restated 1999 Stock Incentive Plan.\*
- 10.8.3 Form of Incentive Stock Option Agreement for executive officers pursuant to the Applera Corporation/Applied Biosystems Group Amended and Restated 1999 Stock Incentive Plan.\*
- 10.8.4 Form of Restricted Stock Bonus Agreement for executive officers pursuant to the Applera Corporation/Applied Biosystems Group Amended and Restated 1999 Stock Incentive Plan.\*
- 10.8.5 Form of Director Stock Option Agreement pursuant to the Applera Corporation/Applied Biosystems Group Amended and Restated 1999 Stock Incentive Plan (incorporated by reference to Exhibit 10.6 to our Current Report on Form 8-K dated October 21, 2004, and filed October 27, 2004 (Commission file number 1-4389)).\*
- 10.8.6 Form of Director Stock Award Agreement pursuant to the Applera Corporation/Applied Biosystems Group Amended and Restated 1999 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to our Current Report on Form 8-K dated October 21, 2004, and filed October 27, 2004 (Commission file number 1-4389)).\*
- 10.9.1 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)).\*
- 10.9.2 Form of Non-Qualified Stock Option Agreement for executive officers pursuant to the Applera Corporation/Celera Genomics Group 1999 Stock Incentive Plan.\*
- 10.9.3 Form of Incentive Stock Option Agreement for executive officers pursuant to the Applera Corporation/Celera Genomics Group 1999 Stock Incentive Plan.\*
- 10.9.4 Forms of Stock Option Agreements for executive officers pursuant to the Applera Corporation/Celera Genomics Group 1999 Stock Incentive Plan, relating to non-qualified options issued in conjunction with awards under the Applera Corporation Performance Unit Bonus Plan.\*
- 10.9.5 Form of Employee Stock Award Agreement for executive officers pursuant to the Applera Corporation/Celera Genomics Group 1999 Stock Incentive Plan.\*
- 10.9.6 Form of Director Stock Option Agreement pursuant to the Applera Corporation/Celera Genomics Group 1999 Stock Incentive Plan.\*
- 10.9.7 Form of Scientific Advisory Board Stock Option Agreement pursuant to the Applera Corporation/Celera Genomics Group 1999 Stock Incentive Plan.\*
- 10.9.8 Form of Performance Share Award Agreement for executive officers pursuant to the Applera Corporation/Celera Genomics 1999 Stock Incentive Plan.\*

- 10.10.1 Applera Corporation/Applied Biosystems Group Amended and Restated 1999 Stock Incentive Plan, effective October 21, 2004 (incorporated by reference to Annex B to Schedule 14A, filed September 17, 2004, containing our definitive Proxy Statement for our 2004 Annual Meeting of Stockholders (Commission file number 1-4389)).\*
- 10.10.2 Form of Non-Qualified Stock Option Agreement for executive officers pursuant to the Applera Corporation/Applied Biosystems Group Amended and Restated 1999 Stock Incentive Plan.\*
- 10.10.3 Form of Incentive Stock Option Agreement for executive officers pursuant to the Applera Corporation/Applied Biosystems Group Amended and Restated 1999 Stock Incentive Plan.\*
- 10.10.4 Form of Restricted Stock Bonus Agreement for executive officers pursuant to the Applera Corporation/Applied Biosystems Group Amended and Restated 1999 Stock Incentive Plan.\*

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- 10.10.5 Form of Director Stock Option Agreement pursuant to the Applera Corporation/Celera Genomics Group Amended and Restated 1999 Stock Incentive Plan (incorporated by reference to Exhibit 10.7 to our Current Report on Form 8-K dated October 21, 2004, and filed October 27, 2004 (Commission file number 1-4389)).\*
- 10.10.6 Form of Director Stock Award Agreement pursuant to the Applera Corporation/Celera Genomics Group Amended and Restated 1999 Stock Incentive Plan (incorporated by reference to Exhibit 10.5 to our Current Report on Form 8-K dated October 21, 2004, and filed October 27, 2004 (Commission file number 1-4389)).\*
- 10.11 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)).\*
- 10.12 The Excess Benefit Plan of Applera Corporation, as amended and restated effective July 1, 2004 (incorporated by reference to Exhibit 10.10 to our Annual Report on Form 10-K for the fiscal year ended June 30, 2004 (Commission file number 1-4389)) ..\*
- 10.13 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)).\*
- 10.14.1 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)).\*
- 10.14.2 Forms of Performance Unit Agreements for executive officers pursuant to the Applera Corporation Performance Unit Bonus Plan.\*
- 10.15 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)).\*
- 10.16 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)).\*

- 10.17 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)).\*
- 10.18 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)).\*
- 10.19 Molecular Informatics, Inc. 1997 Equity Ownership Plan (incorporated by reference to Exhibit 99 to our Registration Statement on Form S-8 (No. 333-42683)).\*
- 10.20 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)).\*
- 10.21 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)). \*
- 10.22 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)).\*
- 10.23 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)).\*

- 10.24 Form of notice to directors, officers, and other employees regarding January 20, 2005, acceleration of stock option vesting, including notice to directors and executive officers regarding restrictions imposed on their accelerated options (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarter ended December 31, 2004 (Commission file number 1-4389)).\*
- 10.25 Form of notice to executive officers, and other employees regarding June 2, 2005, acceleration of performance unit bonus plan stock option vesting, including notice regarding restrictions imposed on their accelerated options.\*
- 10.26 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)).\*
- 10.27 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 10.14 to our Annual Report on Form 10-K for the fiscal year ended June 30, 2001 (Commission file number 1-4389)).\*
- 10.28 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)).\*
- 10.29 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)).\*
- 10.30 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)).\*
- 10.31 Letter dated June 24, 1997, from Applera to 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)). \*
- 10.32 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)).\*
- 10.33 Letter dated August 21, 2003, from Applera to Dennis L. Winger regarding the letter dated June 24, 1997, from Applera to 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)).\*
- 10.34 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)).\*
- 10.35 Employment Agreement dated as of September 2, 2003, between Applera Corporation and Catherine M. Burzik.\*
- 10.36 Letter agreement dated July 25, 2003, between Applera Corporation and Catherine M. Burzik.\*
- 10.37 Employment Agreement dated as of September 5, 2000, between Applera Corporation and Barbara J. Kerr.\*
- 10.38 Employment Agreement dated as of December 2, 1996, between Applera Corporation and Ugo D. DeBlasi.\*

Description of fiscal year 2005 incentive compensation program (incorporated by reference to Exhibit 10.8 to our Current Report on Form 8-K dated October 21, 2004, and filed October 27, 2004 (Commission file number 1-4389)).\*

- 10.40 Description of Applera Corporation fiscal year 2006 Incentive Compensation Program (incorporated by reference to Item 1.01 of our Current Report on Form 8-K dated August 18, 2005, and filed August 24, 2005 (Commission file number 1-4389)).\*
- 10.41.1 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)).
- 10.41.2 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 (incorporated by reference to Exhibit 10.34 to our Annual Report on Form 10-K for the fiscal year ended June 30, 2004 (Commission file no. 1-4389)).
- 10.42.1 Celera Genomics/Applied Biosystems Marketing and Distribution Agreement dated as of February 27, 2003, and effective as of April 1, 2002, among Applera, its Applied Biosystems group, and its Celera Genomics group (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)).
- 10.42.2 Amended and Restated Celera Genomics/Applied Biosystems Marketing and Distribution Agreement dated as of June 22, 2004 among Applera, its Applied Biosystems group, and its Celera Genomics group (incorporated by reference to Exhibit 10.36 to our Annual Report on Form 10-K for the fiscal year ended June 30, 2004 (Commission file no. 1-4389)).
- 10.42.3 Amendment, dated as of February 4, 2005, to Celera Genomics/Applied Biosystems Marketing and Distribution Agreement among Applera, its Applied Biosystems group, and its Celera Genomics group (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended December 31, 2004 (Commission file no. 1-4389)).
- 11 Computation of Net Income (Loss) per Share for the three years ended June 30, 2005 (incorporated by reference to Note 1 to Consolidated Financial Statements of Annual Report to Stockholders for the fiscal year ended June 30, 2005).
- 13 Annual Report to Stockholders for the fiscal year ended June 30, 2005 (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

**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

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William B. Sawch  
Senior Vice President and General Counsel

Date: September 8, 2005

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 8, 2005  
\_\_\_\_\_  
Tony L. White  
Chairman of the Board of Directors, President  
and Chief Executive Officer  
(Principal Executive Officer)

/s/ Dennis L. Winger September 8, 2005  
\_\_\_\_\_  
Dennis L. Winger  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)

/s/ Ugo D. DeBlasi September 8, 2005  
\_\_\_\_\_  
Ugo D. DeBlasi  
Vice President and Controller  
(Principal Accounting Officer)

<u>/s/ Richard H. Ayers</u> Richard H. Ayers Director	September 8, 2005
<u>/s/ Jean-Luc Bélingard</u> Jean-Luc Bélingard Director	September 8, 2005
<u>/s/ Robert H. Hayes</u> Robert H. Hayes Director	September 8, 2005
<u>/s/ Arnold J. Levine</u> Arnold J. Levine Director	September 8, 2005
<u>/s/ William H. Longfield</u> William H. Longfield Director	September 8, 2005
<u>/s/ Theodore E. Martin</u> Theodore E. Martin Director	September 8, 2005
<u>/s/ Carolyn W. Slayman</u> Carolyn W. Slayman Director	September 8, 2005
<u>/s/ Orin R. Smith</u>  Orin R. Smith Director	September 8, 2005
<u>/s/ James R. Tobin</u> James R. Tobin Director	September 8, 2005

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
ON FINANCIAL STATEMENT SCHEDULE**

To the Board of Directors and Stockholders  
of Applera Corporation

Our audits of the consolidated financial statements, of management' s assessment of the effectiveness of internal control over financial reporting and of the effectiveness of internal control over financial reporting referred to in our report dated August 31, 2005 appearing in the 2005 Annual Report to Stockholders of Applera Corporation (which report, consolidated financial statements and assessment 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  
August 31, 2005

**APPLERA CORPORATION**  
**VALUATION AND QUALIFYING ACCOUNTS AND RESERVES**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2003, 2004 AND 2005**

(Amounts in thousands)

	<b>ALLOWANCE FOR DOUBTFUL ACCOUNTS</b>
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 )
	<hr/>
Balance at June 30, 2003	10,507
Charged to income in fiscal year 2004	2,866
Deductions from reserve in fiscal year 2004	(4,425 )
	<hr/>
Balance at June 30, 2004 (1)	8,948
Charged to income in fiscal year 2005	130
Deductions from reserve in fiscal year 2005	(2,053 )
	<hr/>
Balance at June 30, 2005 (1)	\$7,025
	<hr/>

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

SCHEDULE II

## EXHIBIT INDEX

Exhibit <u>Number</u>	
10.2.2	Form of Non-Qualified Stock Option Agreement for executive officers pursuant to The Perkin-Elmer Corporation 1996 Stock Incentive Plan.
10.2.3	Form of Incentive Stock Option Agreement for executive officers pursuant to The Perkin-Elmer Corporation 1996 Stock Incentive Plan.
10.2.4	Form of Director Stock Option Agreement pursuant to The Perkin-Elmer Corporation 1996 Stock Incentive Plan.
10.4.2	Form of Non-Qualified Stock Option Agreement for executive officers pursuant to The Perkin-Elmer Corporation 1997 Stock Incentive Plan.
10.5.2	Form of Director Stock Option Agreement pursuant to The Perkin-Elmer Corporation 1998 Stock Incentive Plan.
10.7.2	Form of Non-Qualified Stock Option Agreement for executive officers pursuant to the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan.
10.7.3	Form of Incentive Stock Option Agreement for executive officers pursuant to the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan.
10.7.4	Forms of Stock Option Agreements for executive officers pursuant to the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan, relating to non-qualified options issued in conjunction with awards under the Applera Corporation Performance Unit Bonus Plan.
10.7.5	Form of Employee Stock Award Agreement for executive officers pursuant to the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan.
10.7.6	Form of Director Stock Option Agreement pursuant to the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan.
10.7.7	Forms of Performance Stock Option Agreements for executive officers pursuant to the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan.
10.7.8	Form of Performance Share Award Agreement for executive officers pursuant to the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan.
10.8.2	Form of Non-Qualified Stock Option Agreement for executive officers pursuant to the Applera Corporation/Applied Biosystems Group Amended and Restated 1999 Stock Incentive Plan.
10.8.3	Form of Incentive Stock Option Agreement for executive officers pursuant to the Applera Corporation/Applied Biosystems Group Amended and Restated 1999 Stock Incentive Plan.
10.8.4	Form of Restricted Stock Bonus Agreement for executive officers pursuant to the Applera Corporation/Applied Biosystems Group Amended and Restated 1999 Stock Incentive Plan.

- 10.9.2 Form of Non-Qualified Stock Option Agreement for executive officers pursuant to the Applera Corporation/Celera Genomics Group 1999 Stock Incentive Plan.
  - 10.9.3 Form of Incentive Stock Option Agreement for executive officers pursuant to the Applera Corporation/Celera Genomics Group 1999 Stock Incentive Plan.
  - 10.9.4 Forms of Stock Option Agreements for executive officers pursuant to the Applera Corporation/Celera Genomics Group 1999 Stock Incentive Plan, relating to non-qualified options issued in conjunction with awards under the Applera Corporation Performance Unit Bonus Plan.
-

- 10.9.5 Form of Employee Stock Award Agreement for executive officers pursuant to the Applera Corporation/Celera Genomics Group 1999 Stock Incentive Plan.
- 10.9.6 Form of Director Stock Option Agreement pursuant to the Applera Corporation/Celera Genomics Group 1999 Stock Incentive Plan.
- 10.9.7 Form of Scientific Advisory Board Stock Option Agreement pursuant to the Applera Corporation/Celera Genomics Group 1999 Stock Incentive Plan.
- 10.9.8 Form of Performance Share Award Agreement for executive officers pursuant to the Applera Corporation/Celera Genomics 1999 Stock Incentive Plan.
- 10.10.2 Form of Non-Qualified Stock Option Agreement for executive officers pursuant to the Applera Corporation/Applied Biosystems Group Amended and Restated 1999 Stock Incentive Plan.
- 10.10.3 Form of Incentive Stock Option Agreement for executive officers pursuant to the Applera Corporation/Applied Biosystems Group Amended and Restated 1999 Stock Incentive Plan.
- 10.10.4 Form of Restricted Stock Bonus Agreement for executive officers pursuant to the Applera Corporation/Applied Biosystems Group Amended and Restated 1999 Stock Incentive Plan.
- 10.14.2 Forms of Performance Unit Agreements for executive officers pursuant to the Applera Corporation Performance Unit Bonus Plan.
- 10.25 Form of notice to executive officers and other employees regarding June 2, 2005, acceleration of performance unit bonus plan stock option vesting, including notice regarding restrictions imposed on their accelerated options.
- 10.35 Employment Agreement dated as of September 2, 2003, between Applera Corporation and Catherine M. Burzik.
- 10.36 Letter agreement dated July 25, 2003, between Applera Corporation and Catherine M. Burzik.
- 10.37 Employment Agreement dated as of September 5, 2000, between Applera Corporation and Barbara J. Kerr.
- 10.38 Employment Agreement dated as of December 2, 1996, between Applera Corporation and Ugo D. DeBlasi.
- 13 Annual Report to Stockholders for the fiscal year ended June 30, 2005 (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.



**THE PERKIN-ELMER CORPORATION**  
**1996 STOCK INCENTIVE PLAN**

**FORM OF NON-QUALIFIED STOCK OPTION AGREEMENT**

**NON-QUALIFIED STOCK OPTION AGREEMENT** dated as of [Grant Date] by and between The Perkin-Elmer Corporation, a New York corporation (the "Company"), and [Name], a regular salaried employee of the Company or one of its subsidiaries ("you").

**1. Grant of Option.** The Company hereby grants to you an option (the "Option") to purchase [Total Number of Shares] shares of its Common Stock, par value \$1.00 per share (the "Common Stock"), under the terms of The Perkin-Elmer Corporation 1996 Stock Incentive Plan (the "Plan").

**2. Purchase Price of Option.** The purchase price of the shares of Common Stock subject to the Option is \$[Purchase Price] per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 p.m. midnight (New York time) on [10 Year Anniversary of Grant Date] (the "Expiration Date"), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised as to one-half of the total number of shares subject to the Option on or after [First Anniversary of Grant Date] and as to the remaining one-half on or after [Second Anniversary of Grant Date]. Except as provided below, the Option may not be exercised unless you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than retirement, disability, or death, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of the termination of employment, at any time within 30 days after the date of termination, but not after the Expiration Date.

**6. Retirement or Disability.** If you retire at your normal retirement date under the terms of any pension plan provided by the Company or one of its subsidiaries (or earlier with the consent of the Company or such subsidiary), or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within one year after the date of retirement or disability retirement, but not after the Expiration Date.

**7. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**8. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of Common Stock to be purchased. However, the Option may not be exercised as to fewer than 50 shares, or the remaining shares covered by the Option if fewer than 50, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of Common Stock then owned by you having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) by making an election to have shares of Common Stock subject to the Option withheld by the Company (provided that the Option has been held for at least six months), with the shares withheld having a Fair Market Value equal to the aggregate purchase price of the shares as to which the Option is being exercised, (d) a combination of U.S. currency, previously owned shares of Common Stock, and/or share withholding, with any shares of Common Stock valued at Fair Market Value, or (e) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**9. Conditions to Exercise.** The exercise of the Option within one year following the termination of your employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**10. Tax Withholding Obligations.** As a condition to the delivery of shares of Common Stock upon the exercise of the Option, you agree to pay to the Company at the time of exercise an amount sufficient to satisfy any applicable tax withholding obligations.

**11. Rights as a Shareholder.** You will not have any rights as a shareholder with respect to the shares of Common Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**12. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**13. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (a) in the event that a tender offer or exchange offer (other than an offer by the Company) for the Common Stock is made by any "person" within the meaning of Section 14(d) of the Securities Exchange Act of 1934, as amended, and not withdrawn within a specified period, or (b) in the event of a Change in Control (as defined in the Plan).

**14. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon the termination of your employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**15. Compliance with Law.** No shares of Common Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**16. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan, including a copy of the Plan, and agree to be bound by all of the terms of the Plan.

**17. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**18. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Connecticut.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**THE PERKIN-ELMER CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
Employee

**THE PERKIN-ELMER CORPORATION**  
**1996 STOCK INCENTIVE PLAN**

**FORM OF INCENTIVE STOCK OPTION AGREEMENT**

**INCENTIVE STOCK OPTION AGREEMENT** dated as of [Grant Date] by and between The Perkin-Elmer Corporation, a New York corporation (the “Company”), and [Name], a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Option.** The Company hereby grants to you an option (the “Option”) to purchase [Total Number of Shares] shares of its Common Stock, par value \$1.00 per share (the “Common Stock”), under the terms of The Perkin-Elmer Corporation 1996 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of Common Stock subject to the Option is \$[Purchase Price] per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 p.m. midnight (New York time) on [10 Year Anniversary of Grant Date] (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised as to one-half of the total number of shares subject to the Option on or after [First Anniversary of Grant Date] and as to the remaining one-half on or after [Second Anniversary of Grant Date]. Except as provided below, the Option may not be exercised unless you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than retirement, disability, or death, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of the termination of employment, at any time within 30 days after the date of termination, but not after the Expiration Date.

**6. Retirement or Disability.** If you retire at your normal retirement date under the terms of any pension plan provided by the Company or one of its subsidiaries (or earlier with the consent of the Company or such subsidiary), or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within three months after the date of retirement or disability retirement, but not after the Expiration Date.

**7. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**8. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of Common Stock to be purchased. However, the Option may not be exercised as to fewer than 50 shares, or the remaining shares covered by the Option if fewer than 50, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of Common Stock then owned by you having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) by making an election to have shares of Common Stock subject to the Option withheld by the Company (provided that the Option has been held for at least six months), with the shares withheld having a Fair Market Value equal to the aggregate purchase price of the shares as to which the Option is being exercised, (d) a combination of U.S. currency, previously owned shares of Common Stock, and/or share withholding, with any shares of Common Stock valued at Fair Market Value, or (e) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**9. Conditions to Exercise.** The exercise of the Option within one year following the termination of your employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**10. Notice of Transfer of Shares.** You will notify the Company in writing immediately in the event that any shares acquired upon the exercise of the Option are transferred to a third party prior to [Second Anniversary of Grant Date] or the first anniversary of the date on which such shares are acquired.

**11. Rights as a Shareholder.** You will not have any rights as a shareholder with respect to the shares of Common Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**12. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**13. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (a) in the event that a tender offer or exchange offer (other than an offer by the Company) for the Common Stock is made by any "person" within the meaning of Section 14(d) of the Securities Exchange Act of 1934, as amended, and not withdrawn within a specified period, or (b) in the event of a Change in Control (as defined in the Plan).

**14. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon the termination of your employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**15. Compliance with Law.** No shares of Common Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**16. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan, including a copy of the Plan, and agree to be bound by all of the terms of the Plan.

**17. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**18. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Connecticut.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**THE PERKIN-ELMER CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
Employee

**THE PERKIN-ELMER CORPORATION**  
**1996 STOCK INCENTIVE PLAN**

**FORM OF DIRECTOR STOCK OPTION AGREEMENT**

**DIRECTOR OPTION AGREEMENT** dated as of [Grant Date] by and between The Perkin-Elmer Corporation, a New York corporation (the “Company”), and [Name], a member of the Board of Directors of the Company (“you”).

**1. Grant of Option.** The Company hereby grants to you an option (the “Option”) to purchase [Total Number of Shares] shares of its Common Stock, par value \$1.00 per share (the “Common Stock”), under the terms of The Perkin-Elmer Corporation 1996 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of Common Stock subject to the Option is \$[Purchase Price] per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 p.m. midnight (New York time) on [10 Year Anniversary of Grant Date] (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised as to [50% of Total Number of Shares] shares on or after the date immediately preceding the date of the [Next Annual Meeting of Stockholders Following Grant Date] and as to the remaining [50% of Total Number of Shares] shares on or after the date immediately preceding the date of the [Second Annual Meeting of Stockholders Following Grant Date]. Except as provided below, the Option may not be exercised unless you are serving as a member of the Board of Directors on the date of exercise.

**5. Retirement, Resignation or Disability.** If you cease to serve as a director of the Company as a result of (a) retiring from the Board of Directors upon reaching normal age, (b) becoming totally and permanently disabled, or (c) resigning or declining to stand for reelection with the approval of the Board of Directors, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within one year after the date of retirement, disability retirement or resignation, but not after the Expiration Date.

**6. Death.** If you die while serving as a member of the Board of Directors, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

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**7. Other Termination of Service.** If your service as a member of the Board of Directors is terminated by you or the Company for any reason other than as set forth in paragraphs 5 and 6, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of service, at any time within 30 days after the date of termination, but not after the Expiration Date.

**8. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of Common Stock to be purchased. However, the Option may not be exercised as to fewer than 50 shares, or the remaining shares covered by the Option if fewer than 50, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of Common Stock then owned by you having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) by making an election to have shares of Common Stock subject to the Option withheld by the company (provided that the Option has been held for at least six months), with the shares withheld having a Fair Market Value equal to the aggregate purchase price of the shares as to which the option is being exercised, (d) a combination of U.S. currency, previously owned shares of Common Stock, and/or share withholding, with any shares of Common Stock valued at Fair Market Value, or (e) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**9. Conditions to Exercise.** The exercise of the Option within one year following termination of service is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**10. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of Common Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**11. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**12. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (a) in the event that a tender offer or exchange offer (other than an offer by the Company) for the Common Stock is made by any "person" within the meaning of Section 14(d) of the Securities Exchange Act of 1934, as amended, and not withdrawn within a specified period, or (b) in the event of a Change in Control (as defined in the Plan).

**13. No Right to Continued Service.** Neither the Option nor this Agreement confers upon you any right to continue to serve as a member of the Board of Directors of the Company or interferes in any way with the right of the Board of Directors or shareholders to remove you as a director in accordance with the provisions of the Company's By-laws and applicable law. Except as provided in this Agreement, the Option will terminate upon your ceasing to serve as a member of the Board of Directors for any reason. The Option will not be reinstated if you are subsequently reelected to the Board of Directors.

**14. Compliance with Law.** No shares of Common Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**15. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan, including a copy of the Plan, and agree to be bound by all of the terms of the Plan.

**16. Termination and Amendment of Plan.** The Board of Directors may at any time terminate the Plan or, subject to certain limited exceptions, amend the Plan in any manner that it deems advisable. However, no termination or amendment of the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**17. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Connecticut.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**THE PERKIN-ELMER CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
[Name]

**THE PERKIN-ELMER CORPORATION**  
**1997 STOCK INCENTIVE PLAN**

**FORM OF NON-QUALIFIED STOCK OPTION AGREEMENT**

**NON-QUALIFIED STOCK OPTION AGREEMENT** dated as of [Grant Date] by and between The Perkin-Elmer Corporation, a New York corporation (the "Company"), and [Name], a regular salaried employee of the Company or one of its subsidiaries ("you").

**1. Grant of Option.** The Company hereby grants to you an option (the "Option") to purchase [Total Number of Options] shares of its Common Stock, par value \$1.00 per share (the "Common Stock"), under the terms of The Perkin-Elmer Corporation 1997 Stock Incentive Plan (the "Plan").

**2. Purchase Price of Option.** The purchase price of the shares of Common Stock subject to the Option is \$[Purchase Price] per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 p.m. midnight (New York time) on [10 Year Anniversary of Grant Date] (the "Expiration Date"), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised as to one-half of the total number of shares subject to the Option on or after [First Anniversary of Grant Date] and as to the remaining one-half on or after [Second Anniversary of Grant Date]. Except as provided below, the Option may not be exercised unless you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than retirement, disability, or death, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of employment, at any time within 30 days after the date of termination, but not after the Expiration Date.

**6. Retirement or Disability.** If you retire under the terms of any qualified pension plan provided by the Company or one of its subsidiaries, or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within one year after the date of retirement or disability retirement, but not after the Expiration Date.

**7. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**8. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of Common Stock to be purchased. However, the Option may not be exercised as to fewer than 50 shares, or the remaining shares covered by the Option if fewer than 50, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of Common Stock then owned by you having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) by making an election to have shares of Common Stock subject to the Option withheld by the Company (provided that the Option has been held for at least six months), with the shares withheld having a Fair Market Value equal to the aggregate purchase price of the shares as to which the Option is being exercised, (d) a combination of U.S. currency, previously owned shares of Common Stock, and/or share withholding, with any shares of Common Stock valued at Fair Market Value, or (e) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**9. Conditions to Exercise.** The exercise of the Option within one year following termination of employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**10. Tax Withholding Obligations.** As a condition to the delivery of shares of Common Stock upon the exercise of the Option, you agree to pay to the Company an amount sufficient to satisfy any applicable tax withholding obligations. Alternatively, you agree that the Company and your employer are expressly authorized to deduct the appropriate withholding taxes from your pay in order to satisfy any income, social, or other employment-related taxes related to your participation in the Plan.

**11. Rights as a Shareholder.** You will not have any rights as a shareholder with respect to the shares of Common Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**12. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**13. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (a) in the event that a tender offer or exchange offer (other than an offer by the Company) for the Common Stock is made by any "person" within the meaning of Section 14(d) of the Securities Exchange Act of 1934, as amended, and not withdrawn within a specified period, or (b) in the event of a Change in Control (as defined in the Plan).

**14. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon your termination of employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**15. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Option and the Plan are not part of your salary and that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**16. Data Privacy.** Certain routine data regarding you, your employment history, and your participation in the Plan will be transmitted and communicated across country borders in order to administer the Plan, and you hereby consent to the same and waive any privacy rights or claims that you may have with respect thereto.

**17. Exchange Controls.** You are responsible for obtaining all necessary exchange control approvals or filings, where required, in order to remit payment for the purchase price of shares subject to the Option to the Company.

**18. Compliance with Law.** No shares of Common Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**19. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan, including a copy of the Plan, and agree to be bound by all of the terms of the Plan.

**20. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**21. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Connecticut.

IN WITNESS WHEREOF, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**THE PERKIN-ELMER CORPORATION**

By: \_\_\_\_\_

Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
[Name]

**THE PERKIN-ELMER CORPORATION**  
**1998 STOCK INCENTIVE PLAN**

**FORM OF DIRECTOR STOCK OPTION AGREEMENT**

**DIRECTOR STOCK OPTION AGREEMENT** dated as of [Grant Date] by and between The Perkin-Elmer Corporation, a New York corporation (the “Company”), and [Name], a member of the Board of Directors of the Company (“you”).

**1. Grant of Option.** The Company hereby grants to you an option (the “Option”) to purchase [Total Number of Shares] of its Common Stock, par value \$1.00 per share (the “Common Stock”), under the terms of The Perkin-Elmer Corporation 1998 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of Common Stock subject to the Option is \$[Purchase Price] per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 p.m. midnight (New York time) on [10 Year Anniversary of Grant Date] (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised as to [50% of Total Number of Shares] shares on or after the date immediately preceding the date of the [Next Annual Meeting of Shareholders Following Grant Date] and as to the remaining [50% of Total Number of Shares] shares on or after the date immediately preceding the date of the [Second Annual Meeting of Shareholders Following Grant Date]. Except as provided below, the Option may not be exercised unless you are serving as a member of the Board of Directors on the date of exercise.

**5. Retirement, Resignation, or Disability.** If you cease to serve as a director of the Company as a result of (a) retiring from the Board of Directors upon reaching normal age, (b) becoming totally and permanently disabled, or (c) resigning or declining to stand for reelection with the approval of the Board of Directors, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within three years after the date of retirement, disability, resignation, or declining, but not after the Expiration Date.

**6. Death.** If you die while serving as a member of the Board of Directors, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**7. Other Termination of Service.** If your service as a member of the Board of Directors is terminated by you or the Company for any reason other than as set forth in paragraphs 5 and 6, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of service, at any time within 30 days after the date of termination, but not after the Expiration Date.

**8. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of Common Stock to be purchased. However, the Option may not be exercised as to fewer than 50 shares, or the remaining shares covered by the Option if fewer than 50, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of Common Stock owned by you for at least six months having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) by making an election to have shares of Common Stock subject to the Option withheld by the Company (provided that the Option has been held for at least six months), with the shares withheld having a Fair Market Value equal to the aggregate purchase price of the shares as to which the Option is being exercised, (d) a combination of U.S. currency, previously owned shares of Common Stock, and/or share withholding, with any shares of Common Stock valued at Fair Market Value, or (e) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**9. Conditions to Exercise.** The exercise of the Option following termination of service is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**10. Rights as a Shareholder.** You will not have any rights as a shareholder with respect to the shares of Common Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**11. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**12. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (a) in the event that a tender offer or exchange offer (other than an offer by the Company) for the Common Stock is made by any "person" within the meaning of Section 14(d) of the Securities Exchange Act of 1934, as amended, and not withdrawn within a specified period, or (b) in the event of a Change in Control (as defined in the Plan).

**13. No Right to Continued Service.** Neither the Option nor this Agreement confers upon you any right to continue to serve as a member of the Board of Directors of the Company or interferes in any way with the right of the Board of Directors or shareholders to remove you as a director in accordance with the provisions of the Company's By-laws and applicable law. Except as provided in this Agreement, the Option will terminate upon your ceasing to serve as a member of the Board of Directors for any reason. The Option will not be reinstated if you are subsequently reelected to the Board of Directors.

**14. Compliance with Law.** No shares of Common Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**15. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan, including a copy of the Plan, and agree to be bound by all of the terms of the Plan.

**16. Termination and Amendment of Plan.** The Board of Directors may at any time terminate the Plan or, subject to certain limited exceptions, amend the Plan in any manner that it deems advisable. However, no termination or amendment of the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**17. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Connecticut.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**THE PERKIN-ELMER CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
[Name]

**APPLERA CORPORATION/APPLIED BIOSYSTEMS GROUP  
1999 STOCK INCENTIVE PLAN**

**FORM OF NON-QUALIFIED STOCK OPTION AGREEMENT**

**NON-QUALIFIED STOCK OPTION AGREEMENT** dated as of [Grant Date] by and between Applera Corporation, a Delaware corporation (the “Company”), and [Name], a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Option.** The Company hereby grants to you an option (the “Option”) to purchase [Total Number of Shares] shares of its Applied Biosystems Group Common Stock, par value \$.01 per share (the “Applied Biosystems Stock”), under the terms of the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of Applied Biosystems Stock subject to the Option is \$[Purchase Price] per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 a.m. midnight (New York time) on [10 Year Anniversary of Grant Date] (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised as to [25% of Total Number of Shares] shares on [First Anniversary of Grant Date], [25% of Total Number of Shares] shares on [Second Anniversary of Grant Date], [25% of Total Number of Shares] shares on [Third Anniversary of Grant Date], and [25% of Total Number of Shares] shares on [Fourth Anniversary of Grant Date].<sup>1 2</sup> Except as provided below, the Option may not be exercised unless you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than Cause (as defined below)<sup>3</sup>, retirement, disability, or death, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of employment, at any time within 30 days after the date of termination, but not after the Expiration Date.

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During the 2005 fiscal year, the vesting of all stock options issued pursuant to this form of agreement was accelerated, such that all of these options became exercisable  
1 regardless of the vesting schedule set forth in this Section 4. However, shares of stock issued upon the exercise of the accelerated options by executive officers and some other senior employees are subject to a restriction on the sale or other transfer prior to the earlier of the original vesting date or the individual' s termination of employment.

2 For stock options granted during or after June 2002, the vesting dates for a newly-hired employee are the anniversaries of the hire date, and not the grant date, if employment commences prior to the grant date.

3 This reference to “Cause” is applicable only to stock option grants approved on and after October 19, 2000.

**6. Termination of Service for Cause.** If your employment with the Company is terminated by the Company for Cause, the Option will be immediately forfeited in full upon such termination (regardless of the extent to which the Option may have been exercisable as of such time). For purposes of this paragraph 6 only, "Cause" is defined as (a) any act which is in bad faith and to the detriment of the Company or (b) a material breach of any agreement with or material obligation to the Company.<sup>4</sup>

**7. Retirement or Disability.** If you retire under the terms of any qualified pension plan provided by the Company or one of its subsidiaries, or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within one year after the date of retirement or disability retirement, but not after the Expiration Date.

**8. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**9. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of Applied Biosystems Stock to be purchased. However, the Option may not be exercised as to fewer than 100 shares, or the remaining shares covered by the Option if fewer than 100, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of Applied Biosystems Stock owned by you for at least six months having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of Applied Biosystems Stock valued at Fair Market Value, or (d) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**10. Conditions to Exercise.** The exercise of the Option within one year following termination of employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**11. Tax Withholding Obligations.** As a condition to the delivery of shares of Applied Biosystems Stock upon the exercise of the Option, you agree to pay to the Company an amount sufficient to satisfy any applicable tax withholding obligations. Alternatively, you agree that the Company and your employer are expressly authorized to deduct the appropriate withholding taxes from your pay in order to satisfy any income, social, or other employment-related taxes related to your participation in the Plan.

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<sup>4</sup> This provision is applicable only to stock option grants approved on and after October 19, 2000.

**12. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of Applied Biosystems Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**13. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**14. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**15. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon your termination of employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**16. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Option and the Plan are not part of your salary and that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**17. Compliance with Law.** No shares of Applied Biosystems Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**18. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan and agree to be bound by all of the terms of the Plan.

**19. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**20. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

IN WITNESS WHEREOF, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
[Name]

**APPLERA CORPORATION/APPLIED BIOSYSTEMS GROUP  
1999 STOCK INCENTIVE PLAN**

**FORM OF INCENTIVE STOCK OPTION AGREEMENT**

**INCENTIVE STOCK OPTION AGREEMENT** dated as of [Grant Date] by and between Applera Corporation, a Delaware corporation (the “Company”), and [Name], a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Option.** The Company hereby grants to you an option (the “Option”) to purchase [Total Number of Shares] shares of its Applied Biosystems Group Common Stock, par value \$.01 per share (the “Applied Biosystems Stock”), under the terms of the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of Applied Biosystems Stock subject to the Option is \$[Purchase Price] per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 a.m. midnight (New York time) on [10 Year Anniversary of Grant Date] (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised as to [25% of Total Number of Shares] shares on [First Anniversary of Grant Date], [25% of Total Number of Shares] shares on [Second Anniversary of Grant Date], [25% of Total Number of Shares] shares on [Third Anniversary of Grant Date] and [25% of Total Number of Shares] shares on [Fourth Anniversary of Grant Date].<sup>1 2</sup> Except as provided below, the Option may not be exercised unless you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than Cause (as defined below),<sup>3</sup> retirement, disability, or death, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of employment, at any time within 30 days after the date of termination, but not after the Expiration Date.

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1 During the 2005 fiscal year, the vesting of all stock options issued pursuant to this form of agreement was accelerated, such that all of these options became exercisable regardless of the vesting schedule set forth in this Section 4. However, shares of stock issued upon the exercise of the accelerated options by executive officers and some other senior employees are subject to a restriction on the sale or other transfer prior to the earlier of the original vesting date or the individual’s termination of employment.

2 For stock options granted during or after June 2002, the vesting dates for a newly-hired employee are the anniversaries of the hire date, and not the grant date, if employment commences prior to the grant date.

3 This reference to “Cause” is applicable only to stock option grants approved on and after October 19, 2000.

**6. Termination of Service for Cause.** If your employment with the Company is terminated by the Company for Cause, the Option will be immediately forfeited in full upon such termination (regardless of the extent to which the Option may have been exercisable as of such time). For purposes of this paragraph 6 only, "Cause" is defined as (a) any act which is in bad faith and to the detriment of the Company or (b) a material breach of any agreement with or material obligation to the Company.<sup>4</sup>

**7. Retirement or Disability.** If you retire under the terms of any qualified pension plan provided by the Company or one of its subsidiaries, or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within three months after the date of retirement or disability retirement, but not after the Expiration Date.

**8. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**9. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of Applied Biosystems Stock to be purchased. However, the Option may not be exercised as to fewer than 100 shares, or the remaining shares covered by the Option if fewer than 100, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of Applied Biosystems Stock owned by you for at least six months having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of Applied Biosystems Stock valued at Fair Market Value, or (d) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**10. Conditions to Exercise.** The exercise of the Option within one year following termination of employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**11. Notice of Transfer of Shares.** You agree to notify the Company in writing immediately in the event that any shares acquired upon the exercise of the Option are transferred to a third party prior to [Second Anniversary of Grant Date] or the first anniversary of the date on which such shares are acquired.

**12. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of Applied Biosystems Stock subject to the Option prior to the issuance to you of a certificate for such shares.

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<sup>4</sup> This provision is applicable only to stock option grants made on and after October 19, 2000.

**13. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**14. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**15. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon your termination of employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**16. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Option and the Plan are not part of your salary and that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**17. Compliance with Law.** No shares of Applied Biosystems Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**18. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan and agree to be bound by all of the terms of the Plan.

**19. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**20. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

IN WITNESS WHEREOF, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
[Name]

**PE CORPORATION/PE BIOSYSTEMS GROUP  
1999 STOCK INCENTIVE PLAN**

**NON-QUALIFIED STOCK OPTION AGREEMENT**

**NON-QUALIFIED STOCK OPTION AGREEMENT** dated as of June 17, 1999 by and between PE Corporation, a Delaware corporation (the “Company”), and [ ], a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Option.** The Company hereby grants to you an option (the “Option”) to purchase [ ] shares of its PE Biosystems Group Common Stock, par value \$.01 per share (the “PE Biosystems Stock”), under the terms of the PE Corporation/PE Biosystems Group 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of PE Biosystems Stock subject to the Option is \$[ ] per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 p.m. midnight (New York time) on June 17, 2009 (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised in full on or after June 17, 2002, provided that, except as provided below, you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than retirement, disability, or death, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of employment, at any time within 30 days after the date of termination, but not after the Expiration Date.

**6. Retirement or Disability.** If you retire under the terms of any qualified pension plan provided by the Company or one of its subsidiaries, or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within one year after the date of retirement or disability retirement, but not after the Expiration Date.

**7. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**8. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of PE Biosystems Stock to be purchased. However, the Option may not be exercised as to fewer than 100 shares, or the remaining shares covered by the Option if fewer than 100, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of PE Biosystems Stock owned by you for at least six months having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of PE Biosystems Stock valued at Fair Market Value, or (d) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**9. Conditions to Exercise.** The exercise of the Option within one year following termination of employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**10. Tax Withholding Obligations.** As a condition to the delivery of shares of PE Biosystems Stock upon the exercise of the Option, you agree to pay to the Company an amount sufficient to satisfy any applicable tax withholding obligations. Alternatively, you agree that the Company and your employer are expressly authorized to deduct the appropriate withholding taxes from your pay in order to satisfy any income, social, or other employment-related taxes related to your participation in the Plan.

**11. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of PE Biosystems Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**12. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**13. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**14. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon the termination of your employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**15. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Option and the Plan are not part of your salary and that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**16. Compliance with Law.** No shares of PE Biosystems Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**17. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan and agree to be bound by all of the terms of the Plan.

**18. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**19. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**PE CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
«Name»

**PE CORPORATION/PE BIOSYSTEMS GROUP  
1999 STOCK INCENTIVE PLAN**

**NON-QUALIFIED STOCK OPTION AGREEMENT**

**NON-QUALIFIED STOCK OPTION AGREEMENT** dated as of June 17, 1999 by and between PE Corporation, a Delaware corporation (the “Company”), and [ ], a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Option.** The Company hereby grants to you an option (the “Option”) to purchase [ ] shares of its PE Biosystems Group Common Stock, par value \$.01 per share (the “PE Biosystems Stock”), under the terms of the PE Corporation/PE Biosystems Group 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of PE Biosystems Stock subject to the Option is \$[ ] per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 p.m. midnight (New York time) on June 17, 2009 (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised in full on or after the earlier of (a) June 17, 2005 or (b) three years after all Stock Price Targets under the Series E Performance Units granted to you on the date hereof have been attained, provided that, except as provided below, you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than retirement, disability, or death, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of employment, at any time within 30 days after the date of termination, but not after the Expiration Date.

**6. Retirement or Disability.** If you retire under the terms of any qualified pension plan provided by the Company or one of its subsidiaries, or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within one year after the date of retirement or disability retirement, but not after the Expiration Date.

**7. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**8. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of PE Biosystems Stock to be purchased. However, the Option may not be exercised as to fewer than 100 shares, or the remaining shares covered by the Option if fewer than 100, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of PE Biosystems Stock owned by you for at least six months having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of PE Biosystems Stock valued at Fair Market Value, or (d) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**9. Conditions to Exercise.** The exercise of the Option within one year following termination of employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**10. Tax Withholding Obligations.** As a condition to the delivery of shares of PE Biosystems Stock upon the exercise of the Option, you agree to pay to the Company an amount sufficient to satisfy any applicable tax withholding obligations. Alternatively, you agree that the Company and your employer are expressly authorized to deduct the appropriate withholding taxes from your pay in order to satisfy any income, social, or other employment-related taxes related to your participation in the Plan.

**11. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of PE Biosystems Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**12. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**13. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**14. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon the termination of your employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**15. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Option and the Plan are not part of your salary and that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**16. Compliance with Law.** No shares of PE Biosystems Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**17. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan and agree to be bound by all of the terms of the Plan.

**18. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**19. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

IN WITNESS WHEREOF, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**PE CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
« Name »

**PE CORPORATION/PE BIOSYSTEMS GROUP  
1999 STOCK INCENTIVE PLAN**

**NON-QUALIFIED STOCK OPTION AGREEMENT  
(Series G Performance Units)**

**NON-QUALIFIED STOCK OPTION AGREEMENT** dated as of December 27, 1999 by and between PE Corporation, a Delaware corporation (the “Company”), and «Name», a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Option.** The Company hereby grants to you an option (the “Option”) to purchase «NQ» shares of its PE Biosystems Group Common Stock, par value \$.01 per share (the “PE Biosystems Stock”), under the terms of the PE Corporation/PE Biosystems Group 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of PE Biosystems Stock subject to the Option is \$110.125 per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 p.m. midnight (New York time) on December 27, 2009 (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised in full on or after December 27, 2002, provided that, except as provided below, you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than retirement, disability, or death, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of employment, at any time within 30 days after the date of termination, but not after the Expiration Date.

**6. Retirement or Disability.** If you retire under the terms of any qualified pension plan provided by the Company or one of its subsidiaries, or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within one year after the date of retirement or disability retirement, but not after the Expiration Date.

**7. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**8. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of PE Biosystems Stock to be purchased. However, the Option may not be exercised as to fewer than 100 shares, or the remaining shares covered by the Option if fewer than 100, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of PE Biosystems Stock owned by you for at least six months having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of PE Biosystems Stock valued at Fair Market Value, or (d) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**9. Conditions to Exercise.** The exercise of the Option within one year following termination of employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**10. Tax Withholding Obligations.** As a condition to the delivery of shares of PE Biosystems Stock upon the exercise of the Option, you agree to pay to the Company an amount sufficient to satisfy any applicable tax withholding obligations. Alternatively, you agree that the Company and your employer are expressly authorized to deduct the appropriate withholding taxes from your pay in order to satisfy any income, social, or other employment-related taxes related to your participation in the Plan.

**11. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of PE Biosystems Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**12. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**13. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**14. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon the termination of your employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**15. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Option and the Plan are not part of your salary and that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**16. Compliance with Law.** No shares of PE Biosystems Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**17. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan and agree to be bound by all of the terms of the Plan.

**18. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**19. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

IN WITNESS WHEREOF, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**PE CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
«Name»

**PE CORPORATION/PE BIOSYSTEMS GROUP  
1999 STOCK INCENTIVE PLAN**

**NON-QUALIFIED STOCK OPTION AGREEMENT  
(Series H Performance Units)**

**NON-QUALIFIED STOCK OPTION AGREEMENT** dated as of December 27, 1999 by and between PE Corporation, a Delaware corporation (the “Company”), and «Name», a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Option.** The Company hereby grants to you an option (the “Option”) to purchase «NQ» shares of its PE Biosystems Group Common Stock, par value \$.01 per share (the “PE Biosystems Stock”), under the terms of the PE Corporation/PE Biosystems Group 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of PE Biosystems Stock subject to the Option is \$110.125 per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 p.m. midnight (New York time) on December 27, 2009 (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised in full on or after the earlier of (a) December 27, 2005 or (b) three years after all Stock Price Targets under the Series G Performance Units granted to you on the date hereof have been attained, provided that, except as provided below, you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than retirement, disability, or death, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of employment, at any time within 30 days after the date of termination, but not after the Expiration Date.

**6. Retirement or Disability.** If you retire under the terms of any qualified pension plan provided by the Company or one of its subsidiaries, or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within one year after the date of retirement or disability retirement, but not after the Expiration Date.

**7. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**8. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of PE Biosystems Stock to be purchased. However, the Option may not be exercised as to fewer than 100 shares, or the remaining shares covered by the Option if fewer than 100, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of PE Biosystems Stock owned by you for at least six months having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of PE Biosystems Stock valued at Fair Market Value, or (d) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**9. Conditions to Exercise.** The exercise of the Option within one year following termination of employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**10. Tax Withholding Obligations.** As a condition to the delivery of shares of PE Biosystems Stock upon the exercise of the Option, you agree to pay to the Company an amount sufficient to satisfy any applicable tax withholding obligations. Alternatively, you agree that the Company and your employer are expressly authorized to deduct the appropriate withholding taxes from your pay in order to satisfy any income, social, or other employment-related taxes related to your participation in the Plan.

**11. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of PE Biosystems Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**12. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**13. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**14. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon the termination of your employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**15. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Option and the Plan are not part of your salary and that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**16. Compliance with Law.** No shares of PE Biosystems Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**17. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan and agree to be bound by all of the terms of the Plan.

**18. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**19. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

IN WITNESS WHEREOF, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**PE CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
«Name»

**APPLERA CORPORATION/APPLIED BIOSYSTEMS GROUP  
1999 STOCK INCENTIVE PLAN**

**NON-QUALIFIED STOCK OPTION AGREEMENT  
(Series FY02-1 Performance Units)**

**NON-QUALIFIED STOCK OPTION AGREEMENT** dated as of «Date», 2001 by and between Applera Corporation, a Delaware corporation (the “Company”), and «Name», a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Option.** The Company hereby grants to you an option (the “Option”) to purchase «Number» shares of its Applied Biosystems Group Common Stock, par value \$.01 per share (the “Applied Biosystems Stock”), under the terms of the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of Applied Biosystems Stock subject to the Option is \$«Price» per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 a.m. midnight (New York time) on August 16, 2011 (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised in full on or after «Date», 2004, provided that, except as provided below, you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than retirement, disability, or death, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of employment, at any time within 30 days after the date of termination, but not after the Expiration Date.

**6. Retirement or Disability.** If you retire under the terms of any qualified pension plan provided by the Company or one of its subsidiaries, or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within one year after the date of retirement or disability retirement, but not after the Expiration Date.

**7. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**8. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of Applied Biosystems Stock to be purchased. However, the Option may not be exercised as to fewer than 100 shares, or the remaining shares covered by the Option if fewer than 100, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of Applied Biosystems Stock owned by you for at least six months having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of Applied Biosystems Stock valued at Fair Market Value, or (d) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**9. Conditions to Exercise.** The exercise of the Option within one year following termination of employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**10. Tax Withholding Obligations.** As a condition to the delivery of shares of Applied Biosystems Stock upon the exercise of the Option, you agree to pay to the Company an amount sufficient to satisfy any applicable tax withholding obligations. Alternatively, you agree that the Company and your employer are expressly authorized to deduct the appropriate withholding taxes from your pay in order to satisfy any income, social, or other employment-related taxes related to your participation in the Plan.

**11. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of Applied Biosystems Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**12. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**13. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**14. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon the termination of your employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**15. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Option and the Plan are not part of your salary and that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**16. Compliance with Law.** No shares of Applied Biosystems Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**17. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan and agree to be bound by all of the terms of the Plan.

**18. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**19. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

IN WITNESS WHEREOF, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
«Name»

**APPLERA CORPORATION/APPLIED BIOSYSTEMS GROUP  
1999 STOCK INCENTIVE PLAN**

**NON-QUALIFIED STOCK OPTION AGREEMENT  
(Series FY02-2 Performance Units)**

**NON-QUALIFIED STOCK OPTION AGREEMENT** dated as of «Date», 2001 by and between Applera Corporation, a Delaware corporation (the “Company”), and «Name», a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Option.** The Company hereby grants to you an option (the “Option”) to purchase «Number» shares of its Applied Biosystems Group Common Stock, par value \$.01 per share (the “Applied Biosystems Stock”), under the terms of the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of Applied Biosystems Stock subject to the Option is \$«Price» per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 a.m. midnight (New York time) on August 16, 2011 (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised in full on or after the earlier of (a) «Date», 2006 or (b) two years after all Stock Price Targets under the Series FY02-2 Performance Units granted to you on the date hereof have been attained, provided that, except as provided below, you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than retirement, disability, or death, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of employment, at any time within 30 days after the date of termination, but not after the Expiration Date.

**6. Retirement or Disability.** If you retire under the terms of any qualified pension plan provided by the Company or one of its subsidiaries, or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within one year after the date of retirement or disability retirement, but not after the Expiration Date.

**7. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**8. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of Applied Biosystems Stock to be purchased. However, the Option may not be exercised as to fewer than 100 shares, or the remaining shares covered by the Option if fewer than 100, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of Applied Biosystems Stock owned by you for at least six months having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of Applied Biosystems Stock valued at Fair Market Value, or (d) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**9. Conditions to Exercise.** The exercise of the Option within one year following termination of employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**10. Tax Withholding Obligations.** As a condition to the delivery of shares of Applied Biosystems Stock upon the exercise of the Option, you agree to pay to the Company an amount sufficient to satisfy any applicable tax withholding obligations. Alternatively, you agree that the Company and your employer are expressly authorized to deduct the appropriate withholding taxes from your pay in order to satisfy any income, social, or other employment-related taxes related to your participation in the Plan.

**11. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of Applied Biosystems Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**12. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**13. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**14. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon the termination of your employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**15. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Option and the Plan are not part of your salary and that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**16. Compliance with Law.** No shares of Applied Biosystems Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**17. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan and agree to be bound by all of the terms of the Plan.

**18. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**19. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

IN WITNESS WHEREOF, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
«Name»

**APPLERA CORPORATION/APPLIED BIOSYSTEMS GROUP**  
**1999 STOCK INCENTIVE PLAN**

**NON-QUALIFIED STOCK OPTION AGREEMENT**  
**(Series FY03-3 Performance Units)**

**NON-QUALIFIED STOCK OPTION AGREEMENT** dated as of March 24, 2003, by and between Applera Corporation, a Delaware corporation (the “Company”), and «Name», a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Option.** The Company hereby grants to you an option (the “Option”) to purchase «Number» shares of its Applied Biosystems Group Common Stock, par value \$.01 per share (the “Applied Biosystems Stock”), under the terms of the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of Applied Biosystems Stock subject to the Option is \$15.54 per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 a.m. midnight (New York time) on March 24, 2013 (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised in full on or after March 24, 2006, provided that, except as provided below, you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than retirement, disability, or death, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of employment, at any time within 30 days after the date of termination, but not after the Expiration Date.

**6. Retirement or Disability.** If you retire under the terms of any qualified pension plan provided by the Company or one of its subsidiaries, or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within one year after the date of retirement or disability retirement, but not after the Expiration Date.

**7. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**8. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of Applied Biosystems Stock to be purchased. However, the Option may not be exercised as to fewer than 100 shares, or the remaining shares covered by the Option if fewer than 100, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of Applied Biosystems Stock owned by you for at least six months having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of Applied Biosystems Stock valued at Fair Market Value, or (d) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**9. Conditions to Exercise.** The exercise of the Option within one year following termination of employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**10. Tax Withholding Obligations.** As a condition to the delivery of shares of Applied Biosystems Stock upon the exercise of the Option, you agree to pay to the Company an amount sufficient to satisfy any applicable tax withholding obligations. Alternatively, you agree that the Company and your employer are expressly authorized to deduct the appropriate withholding taxes from your pay in order to satisfy any income, social, or other employment-related taxes related to your participation in the Plan.

**11. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of Applied Biosystems Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**12. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**13. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**14. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon the termination of your employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**15. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Option and the Plan are not part of your salary and that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**16. Compliance with Law.** No shares of Applied Biosystems Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**17. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan and agree to be bound by all of the terms of the Plan.

**18. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**19. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

IN WITNESS WHEREOF, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
«Name»

**APPLERA CORPORATION/APPLIED BIOSYSTEMS GROUP  
1999 STOCK INCENTIVE PLAN**

**NON-QUALIFIED STOCK OPTION AGREEMENT  
(Series FY03-4 Performance Units)**

**NON-QUALIFIED STOCK OPTION AGREEMENT** dated as of March 24, 2003, by and between Applera Corporation, a Delaware corporation (the “Company”), and «Name», a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Option.** The Company hereby grants to you an option (the “Option”) to purchase «Number» shares of its Applied Biosystems Group Common Stock, par value \$.01 per share (the “Applied Biosystems Stock”), under the terms of the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of Applied Biosystems Stock subject to the Option is \$15.54 per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 a.m. midnight (New York time) on March 24, 2013 (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised in full on or after the earlier of (a) March 24, 2008, or (b) two years after all Stock Price Targets under the Series FY03-4 Performance Units granted to you on the date hereof have been attained, provided that, except as provided below, you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than retirement, disability, or death, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of employment, at any time within 30 days after the date of termination, but not after the Expiration Date.

**6. Retirement or Disability.** If you retire under the terms of any qualified pension plan provided by the Company or one of its subsidiaries, or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within one year after the date of retirement or disability retirement, but not after the Expiration Date.

**7. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**8. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of Applied Biosystems Stock to be purchased. However, the Option may not be exercised as to fewer than 100 shares, or the remaining shares covered by the Option if fewer than 100, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of Applied Biosystems Stock owned by you for at least six months having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of Applied Biosystems Stock valued at Fair Market Value, or (d) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**9. Conditions to Exercise.** The exercise of the Option within one year following termination of employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**10. Tax Withholding Obligations.** As a condition to the delivery of shares of Applied Biosystems Stock upon the exercise of the Option, you agree to pay to the Company an amount sufficient to satisfy any applicable tax withholding obligations. Alternatively, you agree that the Company and your employer are expressly authorized to deduct the appropriate withholding taxes from your pay in order to satisfy any income, social, or other employment-related taxes related to your participation in the Plan.

**11. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of Applied Biosystems Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**12. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**13. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**14. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon the termination of your employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**15. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Option and the Plan are not part of your salary and that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**16. Compliance with Law.** No shares of Applied Biosystems Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**17. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan and agree to be bound by all of the terms of the Plan.

**18. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**19. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

IN WITNESS WHEREOF, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
«Name»



**APPLERA CORPORATION/APPLIED BIOSYSTEMS GROUP  
1999 STOCK INCENTIVE PLAN**

**FORM OF EMPLOYEE STOCK AWARD AGREEMENT**

**EMPLOYEE STOCK AWARD AGREEMENT** dated as of [Grant Date] by and between Applera Corporation, a Delaware corporation (the “Company”), and [Name], a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Employee Stock Award.** The Company hereby grants to you an Employee Stock Award (the “Award”) for [Total Number of Shares] shares (the “Award Shares”) of its Applied Biosystems Group Common Stock, par value \$.01 per share (the “Applied Biosystems Stock”), under the terms of the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan (the “Plan”).

**2. Vesting.** The Award Shares will vest as to [25% of Total Number of Shares] Award Shares on [First Anniversary of Grant Date], [25% of Total Number of Shares] Award Shares on [Second Anniversary of Grant Date], [25% of Total Number of Shares] Award Shares on [Third Anniversary of Grant Date], and [25% of Total Number of Shares] Award Shares on [Fourth Anniversary of Grant Date] (each a “Vesting Date”), provided that you have been at all times from the date of grant to and including the applicable Vesting Date a [regular]<sup>1</sup> employee of the Company or one of its subsidiaries.<sup>2</sup>

**3. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason prior to the vesting of all or a portion of the Award Shares, the Award Shares which have not vested will be forfeited and will revert back to the Company without payment to you of any consideration.

**4. Delivery of Award Shares.** Certificates representing the Award Shares will be registered in your name but remain in the physical custody of the Company until the Award Shares have vested. In the event that all or a portion of the Award Shares are forfeited for any reason, those shares will revert back to the Company without payment to you of any consideration.

**5. Payment of Dividends; Voting Rights.** Prior to the vesting of the Award Shares, you will have the right to vote and to receive dividends, if any, on all of the unvested shares of Applied Biosystems Stock covered by the Award.

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<sup>1</sup> Applicable only to September 2, 2003, award grant.

<sup>2</sup> An August 21, 2003, award grant to Tony L. White vests in three equal installments on the last day of each of the first three fiscal years ending after the award grant date. An award granted to Catherine M. Burzik on September 2, 2003, is subject to the vesting schedule set forth in this Section 2.

**6. Non-Transferability.** Prior to the time that shares of Applied Biosystems Stock issued pursuant to the Award are delivered to you, none of such shares may be sold, assigned, bequeathed, transferred, pledged, hypothecated, or otherwise disposed of in any way.

**7. Change of Control.** Subject to the terms of the Plan, all Award Shares will be deemed vested (without regard to the Vesting Dates) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**8. No Right to Continued Employment.** Neither the Award nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. The Award will terminate upon the termination of your employment for any reason. The Award will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**9. No Right to Future Benefits.** The Plan and the benefits offered under the Plan are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Award nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Award and the Plan are not part of your salary and that receipt of the Award does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**10. Compliance with Law.** No shares of Applied Biosystems Stock will be delivered to you upon the vesting of the Award Shares unless counsel for the Company is satisfied that such delivery will be in compliance with all applicable laws.

**11. Entire Agreement.** This Agreement and the Plan contain the entire agreement between you and the Company regarding the Award and supersede all prior arrangements or understandings with respect thereto.

**12. Terms of Plan Govern.** This Agreement and the terms of the Award will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Plan Summary and agree to be bound by all of the terms of the Plan.

**13. Amendments.** The Award or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Award or the Plan will adversely affect in any material manner any of your rights under the Award without your consent.

**14. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

IN WITNESS WHEREOF, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_

Accepted and Agreed:

\_\_\_\_\_  
[Name]

**APPLERA CORPORATION/APPLIED BIOSYSTEMS GROUP  
1999 STOCK INCENTIVE PLAN**

**FORM OF DIRECTOR STOCK OPTION AGREEMENT**

**DIRECTOR OPTION AGREEMENT** dated as of [Grant Date] by and between Applera Corporation, a Delaware corporation (the “Company”), and [Name], a member of the Board of Directors of the Company (“you”).

**1. Grant of Option.** The Company hereby grants to you a non-qualified option (the “Option”) to purchase [Total Number of Shares] shares of its Applied Biosystems Group Common Stock, par value \$.01 per share (the “Applied Biosystems Stock”), under the terms of the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of Applied Biosystems Stock subject to the Option is \$[Purchase Price] per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 a.m. midnight (New York time) on [10 Year Anniversary of Grant Date] (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised as to [25% of Total Number of Shares] shares on or after [Each of the Four Anniversaries of the Grant Date.]<sup>1</sup> Except as provided below, the Option may not be exercised unless you are serving as a member of the Board of Directors on the date of exercise.

**5. Retirement, Resignation, or Disability.** If you cease to serve as a director of the Company as a result of (a) retiring from the Board of Directors upon reaching normal age, (b) becoming totally and permanently disabled, or (c) resigning or declining to stand for reelection with the approval of the Board of Directors, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within three years after the date of retirement, disability, resignation, or declining, but not after the Expiration Date.

**6. Death.** If you die while serving as a member of the Board of Directors, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

\_\_\_\_\_

An August 19, 1999, stock option grant to James R. Tobin vested in two equal installments on the date immediately preceding each of the two annual meetings of stockholders following the grant date. Stock options granted on October 21, 1999, and October 19, 2000, vested in four equal installments on the dates immediately preceding the date of each of the next four annual meetings of stockholders following the grant date. All other stock options issued pursuant to this form of agreement were issued subject to the vesting schedule set forth in this Section 4. The foregoing notwithstanding, during the 2005 fiscal year, the vesting of all stock options issued pursuant to this form of agreement was accelerated, such that all of these options became exercisable regardless of the vesting schedule set forth in this Section 4. However, shares of stock issued upon the exercise of the accelerated options by Directors are subject to a restriction on the sale or other transfer prior to the earlier of the original vesting date or the individual’s termination of service.

**7. Termination of Service for Cause.** If your service as a member of the Board of Directors is terminated by the Company for Cause (as defined below), the Option will be immediately forfeited in full upon such termination (regardless of the extent to which the Option may have been exercisable as of such time). For purposes of this paragraph 7 only, "Cause" is defined as (a) any act which is in bad faith and to the detriment of the Company or (b) a material breach of any agreement with or material obligation to the Company.<sup>2</sup>

**8. Other Termination of Service.** If your service as a member of the Board of Directors is terminated by you or the Company for any reason other than as set forth in paragraphs 5, 6, or 7<sup>3</sup>, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of service, at any time within 30 days after the date of termination, but not after the Expiration Date.

**9. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of Applied Biosystems Stock to be purchased. However, the Option may not be exercised as to fewer than 100 shares, or the remaining shares covered by the Option if fewer than 100, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of Applied Biosystems Stock owned by you for at least six months having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of Applied Biosystems Stock valued at Fair Market Value, or (d) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**10. Conditions to Exercise.** The exercise of the Option following termination of service is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**11. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of Applied Biosystems Stock subject to the Option prior to the issuance to you of a certificate for such shares.

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<sup>2</sup> This provision is applicable only to stock option grants made on and after October 19, 2000.

<sup>3</sup> This reference to Section 7 is applicable only to stock option grants made on and after October 19, 2000.

**12. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**13. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**14. No Right to Continued Service.** Neither the Option nor this Agreement confers upon you any right to continue to serve as a member of the Board of Directors of the Company or interferes in any way with the right of the Board of Directors or stockholders to remove you as a director in accordance with the provisions of the Company's By-laws and applicable law. Except as provided in this Agreement, the Option will terminate upon your ceasing to serve as a member of the Board of Directors for any reason. The Option will not be reinstated if you are subsequently reelected to the Board of Directors.

**15. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**16. Compliance with Law.** No shares of Applied Biosystems Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**17. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan and agree to be bound by all of the terms of the Plan.

**18. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**19. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

IN WITNESS WHEREOF, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
[Name]

**PE BIOSYSTEMS GROUP PERFORMANCE STOCK OPTIONS**  
*(Series 1 Performance Options)*

**PERFORMANCE STOCK OPTION AGREEMENT** dated as of March 17, 2000 by and between PE Corporation, a Delaware corporation (the “Company”), and «Name», a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Option.** The Company hereby grants to you a non-qualified stock option (the “Option”) to purchase «NQ» shares of its PE Biosystems Group Common Stock, par value \$.01 per share (the “PE Biosystems Stock”), under the terms of the PE Corporation/PE Biosystems Group 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of PE Biosystems Stock subject to the Option is \$100.4688 per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 a.m. midnight (New York time) on March 17, 2010 (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised as to:

«Share\_1» shares subject to the Option, on such date, after the date hereof, as the Fair Market Value (as defined in the Plan) of a share of PE Biosystems Stock averages, over a period of 90 consecutive days, \$105.4688 or more;

An additional «Share\_2» shares subject to the Option, on such date, after the date hereof, as the Fair Market Value of a share of PE Biosystems Stock averages, over a period of 90 consecutive days, \$110.4688 or more;

An additional «Share\_3» shares subject to the Option, on such date, after the date hereof, as the Fair Market Value of a share of PE Biosystems Stock averages, over a period of 90 consecutive days, \$115.4688 or more;

An additional «Share\_4» shares subject to the Option, on such date, after the date hereof, as the Fair Market Value of a share of PE Biosystems Stock averages, over a period of 90 consecutive days, \$120.4688 or more;

An additional «Share\_5» shares subject to the Option, on such date, after the date hereof, as the Fair Market Value of a share of PE Biosystems Stock averages, over a period of 90 consecutive days, \$125.4688 or more; and

The remaining «Share\_6» shares subject to the Option, on such date, after the date hereof, as the Fair Market Value of a share of PE Biosystems Stock averages, over a period of 90 consecutive days, \$130.4688 or more.

Notwithstanding the foregoing, but subject to the next sentence, the Option may be exercised as to all shares subject to the Option on March 17, 2003.

Except as provided below, the Option may not be exercised unless you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than retirement, disability, or death, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of employment, at any time within 30 days after the date of termination, but not after the Expiration Date.

**6. Retirement or Disability.** If you retire under the terms of any qualified pension plan provided by the Company or one of its subsidiaries, or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within one year after the date of retirement or disability retirement, but not after the Expiration Date.

**7. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**8. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of PE Biosystems Stock to be purchased. However, the Option may not be exercised as to fewer than 100 shares, or the remaining shares covered by the Option if fewer than 100, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of PE Biosystems Stock owned by you for at least six months having a Fair Market Value equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of PE Biosystems Stock valued at Fair Market Value, or (d) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**9. Conditions to Exercise.** The exercise of the Option within one year following termination of employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**10. Tax Withholding Obligations.** As a condition to the delivery of shares of PE Biosystems Stock upon the exercise of the Option, you agree to pay to the Company an amount sufficient to satisfy any applicable tax withholding obligations. Alternatively, you agree that the Company and your employer are expressly authorized to deduct the appropriate withholding taxes from your pay in order to satisfy any income, social, or other employment-related taxes related to your participation in the Plan.

**11. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of PE Biosystems Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**12. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**13. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**14. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon the termination of your employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**15. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Option and the Plan are not part of your salary and that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**16. Compliance with Law.** No shares of PE Biosystems Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**17. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan and agree to be bound by all of the terms of the Plan.

**18. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**19. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**PE  
CORPORATION**

By: \_\_\_\_\_

Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
«Name»

## PE BIOSYSTEMS GROUP PERFORMANCE STOCK OPTIONS

### *(Series 2 Performance Options)*

**PERFORMANCE STOCK OPTION AGREEMENT** dated as of June 15, 2000 by and between PE Corporation, a Delaware corporation (the “Company”), and «Name», a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Option.** The Company hereby grants to you a non-qualified stock option (the “Option”) to purchase «NQ» shares of its PE Biosystems Group Common Stock, par value \$.01 per share (the “PE Biosystems Stock”), under the terms of the PE Corporation/PE Biosystems Group 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of PE Biosystems Stock subject to the Option is \$61.4063 per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 a.m. midnight (New York time) on June 15, 2010 (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised as to:

«Share\_1» shares subject to the Option, on such date, after the date hereof, as the Fair Market Value (as defined in the Plan) of a share of PE Biosystems Stock averages, over a period of 90 consecutive days, \$66.4063 or more;

An additional «Share\_2» shares subject to the Option, on such date, after the date hereof, as the Fair Market Value of a share of PE Biosystems Stock averages, over a period of 90 consecutive days, \$71.4063 or more;

An additional «Share\_3» shares subject to the Option, on such date, after the date hereof, as the Fair Market Value of a share of PE Biosystems Stock averages, over a period of 90 consecutive days, \$76.4063 or more;

An additional «Share\_4» shares subject to the Option, on such date, after the date hereof, as the Fair Market Value of a share of PE Biosystems Stock averages, over a period of 90 consecutive days, \$81.4063 or more;

An additional «Share\_5» shares subject to the Option, on such date, after the date hereof, as the Fair Market Value of a share of PE Biosystems Stock averages, over a period of 90 consecutive days, \$86.4063 or more; and

The remaining «Share\_6» shares subject to the Option, on such date, after the date hereof, as the Fair Market Value of a share of PE Biosystems Stock averages, over a period of 90 consecutive days, \$91.4063 or more.

Notwithstanding the foregoing, but subject to the next sentence, the Option may be exercised as to all shares subject to the Option on June 15, 2003.

Except as provided below, the Option may not be exercised unless you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than retirement, disability, or death, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of employment, at any time within 30 days after the date of termination, but not after the Expiration Date.

**6. Retirement or Disability.** If you retire under the terms of any qualified pension plan provided by the Company or one of its subsidiaries, or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within one year after the date of retirement or disability retirement, but not after the Expiration Date.

**7. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**8. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of PE Biosystems Stock to be purchased. However, the Option may not be exercised as to fewer than 100 shares, or the remaining shares covered by the Option if fewer than 100, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of PE Biosystems Stock owned by you for at least six months having a Fair Market Value equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of PE Biosystems Stock valued at Fair Market Value, or (d) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**9. Conditions to Exercise.** The exercise of the Option within one year following termination of employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**10. Tax Withholding Obligations.** As a condition to the delivery of shares of PE Biosystems Stock upon the exercise of the Option, you agree to pay to the Company an amount sufficient to satisfy any applicable tax withholding obligations. Alternatively, you agree that the Company and your employer are expressly authorized to deduct the appropriate withholding taxes from your pay in order to satisfy any income, social, or other employment-related taxes related to your participation in the Plan.

**11. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of PE Biosystems Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**12. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**13. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**14. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon the termination of your employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**15. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Option and the Plan are not part of your salary and that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**16. Compliance with Law.** No shares of PE Biosystems Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**17. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan and agree to be bound by all of the terms of the Plan.

**18. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**19. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**PE  
CORPORATION**

By: \_\_\_\_\_

Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
«Name»

**PE BIOSYSTEMS GROUP PERFORMANCE STOCK OPTIONS**  
*(Series 3 Performance Options)*

**PERFORMANCE STOCK OPTION AGREEMENT** dated as of September 5, 2000 by and between PE Corporation, a Delaware corporation (the “Company”), and Barbara J. Kerr, a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Option.** The Company hereby grants to you a non-qualified stock option (the “Option”) to purchase 33,600 shares of its PE Biosystems Group Common Stock, par value \$.01 per share (the “PE Biosystems Stock”), under the terms of the PE Corporation/PE Biosystems Group 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of PE Biosystems Stock subject to the Option is \$94.125 per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 a.m. midnight (New York time) on September 5, 2010 (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised as to 2,800 shares on each such date, after the date hereof, as the Fair Market Value (as defined in the Plan) of a share of PE Biosystems Stock averages, over a period of 90 consecutive days, \$99.125, \$104.125, \$109.125, \$114.125, \$119.125, \$124.125, \$129.125, \$134.125, \$139.125, \$144.125, \$149.125, and \$154.125.

Notwithstanding the foregoing, but subject to the next sentence, the Option may be exercised as to all shares subject to the Option on September 5, 2003. Except as provided below, the Option may not be exercised unless you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than retirement, disability, or death, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of employment, at any time within 30 days after the date of termination, but not after the Expiration Date.

**6. Retirement or Disability.** If you retire under the terms of any qualified pension plan provided by the Company or one of its subsidiaries, or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within one year after the date of retirement or disability retirement, but not after the Expiration Date.

**7. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**8. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of PE Biosystems Stock to be purchased. However, the Option may not be exercised as to fewer than 100 shares, or the remaining shares covered by the Option if fewer than 100, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of PE Biosystems Stock owned by you for at least six months having a Fair Market Value equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of PE Biosystems Stock valued at Fair Market Value, or (d) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**9. Conditions to Exercise.** The exercise of the Option within one year following termination of employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**10. Tax Withholding Obligations.** As a condition to the delivery of shares of PE Biosystems Stock upon the exercise of the Option, you agree to pay to the Company an amount sufficient to satisfy any applicable tax withholding obligations. Alternatively, you agree that the Company and your employer are expressly authorized to deduct the appropriate withholding taxes from your pay in order to satisfy any income, social, or other employment-related taxes related to your participation in the Plan.

**11. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of PE Biosystems Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**12. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**13. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**14. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon the termination of your employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**15. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Option and the Plan are not part of your salary and that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**16. Compliance with Law.** No shares of PE Biosystems Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**17. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan and agree to be bound by all of the terms of the Plan.

**18. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**19. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**PE  
CORPORATION**

By:

\_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
«Name»

## APPLIED BIOSYSTEMS GROUP PERFORMANCE STOCK OPTIONS

### *(Series 5 Performance Options)*

**PERFORMANCE STOCK OPTION AGREEMENT** dated as of December 1, 2000 by and between Applera Corporation, a Delaware corporation (the “Company”), and Kathy P. Ordoñez, a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Option.** The Company hereby grants to you a non-qualified stock option (the “Option”) to purchase 42,200 shares of its Applied Biosystems Group Common Stock, par value \$.01 per share (the “Applied Biosystems Stock”), under the terms of the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of Applied Biosystems Stock subject to the Option is \$85.7813 per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 a.m. midnight (New York time) on December 1, 2010 (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised as to 3,516 shares on each such date, after the date hereof, as the Fair Market Value (as defined in the Plan) of a share of Applied Biosystems Stock averages, over a period of 90 consecutive days, \$90.7813, \$95.7813, \$100.7813, and \$105.7813, and as to 3,517 shares on each such date, after the date hereof, as the Fair Market Value of a share of Applied Biosystems Stock averages, over a period of 90 consecutive days, \$110.7813, \$115.7813, \$120.7813, \$125.7813, \$130.7813, \$135.7813, \$140.7813, and \$145.7813.

Notwithstanding the foregoing, but subject to the next sentence, the Option may be exercised as to all shares subject to the Option on December 1, 2003. Except as provided below, the Option may not be exercised unless you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than Cause (as defined below), retirement, disability, or death, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of employment, at any time within 30 days after the date of termination, but not after the Expiration Date.

**6. Termination of Service for Cause.** If your employment with the Company is terminated by the Company for Cause, the Option will be immediately forfeited in full upon such termination (regardless of the extent to which the Option may have been exercisable as of such time). For purposes of this paragraph 6 only, “Cause” is defined as (a) any act which is in bad faith and to the detriment of the Company or (b) a material breach of any agreement with or material obligation to the Company.

**7. Retirement or Disability.** If you retire under the terms of any qualified pension plan provided by the Company or one of its subsidiaries, or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within one year after the date of retirement or disability retirement, but not after the Expiration Date.

**8. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**9. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of Applied Biosystems Stock to be purchased. However, the Option may not be exercised as to fewer than 100 shares, or the remaining shares covered by the Option if fewer than 100, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of Applied Biosystems Stock owned by you for at least six months having a Fair Market Value equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of Applied Biosystems Stock valued at Fair Market Value, or (d) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**10. Conditions to Exercise.** The exercise of the Option within one year following termination of employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**11. Tax Withholding Obligations.** As a condition to the delivery of shares of Applied Biosystems Stock upon the exercise of the Option, you agree to pay to the Company an amount sufficient to satisfy any applicable tax withholding obligations. Alternatively, you agree that the Company and your employer are expressly authorized to deduct the appropriate withholding taxes from your pay in order to satisfy any income, social, or other employment-related taxes related to your participation in the Plan.

**12. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of Applied Biosystems Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**13. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**14. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**15. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon the termination of your employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**16. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Option and the Plan are not part of your salary and that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**17. Compliance with Law.** No shares of Applied Biosystems Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**18. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan and agree to be bound by all of the terms of the Plan.

**19. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**20. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA  
CORPORATION**

By:

\_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
«Name»



**APPLERA CORPORATION/APPLIED BIOSYSTEMS GROUP  
1999 STOCK INCENTIVE PLAN**

**FORM OF PERFORMANCE SHARE AWARD AGREEMENT**

**PERFORMANCE SHARE AWARD AGREEMENT** dated as of [Grant Date], by and between Applera Corporation, a Delaware corporation (the “Company”), and [Name], a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Performance Shares.** The Company hereby grants to you a Performance Share Award (the “Award”) for [Total Number of Shares] shares (the “Performance Shares”) of its Applied Biosystems Group Common Stock, par value \$.01 per share (the “Applied Biosystems Stock”), under the terms of the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan (the “Plan”).

**2. Vesting; Performance Goals.** The Performance Shares will vest in the manner provided in Exhibit I to this Agreement based on the attainment of the performance goals relating to operating cash flow established by the Management Resources Committee of the Board of Directors (the “Committee”) pursuant to such Exhibit and the terms of the Plan (the “Performance Goals”).

**3. Requirement of Continued Employment.** Except as may otherwise be determined by Committee under the terms of the Plan, no Performance Shares will be delivered to you unless you have been at all times from the date of grant to and including the date of vesting an employee of the Company or one of its subsidiaries.

**4. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason prior to the attainment of all or any portion of the Performance Goals, the Performance Shares which have not vested will be forfeited and will revert back to the Company without payment to you of any consideration.

**5. Delivery of Performance Shares.** Certificates representing the Performance Shares will be registered in your name but remain in the physical custody of the Company until the Committee determines that the Performance Goals have been attained. In the event that all or a portion of the Performance Shares are forfeited for any reason, those shares will revert back to the Company without payment to you of any consideration.

**6. Payment of Dividends; Voting Rights.** Prior to the vesting of the Performance Shares, you will have the right to vote and to receive dividends, if any, on all of the unvested shares of Applied Biosystems Stock covered by the Award.

**7. Non-Transferability.** Prior to the time that shares of Applied Biosystems Stock issued pursuant to the Award are delivered to you, none of such shares may be sold, assigned, bequeathed, transferred, pledged, hypothecated, or otherwise disposed of in any way.

**8. Change of Control.** Subject to the terms of the Plan, all Performance Shares will be deemed vested upon the occurrence of any of the events set forth in Section 11 of the Plan.

**9. No Right to Continued Employment.** Neither the Award nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. The Award will terminate upon the termination of your employment for any reason. The Award will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**10. No Right to Future Benefits.** The Plan and the benefits offered under the Plan are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Award nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Award and the Plan are not part of your salary and that receipt of the Award does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**11. Compliance with Law.** No shares of Applied Biosystems Stock will be delivered to you upon the vesting of the Performance Shares unless counsel for the Company is satisfied that such delivery will be in compliance with all applicable laws.

**12. Entire Agreement.** This Agreement and the Plan contain the entire agreement between you and the Company regarding the Award and supersede all prior arrangements or understandings with respect thereto.

**13. Terms of Plan Govern.** This Agreement and the terms of the Award will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Plan Summary and agree to be bound by all of the terms of the Plan.

**14. Amendments.** The Award or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Award or the Plan will adversely affect in any material manner any of your rights under the Award without your consent.

15. **Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_

Accepted and Agreed:

\_\_\_\_\_  
[Name]

**APPLERA CORPORATION/APPLIED BIOSYSTEMS GROUP  
AMENDED AND RESTATED 1999 STOCK INCENTIVE PLAN**

**FORM OF NON-QUALIFIED STOCK OPTION AGREEMENT**

**NON-QUALIFIED STOCK OPTION AGREEMENT** dated as of [Grant Date] by and between Applera Corporation, a Delaware corporation (the “Company”), and [Name], a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Option.** The Company hereby grants to you an option (the “Option”) to purchase [Total Number of Shares] shares of its Applied Biosystems Group Common Stock, par value \$.01 per share (the “Applied Biosystems Stock”), under the terms of the Applera Corporation/Applied Biosystems Group Amended and Restated 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of Applied Biosystems Stock subject to the Option is \$[Purchase Price] per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 a.m. midnight (New York time) on [10 Year Anniversary of Grant Date] (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised as to [25% of Total Number of Shares] shares on [First Anniversary of Grant Date], [25% of Total Number of Shares] shares on [Second Anniversary of Grant Date], [25% of Total Number of Shares] shares on [Third Anniversary of Grant Date], and [25% of Total Number of Shares] shares on [Fourth Anniversary of Grant Date].<sup>1 2</sup> Except as provided below, the Option may not be exercised unless you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than Cause (as defined below), retirement, disability, or death, you may exercise the Option [, to the extent that you would otherwise be entitled to do so at the date of termination of employment,]<sup>3</sup> at any time within 30 days after the date of termination, but not after the Expiration Date.

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<sup>1</sup> June 2, 2005, stock option grants were immediately exercisable at grant, subject to the transfer restriction on shares of stock acquired upon the exercise of those options specified in Section 13 of this form of agreement.

<sup>2</sup> The vesting dates for a newly-hired employee are the anniversaries of the hire date, and not the grant date, if employment commences prior to the grant date.

<sup>3</sup> Text in brackets is not applicable to June 2, 2005, stock option grants.

**6. Termination of Service for Cause.** If your employment with the Company is terminated by the Company for Cause, the Option will be immediately forfeited in full upon such termination [(regardless of the extent to which the Option may have been exercisable as of such time)].<sup>4</sup> For purposes of this paragraph 6 only, “Cause” is defined as (a) any act which is in bad faith and to the detriment of the Company or (b) a material breach of any agreement with or material obligation to the Company.

**7. Retirement or Disability.** If you retire under the terms of any retirement plan provided by the Company or one of its subsidiaries, or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option [(without regard to the exercise schedule set forth in paragraph 4)]<sup>5</sup> at any time within one year after the termination of employment following such retirement or disability, but not after the Expiration Date.

**8. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised [(to the extent that you would have been entitled to do so at the date of your death)]<sup>6</sup> by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**9. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of Applied Biosystems Stock to be purchased, or in such other manner as the Company may specify to you from time to time. However, the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of Applied Biosystems Stock owned by you for at least six months (or such longer or shorter period of time required by the Company to avoid a charge to earnings for financial accounting purposes) having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of Applied Biosystems Stock valued at Fair Market Value, (d) pursuant to a “same day sale” program, or (e) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the “Committee”) from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

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4 Text in brackets is not applicable to June 2, 2005, stock option grants.

5 Text in brackets is not applicable to June 2, 2005, stock option grants.

6 Text in brackets is not applicable to June 2, 2005, stock option grants.

**10. Conditions to Exercise.** The exercise of the Option within one year following termination of employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**11. Tax Withholding Obligations.** As a condition to the delivery of shares of Applied Biosystems Stock upon the exercise of the Option, you agree to pay to the Company an amount sufficient to satisfy any applicable tax withholding obligations. Alternatively, you agree that the Company and your employer are expressly authorized to deduct the appropriate withholding taxes from your pay in order to satisfy any income, social, or other employment-related taxes related to your participation in the Plan.

**12. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of Applied Biosystems Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**13. Transferability [of Options and Shares Acquired upon Exercise of Options]**<sup>7</sup>. The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

[Furthermore, shares of Applied Biosystems Stock acquired upon the exercise of the Option may not be directly or indirectly transferred in any manner (including, without limitation, by way of a sale, gift, pledge, or other direct or indirect method of disposition). This restriction on the transfer of shares of Applied Biosystems Stock will lapse on 25% of the shares covered by the Option on each of the first four anniversaries of the grant date, i.e. the restriction will lapse as to [25% of Total Number of Shares] shares on [First Anniversary of Grant Date], [25% of Total Number of Shares] shares on [Second Anniversary of Grant Date], [25% of Total Number of Shares] shares on [Third Anniversary of Grant Date], and [25% of Total Number of Shares] shares on [Fourth Anniversary of Grant Date]. Also, this restriction on the transfer of shares of Applied Biosystems Stock will lapse in full upon termination of employment for any reason. Any shares issued pursuant to the exercise of the Option prior to the lapse of this restriction on such shares shall be held by the Company until the date on which the restriction lapses on such shares, provided that you shall be entitled to vote all such shares and receive dividends, if any, payable upon such shares as and when paid by the Company.]<sup>8</sup>

**14. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.<sup>9</sup>

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<sup>7</sup> Text in brackets is applicable only to June 2, 2005, stock option grants.

<sup>8</sup> This paragraph is applicable only to June 2, 2005, stock option grants.

<sup>9</sup> This provision is not applicable to June 2, 2005, stock option grants.

**15. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon your termination of employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**16. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Option and the Plan are not part of your salary and that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**17. Compliance with Law.** No shares of Applied Biosystems Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**18. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan and agree to be bound by all of the terms of the Plan.

**19. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**20. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
[Name]

**APPLERA CORPORATION/APPLIED BIOSYSTEMS GROUP  
AMENDED AND RESTATED 1999 STOCK INCENTIVE PLAN**

**FORM OF INCENTIVE STOCK OPTION AGREEMENT**

**INCENTIVE STOCK OPTION AGREEMENT** dated as of [Grant Date] by and between Applera Corporation, a Delaware corporation (the “Company”), and [Name], a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Option.** The Company hereby grants to you an option (the “Option”) to purchase [Total Number of Shares] shares of its Applied Biosystems Group Common Stock, par value \$.01 per share (the “Applied Biosystems Stock”), under the terms of the Applera Corporation/Applied Biosystems Group Amended and Restated 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of Applied Biosystems Stock subject to the Option is \$[Purchase Price] per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 a.m. midnight (New York time) on [10 Year Anniversary of Grant Date] (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised as to [25% of Total Number of Shares] shares on [First Anniversary of Grant Date], [25% of Total Number of Shares] shares on [Second Anniversary of Grant Date], [25% of Total Number of Shares] shares on [Third Anniversary of Grant Date], and [25% of Total Number of Shares] shares on [Fourth Anniversary of Grant Date].<sup>1</sup> Except as provided below, the Option may not be exercised unless you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than Cause (as defined below), retirement, disability, or death, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of employment, at any time within 30 days after the date of termination, but not after the Expiration Date.

**6. Termination of Service for Cause.** If your employment with the Company is terminated by the Company for Cause, the Option will be immediately forfeited in full upon such termination (regardless of the extent to which the Option may have been exercisable as of such time). For purposes of this paragraph 6 only, “Cause” is defined as (a) any act which is in bad faith and to the detriment of the Company or (b) a material breach of any agreement with or material obligation to the Company.

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<sup>1</sup> The vesting dates for a newly-hired employee are the anniversaries of the hire date, and not the grant date, if employment commences prior to the grant date.

**7. Retirement or Disability.** If you retire under the terms of any retirement plan provided by the Company or one of its subsidiaries, or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within three months after the termination of employment following such retirement or disability, but not after the Expiration Date.

**8. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**9. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of Applied Biosystems Stock to be purchased, or in such other manner as the Company may specify to you from time to time. However, the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of Applied Biosystems Stock owned by you for at least six months (or such longer or shorter period of time required by the Company to avoid a charge to earnings for financial accounting purposes) having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of Applied Biosystems Stock valued at Fair Market Value, (d) pursuant to a “same day sale” program, or (e) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the “Committee”) from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**10. Conditions to Exercise.** The exercise of the Option within one year following termination of employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**11. Notice of Transfer of Shares.** You agree to notify the Company in writing immediately in the event that any shares acquired upon the exercise of the Option are transferred to a third party prior to [Second Anniversary of Grant Date] or the first anniversary of the date on which such shares are acquired.

**12. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of Applied Biosystems Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**13. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**14. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**15. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon your termination of employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**16. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Option and the Plan are not part of your salary and that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**17. Compliance with Law.** No shares of Applied Biosystems Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**18. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan and agree to be bound by all of the terms of the Plan.

**19. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**20. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
[Name]

**APPLERA CORPORATION/APPLIED BIOSYSTEMS GROUP  
AMENDED AND RESTATED 1999 STOCK INCENTIVE PLAN**

**FORM OF RESTRICTED STOCK BONUS AGREEMENT**

**RESTRICTED STOCK BONUS AGREEMENT** dated as of [Grant Date] by and between Applera Corporation, a Delaware corporation (the “Company”), and [Name], a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Restricted Stock Bonus.** The Company hereby grants to you a Restricted Stock Bonus (the “Award”) for [Total Number of Shares] shares (the “Award Shares”) of its Applied Biosystems Group Common Stock, par value \$.01 per share (the “Applied Biosystems Stock”), under the terms of the Applera Corporation/Applied Biosystems Group Amended and Restated 1999 Stock Incentive Plan (the “Plan”).

**2. Vesting.** The Award Shares will vest as to [25% of Total Number of Shares] shares on [First Anniversary of Grant Date], [25% of Total Number of Shares] shares on [Second Anniversary of Grant Date], [25% of Total Number of Shares] shares on [Third Anniversary of Grant Date], and [25% of Total Number of Shares] shares on [Fourth Anniversary of Grant Date] (each a “Vesting Date”), provided that you have been at all times from the date of grant to and including the applicable Vesting Date a regular employee of the Company or one of its subsidiaries.

**3. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason prior to the vesting of all or a portion of the Award Shares, the Award Shares which have not vested will be forfeited and will revert back to the Company without payment to you of any consideration.

**4. Delivery of Award Shares.** Certificates representing the Award Shares will be registered in your name but, at the discretion of the Management Resources Committee of the Board of Directors of the Company (the “Committee”), may remain in the physical custody of the Company or an escrow holder until the Award Shares have vested. In the event that all or a portion of the Award Shares are forfeited for any reason, those shares will revert back to the Company without payment to you of any consideration.

**5. Payment of Dividends; Voting Rights.** Prior to the vesting of the Award Shares, you will have the right to vote and to receive dividends, if any, on all of the unvested shares of Applied Biosystems Stock covered by the Award.

**6. Non-Transferability.** Prior to the time that shares of Applied Biosystems Stock issued pursuant to the Award are delivered to you, none of such shares may be sold, assigned, bequeathed, transferred, pledged, hypothecated, or otherwise disposed of in any way.

**7. Change of Control.** Subject to the terms of the Plan, all Award Shares will be deemed vested (without regard to the Vesting Dates) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**8. No Right to Continued Employment.** Neither the Award nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. The Award will terminate upon the termination of your employment for any reason. The Award will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**9. No Right to Future Benefits.** The Plan and the benefits offered under the Plan are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Award nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Award and the Plan are not part of your salary and that receipt of the Award does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**10. Compliance with Law.** No shares of Applied Biosystems Stock will be delivered to you upon the vesting of the Award Shares unless counsel for the Company is satisfied that such delivery will be in compliance with all applicable laws.

**11. Entire Agreement.** This Agreement and the Plan contain the entire agreement between you and the Company regarding the Award and supersede all prior arrangements or understandings with respect thereto.

**12. Terms of Plan Govern.** This Agreement and the terms of the Award will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Plan Summary and agree to be bound by all of the terms of the Plan.

**13. Amendments.** The Award or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Award or the Plan will adversely affect in any material manner any of your rights under the Award without your consent.

**14. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
[Name]

**APPLERA CORPORATION/CELERA GENOMICS GROUP  
1999 STOCK INCENTIVE PLAN**

**FORM OF NON-QUALIFIED STOCK OPTION AGREEMENT**

**NON-QUALIFIED STOCK OPTION AGREEMENT** dated as of [Grant Date] by and between Applera Corporation, a Delaware corporation (the “Company”), and [Name], a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Option.** The Company hereby grants to you an option (the “Option”) to purchase [Total Number of Shares] shares of its Celera Genomics Group Common Stock, par value \$.01 per share (the “Celera Stock”), under the terms of the Applera Corporation/Celera Genomics Group 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of Celera Stock subject to the Option is \$[Purchase Price] per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 a.m. midnight (New York time) on [10 Year Anniversary of Grant Date] (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised as to [25% of Total Number of Shares] shares on [First Anniversary of Grant Date], [25% of Total Number of Shares] shares on [Second Anniversary of Grant Date], [25% of Total Number of Shares] shares on [Third Anniversary of Grant Date] and [25% of Total Number of Shares] shares on [Fourth Anniversary of Grant Date].<sup>1 2</sup> Except as provided below, the Option may not be exercised unless you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than Cause (as defined below)<sup>3</sup>, retirement, disability, or death, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of employment, at any time within 30 days after the date of termination, but not after the Expiration Date.

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January 21, 1999, stock option grants vested in four equal installments on the first day of each of the first four fiscal years commencing after the grant date. All other stock options issued pursuant to this form of agreement were issued subject to the vesting schedule set forth in this Section 4. The foregoing notwithstanding, during the 2005

<sup>1</sup> fiscal year, the vesting of all stock options issued pursuant to this form of agreement was accelerated, such that all of these options became exercisable regardless of the vesting schedule set forth in this Section 4. However, shares of stock issued upon the exercise of the accelerated options by executive officers and some other senior employees are subject to a restriction on the sale or other transfer prior to the earlier of the original vesting date or the individual's termination of employment.

<sup>2</sup> For stock options granted during or after June 2002, the vesting dates for a newly-hired employee are the anniversaries of the hire date, and not the grant date, if employment commences prior to the grant date.

<sup>3</sup> This reference to “Cause” is applicable only to stock option grants approved on and after October 19, 2000.

**6. Termination of Service for Cause.** If your employment with the Company is terminated by the Company for Cause, the Option will be immediately forfeited in full upon such termination (regardless of the extent to which the Option may have been exercisable as of such time). For purposes of this paragraph 6 only, "Cause" is defined as (a) any act which is in bad faith and to the detriment of the Company or (b) a material breach of any agreement with or material obligation to the Company.<sup>4</sup>

**7. Retirement or Disability.** If you retire under the terms of any qualified pension plan provided by the Company or one of its subsidiaries, or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within one year after the date of retirement or disability retirement, but not after the Expiration Date.

**8. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**9. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of Celera Stock to be purchased. However, the Option may not be exercised as to fewer than 100 shares, or the remaining shares covered by the Option if fewer than 100, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of Celera Stock owned by you for at least six months having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of Celera Stock valued at Fair Market Value, or (d) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**10. Conditions to Exercise.** The exercise of the Option within one year following termination of employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**11. Tax Withholding Obligations.** As a condition to the delivery of shares of Celera Stock upon the exercise of the Option, you agree to pay to the Company an amount sufficient to

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<sup>4</sup> This provision is applicable only to stock option grants approved on and after October 19, 2000.

satisfy any applicable tax withholding obligations. Alternatively, you agree that the Company and your employer are expressly authorized to deduct the appropriate withholding taxes from your pay in order to satisfy any income, social, or other employment-related taxes related to your participation in the Plan.

**12. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of Celera Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**13. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**14. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**15. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon your termination of employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**16. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Option and the Plan are not part of your salary and that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**17. Compliance with Law.** No shares of Celera Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**18. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan [, including a copy of the Plan,]<sup>5</sup> and agree to be bound by all of the terms of the Plan.

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<sup>5</sup> Text in brackets is applicable only to stock option grants approved prior to or on September 5, 2000.

**19. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**20. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
[Name]

**APPLERA CORPORATION/CELERA GENOMICS GROUP  
1999 STOCK INCENTIVE PLAN**

**FORM OF INCENTIVE STOCK OPTION AGREEMENT**

**INCENTIVE STOCK OPTION AGREEMENT** dated as of [Grant Date] by and between Applera Corporation, a Delaware corporation (the “Company”), and [Name], a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Option.** The Company hereby grants to you an option (the “Option”) to purchase [Total Number of Shares] shares of its Celera Genomics Group Common Stock, par value \$.01 per share (the “Celera Stock”), under the terms of the Applera Corporation/Celera Genomics Group 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of Celera Stock subject to the Option is \$[Purchase Price] per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 a.m. midnight (New York time) on [10 Year Anniversary of Grant Date] (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised as to [25% of Total Number of Shares] shares on [First Anniversary of Grant Date], [25% of Total Number of Shares] shares on [Second Anniversary of Grant Date], [25% of Total Number of Shares] shares on [Third Anniversary of Grant Date] and [25% of Total Number of Shares] shares on [Fourth Anniversary of Grant Date].<sup>1</sup> Except as provided below, the Option may not be exercised unless you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than Cause (as defined below)<sup>2</sup>, retirement, disability, or death, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of employment, at any time within 30 days after the date of termination, but not after the Expiration Date.

**6. Termination of Service for Cause.** If your employment with the Company is terminated by the Company for Cause, the Option will be immediately forfeited in full upon such termination (regardless of the extent to which the Option may have been exercisable as of such time). For purposes of this paragraph 6 only, “Cause” is defined as (a) any act which is in bad faith and to the

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<sup>1</sup> During the 2005 fiscal year, the vesting of all stock options issued pursuant to this form of agreement was accelerated, such that all of these options became exercisable regardless of the vesting schedule set forth in this Section 4. However, shares of stock issued upon the exercise of the accelerated options by executive officers and some other senior employees are subject to a restriction on the sale or other transfer prior to the earlier of the original vesting date or the individuals’ termination of employment.

<sup>2</sup> This reference to “Cause” is applicable only to stock option grants approved on and after October 19, 2000.

detriment of the Company or (b) a material breach of any agreement with or material obligation to the Company.<sup>3</sup>

**7. Retirement or Disability.** If you retire under the terms of any qualified pension plan provided by the Company or one of its subsidiaries, or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within three months after the date of retirement or disability retirement, but not after the Expiration Date.

**8. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**9. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of Celera Stock to be purchased. However, the Option may not be exercised as to fewer than 100 shares, or the remaining shares covered by the Option if fewer than 100, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of Celera Stock owned by you for at least six months having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of Celera Stock valued at Fair Market Value, or (d) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**10. Conditions to Exercise.** The exercise of the Option within one year following termination of employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**11. Notice of Transfer of Shares.** You agree to notify the Company in writing immediately in the event that any shares acquired upon the exercise of the Option are transferred to a third party prior to [Second Anniversary of Grant Date] or the first anniversary of the date on which such shares are acquired.

**12. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of Celera Stock subject to the Option prior to the issuance to you of a certificate for such shares.

<sup>3</sup> This provision is applicable only to grants approved on and after October 19, 2000.

**13. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**14. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**15. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon your termination of employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**16. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Option and the Plan are not part of your salary and that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**17. Compliance with Law.** No shares of Celera Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**18. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan and agree to be bound by all of the terms of the Plan.

**19. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**20. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
[Name]



**APPLERA CORPORATION/CELERA GENOMICS GROUP**  
**1999 STOCK INCENTIVE PLAN**

**NON-QUALIFIED STOCK OPTION AGREEMENT**  
**(Series FY02-6 Performance Units)**

**NON-QUALIFIED STOCK OPTION AGREEMENT** dated as of April 19, 2002 by and between Applera Corporation, a Delaware corporation (the “Company”), and «Name», a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Option.** The Company hereby grants to you an option (the “Option”) to purchase «Number» shares of its Celera Genomics Group Common Stock, par value \$.01 per share (the “Celera Genomics Stock”), under the terms of the Applera Corporation/Celera Genomics Group 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of Celera Genomics Stock subject to the Option is \$19.475 per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 a.m. midnight (New York time) on April 19, 2012 (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised in full on or after April 19, 2005, provided that, except as provided below, you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than retirement, disability, or death, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of employment, at any time within 30 days after the date of termination, but not after the Expiration Date.

**6. Retirement or Disability.** If you retire under the terms of any qualified pension plan provided by the Company or one of its subsidiaries, or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within one year after the date of retirement or disability retirement, but not after the Expiration Date.

**7. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**8. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of Celera Genomics Stock to be purchased. However, the Option may not be exercised as to fewer than 100 shares, or the remaining shares covered by the Option if fewer than 100, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of Celera Genomics Stock owned by you for at least six months having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of Celera Genomics Stock valued at Fair Market Value, or (d) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**9. Conditions to Exercise.** The exercise of the Option within one year following termination of employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**10. Tax Withholding Obligations.** As a condition to the delivery of shares of Celera Genomics Stock upon the exercise of the Option, you agree to pay to the Company an amount sufficient to satisfy any applicable tax withholding obligations. Alternatively, you agree that the Company and your employer are expressly authorized to deduct the appropriate withholding taxes from your pay in order to satisfy any income, social, or other employment-related taxes related to your participation in the Plan.

**11. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of Celera Genomics Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**12. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**13. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**14. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon the termination of your employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**15. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Option and the Plan are not part of your salary and that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**16. Compliance with Law.** No shares of Celera Genomics Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**17. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan and agree to be bound by all of the terms of the Plan.

**18. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**19. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

IN WITNESS WHEREOF, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
«Name»

**APPLERA CORPORATION/CELERA GENOMICS GROUP  
1999 STOCK INCENTIVE PLAN**

**NON-QUALIFIED STOCK OPTION AGREEMENT  
(Series FY02-7 Performance Units)**

**NON-QUALIFIED STOCK OPTION AGREEMENT** dated as of April 19, 2002 by and between Applera Corporation, a Delaware corporation (the “Company”), and «Name», a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Option.** The Company hereby grants to you an option (the “Option”) to purchase «Number» shares of its Celera Genomics Group Common Stock, par value \$.01 per share (the “Celera Genomics Stock”), under the terms of the Applera Corporation/Celera Genomics Group 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of Celera Genomics Stock subject to the Option is \$19.475 per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 a.m. midnight (New York time) on April 19, 2012 (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised in full on or after the earlier of (a) April 19, 2007 or (b) two years after all Stock Price Targets under the Series FY02-7 Performance Units granted to you on the date hereof have been attained, provided that, except as provided below, you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than retirement, disability, or death, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of employment, at any time within 30 days after the date of termination, but not after the Expiration Date.

**6. Retirement or Disability.** If you retire under the terms of any qualified pension plan provided by the Company or one of its subsidiaries, or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within one year after the date of retirement or disability retirement, but not after the Expiration Date.

**7. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**8. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of Celera Genomics Stock to be purchased. However, the Option may not be exercised as to fewer than 100 shares, or the remaining shares covered by the Option if fewer than 100, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of Celera Genomics Stock owned by you for at least six months having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of Celera Genomics Stock valued at Fair Market Value, or (d) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**9. Conditions to Exercise.** The exercise of the Option within one year following termination of employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**10. Tax Withholding Obligations.** As a condition to the delivery of shares of Celera Genomics Stock upon the exercise of the Option, you agree to pay to the Company an amount sufficient to satisfy any applicable tax withholding obligations. Alternatively, you agree that the Company and your employer are expressly authorized to deduct the appropriate withholding taxes from your pay in order to satisfy any income, social, or other employment-related taxes related to your participation in the Plan.

**11. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of Celera Genomics Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**12. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**13. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**14. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon the termination of your employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**15. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Option and the Plan are not part of your salary and that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**16. Compliance with Law.** No shares of Celera Genomics Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**17. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan and agree to be bound by all of the terms of the Plan.

**18. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**19. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
«Name»

**APPLERA CORPORATION/CELERA GENOMICS GROUP  
1999 STOCK INCENTIVE PLAN**

**NON-QUALIFIED STOCK OPTION AGREEMENT  
(Series FY03-1 Performance Units)**

**NON-QUALIFIED STOCK OPTION AGREEMENT** dated as of August 5, 2002 by and between Applera Corporation, a Delaware corporation (the “Company”), and «Name», a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Option.** The Company hereby grants to you an option (the “Option”) to purchase «Number» shares of its Celera Genomics Group Common Stock, par value \$.01 per share (the “Celera Genomics Stock”), under the terms of the Applera Corporation/Celera Genomics Group 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of Celera Genomics Stock subject to the Option is \$9.675 per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 a.m. midnight (New York time) on August 5, 2012 (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised in full on or after August 5, 2005, provided that, except as provided below, you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than retirement, disability, or death, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of employment, at any time within 30 days after the date of termination, but not after the Expiration Date.

**6. Retirement or Disability.** If you retire under the terms of any qualified pension plan provided by the Company or one of its subsidiaries, or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within one year after the date of retirement or disability retirement, but not after the Expiration Date.

**7. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**8. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of Celera Genomics Stock to be purchased. However, the Option may not be exercised as to fewer than 100 shares, or the remaining shares covered by the Option if fewer than 100, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of Celera Genomics Stock owned by you for at least six months having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of Celera Genomics Stock valued at Fair Market Value, or (d) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**9. Conditions to Exercise.** The exercise of the Option within one year following termination of employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**10. Tax Withholding Obligations.** As a condition to the delivery of shares of Celera Genomics Stock upon the exercise of the Option, you agree to pay to the Company an amount sufficient to satisfy any applicable tax withholding obligations. Alternatively, you agree that the Company and your employer are expressly authorized to deduct the appropriate withholding taxes from your pay in order to satisfy any income, social, or other employment-related taxes related to your participation in the Plan.

**11. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of Celera Genomics Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**12. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**13. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**14. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon the termination of your employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**15. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Option and the Plan are not part of your salary and that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**16. Compliance with Law.** No shares of Celera Genomics Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**17. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan and agree to be bound by all of the terms of the Plan.

**18. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**19. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

IN WITNESS WHEREOF, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
«Name»

**APPLERA CORPORATION/CELERA GENOMICS GROUP  
1999 STOCK INCENTIVE PLAN**

**NON-QUALIFIED STOCK OPTION AGREEMENT  
(Series FY03-2 Performance Units)**

**NON-QUALIFIED STOCK OPTION AGREEMENT** dated as of August 5, 2002 by and between Applera Corporation, a Delaware corporation (the “Company”), and «Name», a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Option.** The Company hereby grants to you an option (the “Option”) to purchase «Number» shares of its Celera Genomics Group Common Stock, par value \$.01 per share (the “Celera Genomics Stock”), under the terms of the Applera Corporation/Celera Genomics Group 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of Celera Genomics Stock subject to the Option is \$9.675 per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 a.m. midnight (New York time) on August 5, 2012 (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised in full on or after the earlier of (a) August 5, 2007 or (b) two years after all Stock Price Targets under the Series FY03-2 Performance Units granted to you on the date hereof have been attained, provided that, except as provided below, you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than retirement, disability, or death, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of employment, at any time within 30 days after the date of termination, but not after the Expiration Date.

**6. Retirement or Disability.** If you retire under the terms of any qualified pension plan provided by the Company or one of its subsidiaries, or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within one year after the date of retirement or disability retirement, but not after the Expiration Date.

**7. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**8. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of Celera Genomics Stock to be purchased. However, the Option may not be exercised as to fewer than 100 shares, or the remaining shares covered by the Option if fewer than 100, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of Celera Genomics Stock owned by you for at least six months having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of Celera Genomics Stock valued at Fair Market Value, or (d) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**9. Conditions to Exercise.** The exercise of the Option within one year following termination of employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**10. Tax Withholding Obligations.** As a condition to the delivery of shares of Celera Genomics Stock upon the exercise of the Option, you agree to pay to the Company an amount sufficient to satisfy any applicable tax withholding obligations. Alternatively, you agree that the Company and your employer are expressly authorized to deduct the appropriate withholding taxes from your pay in order to satisfy any income, social, or other employment-related taxes related to your participation in the Plan.

**11. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of Celera Genomics Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**12. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**13. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**14. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon the termination of your employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**15. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Option and the Plan are not part of your salary and that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**16. Compliance with Law.** No shares of Celera Genomics Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**17. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan and agree to be bound by all of the terms of the Plan.

**18. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**19. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

IN WITNESS WHEREOF, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
«Name»

**APPLERA CORPORATION/CELERA GENOMICS GROUP  
1999 STOCK INCENTIVE PLAN**

**FORM OF EMPLOYEE STOCK AWARD AGREEMENT**

**EMPLOYEE STOCK AWARD AGREEMENT** dated as of [Grant Date] by and between Applera Corporation, a Delaware corporation (the “Company”), and [Name], a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Employee Stock Award.** The Company hereby grants to you an Employee Stock Award (the “Award”) for [Total Number of Shares] shares (the “Award Shares”) of its Celera Genomics Group Common Stock, par value \$.01 per share (the “Celera Stock”), under the terms of the Applera Corporation/Celera Genomics Group 1999 Stock Incentive Plan (the “Plan”).

**2. Vesting.** The Award Shares will vest as to [One-Third of Total Number of Shares] Award Shares on [Last Day of First Fiscal Year Ending After the Grant Date], [One-Third of Total Number of Shares] Award Shares on [Last Day of Second Fiscal Year Ending After the Grant Date], and [One-Third of Total Number of Shares] Award Shares on [Last Day of Third Fiscal Year Ending After the Grant Date] (each a “Vesting Date”), provided that you have been at all times from the date of grant to and including the applicable Vesting Date [regular]<sup>1</sup> an employee of the Company or one of its subsidiaries.<sup>2</sup>

**3. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason prior to the vesting of all or a portion of the Award Shares, the Award Shares which have not vested will be forfeited and will revert back to the Company without payment to you of any consideration.

**4. Delivery of Award Shares.** Certificates representing the Award Shares will be registered in your name but remain in the physical custody of the Company until the Award Shares have vested. In the event that all or a portion of the Award Shares are forfeited for any reason, those shares will revert back to the Company without payment to you of any consideration.

**5. Payment of Dividends; Voting Rights.** Prior to the vesting of the Award Shares, you will have the right to vote and to receive dividends, if any, on all of the unvested shares of Celera Stock covered by the Award.

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<sup>1</sup> Applicable only to August 5, 2002, award grant.

<sup>2</sup> An August 5, 2002, award grant to Robert F.G. Booth vested in three installments, 25% on each of the first and second anniversaries of the grant date and 50% on the third anniversary of the grant date. An August 21, 2003, award grant to Tony L. White is subject to the vesting schedule set forth in this Section 2.

**6. Non-Transferability.** Prior to the time that shares of Celera Stock issued pursuant to the Award are delivered to you, none of such shares may be sold, assigned, bequeathed, transferred, pledged, hypothecated, or otherwise disposed of in any way.

**7. Change of Control.** Subject to the terms of the Plan, all Award Shares will be deemed vested (without regard to the Vesting Dates) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**8. No Right to Continued Employment.** Neither the Award nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. The Award will terminate upon the termination of your employment for any reason. The Award will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**9. No Right to Future Benefits.** The Plan and the benefits offered under the Plan are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Award nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Award and the Plan are not part of your salary and that receipt of the Award does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**10. Compliance with Law.** No shares of Celera Stock will be delivered to you upon the vesting of the Award Shares unless counsel for the Company is satisfied that such delivery will be in compliance with all applicable laws.

**11. Entire Agreement.** This Agreement and the Plan contain the entire agreement between you and the Company regarding the Award and supersede all prior arrangements or understandings with respect thereto.

**12. Terms of Plan Govern.** This Agreement and the terms of the Award will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Plan Summary and agree to be bound by all of the terms of the Plan.

**13. Amendments.** The Award or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Award or the Plan will adversely affect in any material manner any of your rights under the Award without your consent.

**14. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_

Accepted and Agreed:

\_\_\_\_\_

[Name]

**APPLERA CORPORATION/CELERA GENOMICS GROUP  
1999 STOCK INCENTIVE PLAN**

**FORM OF DIRECTOR STOCK OPTION AGREEMENT**

**DIRECTOR OPTION AGREEMENT** dated as of [Grant Date] by and between Applera Corporation, a Delaware corporation (the “Company”), and [Name], a member of the Board of Directors of the Company (“you”).

**1. Grant of Option.** The Company hereby grants to you a non-qualified option (the “Option”) to purchase [Total Number of Shares] shares of its Celera Genomics Group Common Stock, par value \$.01 per share (the “Celera Stock”), under the terms of the Applera Corporation/ Celera Genomics Group 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of Celera Stock subject to the Option is \$[Purchase Price] per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 a.m. midnight (New York time) on [10 Year Anniversary of Grant Date] (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised as to [25% of Total Number of Shares] shares on or after [Each of the Four Anniversaries of the Grant Date.]<sup>1</sup> Except as provided below, the Option may not be exercised unless you are serving as a member of the Board of Directors on the date of exercise.

**5. Retirement, Resignation, or Disability.** If you cease to serve as a director of the Company as a result of (a) retiring from the Board of Directors upon reaching normal age, (b) becoming totally and permanently disabled, or (c) resigning or declining to stand for reelection with the approval of the Board of Directors, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within three years after the date of retirement, disability, resignation, or declining, but not after the Expiration Date.

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An August 19, 1999, stock option grant to James R. Tobin vested in two equal installments on the date immediately preceding each of the two annual meetings of stockholders following the grant date. A May 13, 1999, stock option grant to Theodore E. Martin, and a January 21, 1999, stock option grant to Arnold J. Levine, each vested in four equal installments on the first day of each of the first four fiscal years commencing after the grant date. Stock options granted on October 21, 1999, and October 19, 2000, vested in four equal installments on the date immediately preceding the date of each of the next four annual meetings of stockholders following the grant date. All other stock options issued pursuant to this form of agreement are subject to the vesting schedule set forth in this Section 4. The foregoing notwithstanding, during the 2005 fiscal year, the vesting of all stock options issued pursuant to this form of agreement was accelerated, such that all of these options became exercisable regardless of the vesting schedule set forth in this Section 4. However, shares of stock issued upon the exercise of the accelerated options by Directors are subject to a restriction on the sale or other transfer prior to the earlier of the original vesting date or the individual’s termination of service.

**6. Death.** If you die while serving as a member of the Board of Directors, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**7. Termination of Service for Cause.** If your service as a member of the Board of Directors is terminated by the Company for Cause (as defined below), the Option will be immediately forfeited in full upon such termination (regardless of the extent to which the Option may have been exercisable as of such time). For purposes of this paragraph 7 only, "Cause" is defined as (a) any act which is in bad faith and to the detriment of the Company or (b) a material breach of any agreement with or material obligation to the Company.<sup>2</sup>

**8. Other Termination of Service.** If your service as a member of the Board of Directors is terminated by you or the Company for any reason other than as set forth in paragraphs 5, 6, or 7<sup>3</sup>, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of service, at any time within 30 days after the date of termination, but not after the Expiration Date.

**9. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of Celera Stock to be purchased. However, the Option may not be exercised as to fewer than 100 shares, or the remaining shares covered by the Option if fewer than 100, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of Celera Stock owned by you for at least six months having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of Celera Stock valued at Fair Market Value, or (d) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**10. Conditions to Exercise.** The exercise of the Option following termination of service is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

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2 This provision is applicable only to stock option grants made on and after October 19, 2000.

3 This reference to Section 7 is applicable only to stock option grants made on and after October 19, 2000.

**11. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of Celera Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**12. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**13. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**14. No Right to Continued Service.** Neither the Option nor this Agreement confers upon you any right to continue to serve as a member of the Board of Directors of the Company or interferes in any way with the right of the Board of Directors or stockholders to remove you as a director in accordance with the provisions of the Company's By-laws and applicable law. Except as provided in this Agreement, the Option will terminate upon your ceasing to serve as a member of the Board of Directors for any reason. The Option will not be reinstated if you are subsequently reelected to the Board of Directors.

**15. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**16. Compliance with Law.** No shares of Celera Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**17. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan[, including a copy of the Plan,]<sup>4</sup> and agree to be bound by all of the terms of the Plan.

**18. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**19. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

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<sup>4</sup> Text in brackets is applicable only to January 21, 1999, and May 13, 1999, stock option grants.

IN WITNESS WHEREOF, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
[Name]

**PE CORPORATION**  
**CELERA GENOMICS GROUP 1999 STOCK INCENTIVE PLAN**

**FORM OF SCIENTIFIC ADVISORY BOARD STOCK OPTION AGREEMENT**

**DIRECTOR OPTION AGREEMENT** dated as of [Grant Date] by and between Applera Corporation, a Delaware corporation (the “Company”), and [Name], a member of the Celera Scientific Advisory Board (“you”).

**1. Grant of Option.** The Company hereby grants to you a non-qualified option (the “Option”) to purchase [Total Number of Shares] shares of its Celera Genomics Group Common Stock, par value \$.01 per share (the “Celera Stock”), under the terms of PE Corporation/Celera Genomics Group 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of Celera Stock subject to the Option is \$[Purchase Price] per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 p.m. midnight (New York time) on [10 Year Anniversary of Grant Date] (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised as to [25% of Total Number of Shares] shares on [Date], [25% of Total Number of Shares] shares on [Date], [25% of Total Number of Shares] shares on [Date], and [25% of Total Number of Shares] shares on [Date].<sup>1</sup> Except as provided below, the Option may not be exercised unless you are serving as a member of the Celera Scientific Advisory Board on the date of exercise.

**5. Disability.** If you cease to serve as a member of the Celera Scientific Advisory Board as a result of becoming totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within one year after the date of disability, but not after the Expiration Date.

**6. Death.** If you die while serving as a member of the Celera Scientific Advisory Board, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

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<sup>1</sup> A January 21, 1999, stock option grant to Arnold J. Levine vested in four equal installments on July 24 in each of 1999, 2000, 2001 and 2002.

**7. Other Termination of Service.** If your service as a member of the Celera Scientific Advisory Board is terminated by you or the Company for any reason other than as set forth in paragraphs 5 and 6, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of service, at any time within 30 days after the date of termination, but not after the Expiration Date.

**8. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of Celera Stock to be purchased. However, the Option may not be exercised as to fewer than 100 shares, or the remaining shares covered by the Option if fewer than 100, at any one time, and the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of Celera Stock owned by you for at least six months having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of Celera Stock valued at Fair Market Value, or (d) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the "Committee") from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**9. Conditions to Exercise.** The exercise of the Option following termination of service is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**10. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of Celera Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**11. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**12. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**13. No Right to Continued Service.** Neither the Option nor this Agreement confers upon you any right to continue to serve as a member of the Celera Scientific Advisory Board or interferes in any way with the right of the Company to terminate your services at any time. Except as provided in this Agreement, the Option will terminate upon your ceasing to serve as a member of the Celera Scientific Advisory Board for any reason. The Option will not be reinstated if you are subsequently reappointed to the Celera Scientific Advisory Board.

**14. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**15. Compliance with Law.** No shares of Celera Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**16. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan and agree to be bound by all of the terms of the Plan.

**17. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**18. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**PE CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
[Name]



**APPLERA CORPORATION/CELERA GENOMICS GROUP  
1999 STOCK INCENTIVE PLAN**

**FORM OF PERFORMANCE SHARE AWARD AGREEMENT**

**PERFORMANCE SHARE AWARD AGREEMENT** dated as of [Grant Date], by and between Applera Corporation, a Delaware corporation (the “Company”), and [Name], a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Performance Shares.** The Company hereby grants to you a Performance Share Award (the “Award”) for [Total Number of Shares] shares (the “Performance Shares”) of its Celera Genomics Group Common Stock, par value \$.01 per share (the “Celera Genomics Stock”), under the terms of the Applera Corporation/Celera Genomics Group 1999 Stock Incentive Plan (the “Plan”).

**2. Vesting; Performance Goals.** The Performance Shares will vest in the manner provided in Exhibit I to this Agreement based on the attainment of the performance goals relating to operating cash flow established by the Management Resources Committee of the Board of Directors (the “Committee”) pursuant to such Exhibit and the terms of the Plan (the “Performance Goals”).

**3. Requirement of Continued Employment.** Except as may otherwise be determined by Committee under the terms of the Plan, no Performance Shares will be delivered to you unless you have been at all times from the date of grant to and including the date of vesting an employee of the Company or one of its subsidiaries.

**4. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason prior to the attainment of all or any portion of the Performance Goals, the Performance Shares which have not vested will be forfeited and will revert back to the Company without payment to you of any consideration.

**5. Delivery of Performance Shares.** Certificates representing the Performance Shares will be registered in your name but remain in the physical custody of the Company until the Committee determines that the Performance Goals have been attained. In the event that all or a portion of the Performance Shares are forfeited for any reason, those shares will revert back to the Company without payment to you of any consideration.

**6. Payment of Dividends; Voting Rights.** Prior to the vesting of the Performance Shares, you will have the right to vote and to receive dividends, if any, on all of the unvested shares of Celera Genomics Stock covered by the Award.

**7. Non-Transferability.** Prior to the time that shares of Celera Genomics Stock issued pursuant to the Award are delivered to you, none of such shares may be sold, assigned, bequeathed, transferred, pledged, hypothecated, or otherwise disposed of in any way.

**8. Change of Control.** Subject to the terms of the Plan, all Performance Shares will be deemed vested upon the occurrence of any of the events set forth in Section 11 of the Plan.

**9. No Right to Continued Employment.** Neither the Award nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. The Award will terminate upon the termination of your employment for any reason. The Award will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**10. No Right to Future Benefits.** The Plan and the benefits offered under the Plan are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Award nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Award and the Plan are not part of your salary and that receipt of the Award does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**11. Compliance with Law.** No shares of Celera Genomics Stock will be delivered to you upon the vesting of the Performance Shares unless counsel for the Company is satisfied that such delivery will be in compliance with all applicable laws.

**12. Entire Agreement.** This Agreement and the Plan contain the entire agreement between you and the Company regarding the Award and supersede all prior arrangements or understandings with respect thereto.

**13. Terms of Plan Govern.** This Agreement and the terms of the Award will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Plan Summary and agree to be bound by all of the terms of the Plan.

**14. Amendments.** The Award or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Award or the Plan will adversely affect in any material manner any of your rights under the Award without your consent.

15. **Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_

Accepted and Agreed:

\_\_\_\_\_  
[Name]

**APPLERA CORPORATION/CELERA GENOMICS GROUP  
AMENDED AND RESTATED 1999 STOCK INCENTIVE PLAN**

**FORM OF NON-QUALIFIED STOCK OPTION AGREEMENT**

**NON-QUALIFIED STOCK OPTION AGREEMENT** dated as of [Grant Date] by and between Applera Corporation, a Delaware corporation (the “Company”), and [Name], a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Option.** The Company hereby grants to you an option (the “Option”) to purchase [Total Number of Shares] shares of its Celera Genomics Group Common Stock, par value \$.01 per share (the “Celera Stock”), under the terms of the Applera Corporation/Celera Genomics Group Amended and Restated 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of Celera Stock subject to the Option is \$[Purchase Price] per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 a.m. midnight (New York time) on [10 Year Anniversary of Grant Date] (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised as to [25% of Total Number of Shares] shares on [First Anniversary of Grant Date], [25% of Total Number of Shares] shares on [Second Anniversary of Grant Date], [25% of Total Number of Shares] shares on [Third Anniversary of Grant Date], and [25% of Total Number of Shares] shares on [Fourth Anniversary of Grant Date].<sup>1 2</sup> Except as provided below, the Option may not be exercised unless you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than Cause (as defined below), retirement, disability, or death, you may exercise the Option [, to the extent that you would otherwise be entitled to do so at the date of termination of employment,]<sup>3</sup> at any time within 30 days after the date of termination, but not after the Expiration Date.

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<sup>1</sup> June 2, 2005, stock option grants were immediately exercisable at grant, subject to the transfer restriction on shares of stock acquired upon the exercise of those options specified in Section 13 of this form of agreement.

<sup>2</sup> The vesting dates for a newly-hired employee are the anniversaries of the hire date, and not the grant date, if employment commences prior to the grant date.

<sup>3</sup> Text in brackets is not applicable to June 2, 2005, stock option grants.

**6. Termination of Service for Cause.** If your employment with the Company is terminated by the Company for Cause, the Option will be immediately forfeited in full upon such termination [(regardless of the extent to which the Option may have been exercisable as of such time)]<sup>4</sup>. For purposes of this paragraph 6 only, “Cause” is defined as (a) any act which is in bad faith and to the detriment of the Company or (b) a material breach of any agreement with or material obligation to the Company.

**7. Retirement or Disability.** If you retire under the terms of any retirement plan provided by the Company or one of its subsidiaries, or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option [(without regard to the exercise schedule set forth in paragraph 4)]<sup>5</sup> at any time within one year after the termination of employment following such retirement or disability, but not after the Expiration Date.

**8. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised [(to the extent that you would have been entitled to do so at the date of your death)]<sup>6</sup> by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**9. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of Celera Stock to be purchased, or in such other manner as the Company may specify to you from time to time. However, the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of Celera Stock owned by you for at least six months (or such longer or shorter period of time required by the Company to avoid a charge to earnings for financial accounting purposes) having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of Celera Stock valued at Fair Market Value, (d) pursuant to a “same day sale” program, or (e) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the “Committee”) from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**10. Conditions to Exercise.** The exercise of the Option within one year following termination of employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

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4 Text in brackets is not applicable to June 2, 2005, stock option grants.

5 Text in brackets is not applicable to June 2, 2005, stock option grants.

6 Text in brackets is not applicable to June 2, 2005, stock option grants.

**11. Tax Withholding Obligations.** As a condition to the delivery of shares of Celera Stock upon the exercise of the Option, you agree to pay to the Company an amount sufficient to satisfy any applicable tax withholding obligations. Alternatively, you agree that the Company and your employer are expressly authorized to deduct the appropriate withholding taxes from your pay in order to satisfy any income, social, or other employment-related taxes related to your participation in the Plan.

**12. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of Celera Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**13. Transferability[of Options and Shares Acquired upon Exercise of Options]**<sup>7</sup>. The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

[Furthermore, shares of Celera Stock acquired upon the exercise of the Option may not be directly or indirectly transferred in any manner (including, without limitation, by way of a sale, gift, pledge, or other direct or indirect method of disposition). This restriction on the transfer of shares of Celera Stock will lapse on 25% of the shares covered by the Option on each of the first four anniversaries of the grant date, i.e. the restriction will lapse as to [25% of Total Number of Shares] shares on [First Anniversary of Grant Date], [25% of Total Number of Shares] shares on [Second Anniversary of Grant Date], [25% of Total Number of Shares] shares on [Third Anniversary of Grant Date], and [25% of Total Number of Shares] shares on [Fourth Anniversary of Grant Date]. Also, this restriction on the transfer of shares of Celera Stock will lapse in full upon termination of employment for any reason. Any shares issued pursuant to the exercise of the Option prior to the lapse of this restriction on such shares shall be held by the Company until the date on which the restriction lapses on such shares, provided that you shall be entitled to vote all such shares and receive dividends, if any, payable upon such shares as and when paid by the Company.]<sup>8</sup>

**14. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.<sup>9</sup>

**15. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon your termination of employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

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<sup>7</sup> Text in brackets is applicable only to June 2, 2005, stock option grants.

<sup>8</sup> This paragraph is applicable only to June 2, 2005, stock option grants.

<sup>9</sup> This provision is not applicable to June 2, 2005, stock option grants.

**16. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Option and the Plan are not part of your salary and that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**17. Compliance with Law.** No shares of Celera Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**18. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan and agree to be bound by all of the terms of the Plan.

**19. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**20. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
[Name]

**APPLERA CORPORATION/CELERA GENOMICS GROUP  
AMENDED AND RESTATED 1999 STOCK INCENTIVE PLAN**

**FORM OF INCENTIVE STOCK OPTION AGREEMENT**

**INCENTIVE STOCK OPTION AGREEMENT** dated as of [Grant Date] by and between Applera Corporation, a Delaware corporation (the “Company”), and [Name], a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Option.** The Company hereby grants to you an option (the “Option”) to purchase [Total Number of Shares] shares of its Celera Genomics Group Common Stock, par value \$.01 per share (the “Celera Stock”), under the terms of the Applera Corporation/Celera Genomics Group Amended and Restated 1999 Stock Incentive Plan (the “Plan”).

**2. Purchase Price of Option.** The purchase price of the shares of Celera Stock subject to the Option is \$[Purchase Price] per share.

**3. Expiration Date of Option.** The Option will expire as of 12:00 a.m. midnight (New York time) on [10 Year Anniversary of Grant Date] (the “Expiration Date”), unless it is terminated earlier as provided in this Agreement.

**4. Exercise.** The Option may be exercised as to [25% of Total Number of Shares] shares on [First Anniversary of Grant Date], [25% of Total Number of Shares] shares on [Second Anniversary of Grant Date], [25% of Total Number of Shares] shares on [Third Anniversary of Grant Date], and [25% of Total Number of Shares] shares on [Fourth Anniversary of Grant Date].<sup>1</sup> Except as provided below, the Option may not be exercised unless you are on the date of exercise, and have been at all times from the date of grant to the date of exercise, a regular employee of the Company or one of its subsidiaries.

**5. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason other than Cause (as defined below), retirement, disability, or death, you may exercise the Option, to the extent that you would otherwise be entitled to do so at the date of termination of employment, at any time within 30 days after the date of termination, but not after the Expiration Date.

**6. Termination of Service for Cause.** If your employment with the Company is terminated by the Company for Cause, the Option will be immediately forfeited in full upon such termination (regardless of the extent to which the Option may have been exercisable as of such time). For purposes of this paragraph 6 only, “Cause” is defined as (a) any act which is in bad faith and to the detriment of the Company or (b) a material breach of any agreement with or material obligation to the Company.

<sup>1</sup> The vesting dates for a newly-hired employee are the anniversaries of the hire date, and not the grant date, if employment commences prior to the grant date.

**7. Retirement or Disability.** If you retire under the terms of any retirement plan provided by the Company or one of its subsidiaries, or if you are totally and permanently disabled, the Option may be exercised as to the total number of shares subject to the Option (without regard to the exercise schedule set forth in paragraph 4) at any time within three months after the termination of employment following such retirement or disability, but not after the Expiration Date.

**8. Death.** If you die while employed by the Company or one of its subsidiaries, the Option may be exercised (to the extent that you would have been entitled to do so at the date of your death) by your executor or administrator (or other person at the time entitled by law to your rights under the Option) at any time within one year after the date of death, but not after the Expiration Date.

**9. Exercise of Option.** The Option may be exercised by giving written notice in the form specified by the Company to the Corporate Secretary at the principal office of the Company specifying the number of shares of Celera Stock to be purchased, or in such other manner as the Company may specify to you from time to time. However, the Option may not be exercised with respect to a fractional share. The purchase price of the shares as to which the Option is exercised must be paid in full at the time of exercise, at your election, (a) in U.S. currency, (b) by tendering to the Company shares of Celera Stock owned by you for at least six months (or such longer or shorter period of time required by the Company to avoid a charge to earnings for financial accounting purposes) having a Fair Market Value (as defined in the Plan) equal to the aggregate purchase price of the shares as to which the Option is being exercised, (c) a combination of U.S. currency and/or previously owned shares of Celera Stock valued at Fair Market Value, (d) pursuant to a “same day sale” program, or (e) by payment of such other consideration as the Management Resources Committee of the Board of Directors (the “Committee”) from time to time determines. For purposes of this paragraph, Fair Market Value will be determined as of the business day immediately preceding the day on which the Option is exercised.

**10. Conditions to Exercise.** The exercise of the Option within one year following termination of employment is subject to the satisfaction of the conditions that you have not (a) rendered services or engaged directly or indirectly in any business which in the opinion of the Committee competes with or is in conflict with the interests of the Company, or (b) violated any written agreement with the Company, including, without limitation, any confidentiality agreement. Your violation of either clause (a) or (b) of the preceding sentence will result in the immediate forfeiture of any Options held by you.

**11. Notice of Transfer of Shares.** You agree to notify the Company in writing immediately in the event that any shares acquired upon the exercise of the Option are transferred to a third party prior to [Second Anniversary of Grant Date] or the first anniversary of the date on which such shares are acquired.

**12. Rights as a Stockholder.** You will not have any rights as a stockholder with respect to the shares of Celera Stock subject to the Option prior to the issuance to you of a certificate for such shares.

**13. Transferability.** The Option may not be transferred other than by will or by the laws of descent and distribution, and the Option may be exercised, during your lifetime, only by you or your guardian or legal representative.

**14. Change of Control.** Subject to the terms of the Plan, the Option will become immediately exercisable in full (without regard to the exercise schedule set forth in paragraph 4) upon the occurrence of any of the events set forth in Section 11 of the Plan.

**15. No Right to Continued Employment.** Neither the Option nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Option will terminate upon your termination of employment for any reason. The Option will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

**16. No Right to Future Benefits.** The Plan and the benefits offered thereunder are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Option nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Option and the Plan are not part of your salary and that receipt of the Option does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

**17. Compliance with Law.** No shares of Celera Stock will be issued upon the exercise of the Option unless counsel for the Company is satisfied that such issuance will be in compliance with all applicable laws.

**18. Terms of Plan Govern.** This Agreement and the terms of the Option will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Prospectus for the Plan and agree to be bound by all of the terms of the Plan.

**19. Amendments.** The Option or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Option or the Plan will adversely affect in any material manner any of your rights under the Option without your consent.

**20. Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
[Name]

**APPLERA CORPORATION/CELERA GENOMICS GROUP  
AMENDED AND RESTATED 1999 STOCK INCENTIVE PLAN**

**FORM OF RESTRICTED STOCK BONUS AGREEMENT**

**RESTRICTED STOCK BONUS AGREEMENT** dated as of [Grant Date] by and between Applera Corporation, a Delaware corporation (the “Company”), and [Name], a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Restricted Stock Bonus.** The Company hereby grants to you a Restricted Stock Bonus (the “Award”) for [Total Number of Shares] shares (the “Award Shares”) of its Celera Genomics Group Common Stock, par value \$.01 per share (the “Celera Stock”), under the terms of the Applera Corporation/Celera Genomics Group Amended and Restated 1999 Stock Incentive Plan (the “Plan”).

**2. Vesting.** The Award Shares will vest as to [25% of Total Number of Shares] shares on [First Anniversary of Grant Date], [25% of Total Number of Shares] shares on [Second Anniversary of Grant Date], [25% of Total Number of Shares] shares on [Third Anniversary of Grant Date], and [25% of Total Number of Shares] shares on [Fourth Anniversary of Grant Date] (each a “Vesting Date”), provided that you have been at all times from the date of grant to and including the applicable Vesting Date a regular employee of the Company or one of its subsidiaries.

**3. Termination of Employment.** If your employment with the Company or a subsidiary is terminated by you or the Company for any reason prior to the vesting of all or a portion of the Award Shares, the Award Shares which have not vested will be forfeited and will revert back to the Company without payment to you of any consideration.

**4. Delivery of Award Shares.** Certificates representing the Award Shares will be registered in your name but, at the discretion of the Management Resources Committee of the Board of Directors of the Company (the “Committee”), may remain in the physical custody of the Company or an escrow holder until the Award Shares have vested. In the event that all or a portion of the Award Shares are forfeited for any reason, those shares will revert back to the Company without payment to you of any consideration.

**5. Payment of Dividends; Voting Rights.** Prior to the vesting of the Award Shares, you will have the right to vote and to receive dividends, if any, on all of the unvested shares of Celera Stock covered by the Award.

**6. Non-Transferability.** Prior to the time that shares of Celera Stock issued pursuant to the Award are delivered to you, none of such shares may be sold, assigned, bequeathed, transferred, pledged, hypothecated, or otherwise disposed of in any way.

7. **Change of Control.** Subject to the terms of the Plan, all Award Shares will be deemed vested (without regard to the Vesting Dates) upon the occurrence of any of the events set forth in Section 11 of the Plan.

8. **No Right to Continued Employment.** Neither the Award nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. The Award will terminate upon the termination of your employment for any reason. The Award will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

9. **No Right to Future Benefits.** The Plan and the benefits offered under the Plan are provided by the Company on an entirely discretionary basis, and the Plan creates no vested rights in participants. Neither the Award nor this Agreement confers upon you any benefit other than as specifically set forth in this Agreement and the Plan. You understand and agree that the benefits offered under the Award and the Plan are not part of your salary and that receipt of the Award does not entitle you to any future benefits under the Plan or any other plan or program of the Company.

10. **Compliance with Law.** No shares of Celera Stock will be delivered to you upon the vesting of the Award Shares unless counsel for the Company is satisfied that such delivery will be in compliance with all applicable laws.

11. **Entire Agreement.** This Agreement and the Plan contain the entire agreement between you and the Company regarding the Award and supersede all prior arrangements or understandings with respect thereto.

12. **Terms of Plan Govern.** This Agreement and the terms of the Award will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you acknowledge receipt of the Plan Summary and agree to be bound by all of the terms of the Plan.

13. **Amendments.** The Award or the Plan may, subject to certain exceptions, be amended by the Committee at any time in any manner. However, no amendment of the Award or the Plan will adversely affect in any material manner any of your rights under the Award without your consent.

14. **Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

[Name]

\_\_\_\_\_

**APPLERA CORPORATION  
PERFORMANCE UNIT BONUS PLAN**

**SERIES FY02-1 PERFORMANCE UNIT AGREEMENT**

**SERIES FY02-1 PERFORMANCE UNIT AGREEMENT** dated as of «Date», 2001 by and between Applera Corporation, a Delaware corporation (the “Company”), and «Name», a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Performance Units.** The Company hereby grants to you «Number» Series FY02-1 Performance Units (the “Performance Units”) under the terms of the Applera Corporation Performance Unit Bonus Plan (the “Plan”).

**2. Value of Performance Unit.** The value of each Performance Unit (the “Unit Value”) is \$25.00.

**3. Expiration Date of Performance Unit.** The Performance Units will expire as of 12:00 a.m. midnight (New York time) on August 16, 2011 (the “Expiration Date”), unless they are terminated earlier as provided in this Agreement.

**4. Stock Price Targets.** The Performance Units will be payable in accordance with paragraph 5 below based upon the attainment of the stock price targets set forth below (the “Stock Price Targets”) after the date hereof:

«Share\_1» Performance Units, if the Fair Market Value of a share of Applera Corporation - Applied Biosystems Group Common Stock, par value \$.01 per share (the “Applied Biosystems Stock”), averages, over a period of 90 consecutive days, \$30.00 or more; and

The remaining «Share\_2» Performance Units, if the Fair Market Value of a share of Applied Biosystems Stock averages, over a period of 90 consecutive days, \$35.00 or more.

“Fair Market Value” means the simple average of the high and low sales prices of a share of Applied Biosystems Stock as reported in the report of composite transactions (or other source designated by the Management Resources Committee of the Board of Directors (the “Committee”)) on the date on which fair market value is to be determined (or if there is no trading on such date, then on the first previous date on which sales were made on a national securities exchange).

## **5. Payment of Unit Value of Performance Units.**

**5.1 Payment of Unit Value.** Subject to paragraph 5.2 below, the Unit Value of each Performance Unit will be paid to you in a minimum of eight quarterly installments commencing as soon as practicable following the attainment of the applicable Stock Price Target. Payment will be made in cash unless the Committee, in its sole discretion, determines to make all or a portion of the payment in shares of Applied Biosystems Stock. Except as provided in paragraph 6 below, no payment will be made to you unless you have been at all times from the date hereof to the date of such payment a regular employee of the Company or one of its subsidiaries.

**5.2 Limitation on Payment.** Notwithstanding anything to the contrary contained herein, in the event that the sum of any payment required to be made to you by the Company pursuant to paragraph 5.1 above, together with any other payment required to be made by the Company to you or any other person pursuant to any Series FY02-1 Performance Unit, Series FY02-2 Performance Unit, or any other series of Performance Units designated by the Committee (either before or after the date hereof) for inclusion in this limitation (in each case including any payment deferred pursuant to any deferred compensation plan of the Company) (collectively, the “Capped Performance Units”), exceed \$750,000 in the aggregate for any fiscal quarter of the Company, then the amount of any payment to be made to you (or on your behalf) for such fiscal quarter will be pro rated based on the aggregate amount to be paid to (or on behalf of) all recipients of the Capped Performance Units for such fiscal quarter. Any payment or portion thereof not paid to you (or on your behalf) in any fiscal quarter because of the limitation set forth in this paragraph 5.2 will be carried over to the next fiscal quarter and will again be subject to such limitation.

## **6. Payment Following Termination of Employment.**

**6.1 Termination of Employment Prior to Attainment of Stock Price Targets.** If your employment with the Company is terminated for any reason prior to one or more Stock Price Targets having been attained, then all Performance Units as to which the Stock Price Targets have not been attained will immediately terminate and no payment will be made therefor.

**6.2 Termination of Employment Following Attainment of Stock Price Targets.** If your employment with the Company is terminated following the attainment of one or more Stock Price Targets but prior to payment in full of the Unit Value of the applicable Performance Units, then the Unit Value of the Performance Units, or unpaid portion thereof, corresponding to such Stock Price Targets will be payable as follows:

**6.2.1 Termination of Employment by You or by the Company other than upon Retirement, Death, or Disability.** If your employment with the Company is terminated by you or by the Company for any reason other than retirement, death or disability, then all Performance Units granted to you will immediately terminate and no payment (including, without limitation, any portion of any payment not paid to you because of the limitation set forth in paragraph 5.2 above) will be made therefor after the date of termination.

**6.2.2 Termination of Employment Upon Retirement, Death, or Disability.** If your employment with the Company is terminated due to your retirement from the Company in accordance with the terms of any pension or retirement plan provided by the Company, or if you die while employed by the Company or become totally and permanently disabled, then the Performance Units as to which the Stock Price Targets have been attained as of the date of termination, death, or disability will be paid to you at the same time that payment of the Unit Value of such Performance Units would otherwise be made pursuant to paragraph 5 hereof. All other Performance Units will thereafter terminate and no payment will be made therefor.

7. **Tax Withholding.** As a condition to the payment of the Unit Value of, or dividend equivalents on, any Performance Unit, you agree that the Company may withhold from any such payment an amount in cash or shares of Applied Biosystems Stock, as appropriate, sufficient to satisfy any applicable tax withholding obligations.

8. **Stockholder Rights; Dividend Equivalents.** The Performance Units will not confer upon you any rights or privileges of a stockholder of the Company, except that prior to the payment of the Unit Value or termination or expiration of any Performance Unit you will receive dividend equivalents on such Performance Unit if, as, and when dividends are paid on Applied Biosystems Stock.

9. **Non-Transferability.** The Performance Units may not be sold, assigned, bequeathed, transferred, pledged, hypothecated, or otherwise disposed of in any way other than by will or by the laws of descent and distribution.

10. **Change of Control.** Notwithstanding anything to the contrary contained herein, but subject to the terms of the Plan, all Stock Price Targets will be deemed attained and the Unit Value of all Performance Units will become immediately payable in full upon the occurrence of any of the events set forth in Section 9 of the Plan.

11. **No Right to Continued Employment.** Neither the Performance Units nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Performance Units will terminate upon the termination of your employment for any reason. The Performance Units will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

12. **Entire Agreement.** This Agreement and the Plan contain the entire agreement between you and the Company regarding the Performance Units and supersede all prior arrangements or understandings with respect thereto.

13. **Terms of Plan Govern.** This Agreement and the terms of the Performance Units will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you agree to be bound by all of the terms of the Plan.

14. **Amendments.** The Performance Units or the Plan may be amended by the Committee at any time in any manner. However, no amendment of the Performance Units or the Plan will adversely affect in any material manner any of your rights under the Performance Units without your consent.

15. **Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_

Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
«Name»

**APPLERA CORPORATION  
PERFORMANCE UNIT BONUS PLAN**

**SERIES FY02-2 PERFORMANCE UNIT AGREEMENT**

**SERIES FY02-2 PERFORMANCE UNIT AGREEMENT** dated as of «Date», 2001 by and between Applera Corporation, a Delaware corporation (the “Company”), and «Name», a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Performance Units.** The Company hereby grants to you «Number» Series FY02-2 Performance Units (the “Performance Units”) under the terms of the Applera Corporation Performance Unit Bonus Plan (the “Plan”).

**2. Value of Performance Unit.** The value of each Performance Unit (the “Unit Value”) is \$25.00.

**3. Expiration Date of Performance Unit.** The Performance Units will expire as of 12:00 a.m. midnight (New York time) on August 16, 2011 (the “Expiration Date”), unless they are terminated earlier as provided in this Agreement.

**4. Stock Price Targets.** The Performance Units will be payable in accordance with paragraph 5 below based upon the attainment of the stock price targets set forth below (the “Stock Price Targets”) after the date hereof:

«Share\_1» Performance Units, if the Fair Market Value of a share of Applera Corporation - Applied Biosystems Group Common Stock, par value \$.01 per share (the “Applied Biosystems Stock”), averages, over a period of 90 consecutive days, \$40.00 or more; and

The remaining «Share\_2» Performance Units, if the Fair Market Value of a share of Applied Biosystems Stock averages, over a period of 90 consecutive days, \$45.00 or more.

“Fair Market Value” means the simple average of the high and low sales prices of a share of Applied Biosystems Stock as reported in the report of composite transactions (or other source designated by the Management Resources Committee of the Board of Directors (the “Committee”)) on the date on which fair market value is to be determined (or if there is no trading on such date, then on the first previous date on which sales were made on a national securities exchange).

## **5. Payment of Unit Value of Performance Units.**

**5.1 Payment of Unit Value.** Subject to paragraph 5.2 below, the Unit Value of each Performance Unit will be paid to you in a minimum of eight quarterly installments commencing as soon as practicable following the attainment of the applicable Stock Price Target. Payment will be made in cash unless the Committee, in its sole discretion, determines to make all or a portion of the payment in shares of Applied Biosystems Stock. Except as provided in paragraph 6 below, no payment will be made to you unless you have been at all times from the date hereof to the date of such payment a regular employee of the Company or one of its subsidiaries.

**5.2 Limitation on Payment.** Notwithstanding anything to the contrary contained herein, in the event that the sum of any payment required to be made to you by the Company pursuant to paragraph 5.1 above, together with any other payment required to be made by the Company to you or any other person pursuant to any Series FY02-1 Performance Unit, Series FY02-2 Performance Unit, or any other series of Performance Units designated by the Committee (either before or after the date hereof) for inclusion in this limitation (in each case including any payment deferred pursuant to any deferred compensation plan of the Company) (collectively, the “Capped Performance Units”), exceed \$750,000 in the aggregate for any fiscal quarter of the Company, then the amount of any payment to be made to you (or on your behalf) for such fiscal quarter will be pro rated based on the aggregate amount to be paid to (or on behalf of) all recipients of the Capped Performance Units for such fiscal quarter. Any payment or portion thereof not paid to you (or on your behalf) in any fiscal quarter because of the limitation set forth in this paragraph 5.2 will be carried over to the next fiscal quarter and will again be subject to such limitation.

## **6. Payment Following Termination of Employment.**

**6.1 Termination of Employment Prior to Attainment of Stock Price Targets.** If your employment with the Company is terminated for any reason prior to one or more Stock Price Targets having been attained, then all Performance Units as to which the Stock Price Targets have not been attained will immediately terminate and no payment will be made therefor.

**6.2 Termination of Employment Following Attainment of Stock Price Targets.** If your employment with the Company is terminated following the attainment of one or more Stock Price Targets but prior to payment in full of the Unit Value of the applicable Performance Units, then the Unit Value of the Performance Units, or unpaid portion thereof, corresponding to such Stock Price Targets will be payable as follows:

**6.2.1 Termination of Employment by You or by the Company other than upon Retirement, Death, or Disability.** If your employment with the Company is terminated by you or by the Company for any reason other than retirement, death or disability, then all Performance Units granted to you will immediately terminate and no payment (including, without limitation, any portion of any payment not paid to you because of the limitation set forth in paragraph 5.2 above) will be made therefor after the date of termination.

**6.2.2 Termination of Employment Upon Retirement, Death, or Disability.** If your employment with the Company is terminated due to your retirement from the Company in accordance with the terms of any pension or retirement plan provided by the Company, or if you die while employed by the Company or become totally and permanently disabled, then the Performance Units as to which the Stock Price Targets have been attained as of the date of termination, death, or disability will be paid to you at the same time that payment of the Unit Value of such Performance Units would otherwise be made pursuant to paragraph 5 hereof. All other Performance Units will thereafter terminate and no payment will be made therefor.

7. **Tax Withholding.** As a condition to the payment of the Unit Value of, or dividend equivalents on, any Performance Unit, you agree that the Company may withhold from any such payment an amount in cash or shares of Applied Biosystems Stock, as appropriate, sufficient to satisfy any applicable tax withholding obligations.

8. **Stockholder Rights; Dividend Equivalents.** The Performance Units will not confer upon you any rights or privileges of a stockholder of the Company, except that at such time as the Unit Value of all Series FY02-1 Performance Units granted to you has been paid to you (or on your behalf), you will receive dividend equivalents on the Performance Units if, as, and when dividends are paid on Applied Biosystems Stock, provided that dividend equivalents will not be paid on any Performance Unit following payment of the Unit Value or termination or expiration of such Performance Unit.

9. **Non-Transferability.** The Performance Units may not be sold, assigned, bequeathed, transferred, pledged, hypothecated, or otherwise disposed of in any way other than by will or by the laws of descent and distribution.

10. **Change of Control.** Notwithstanding anything to the contrary contained herein, but subject to the terms of the Plan, all Stock Price Targets will be deemed attained and the Unit Value of all Performance Units will become immediately payable in full upon the occurrence of any of the events set forth in Section 9 of the Plan.

11. **No Right to Continued Employment.** Neither the Performance Units nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Performance Units will terminate upon the termination of your employment for any reason. The Performance Units will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

12. **Entire Agreement.** This Agreement and the Plan contain the entire agreement between you and the Company regarding the Performance Units and supersede all prior arrangements or understandings with respect thereto.

13. **Terms of Plan Govern.** This Agreement and the terms of the Performance Units will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you agree to be bound by all of the terms of the Plan.

14. **Amendments.** The Performance Units or the Plan may be amended by the Committee at any time in any manner. However, no amendment of the Performance Units or the Plan will adversely affect in any material manner any of your rights under the Performance Units without your consent.

15. **Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_

Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
«Name»

**APPLERA CORPORATION**  
**PERFORMANCE UNIT BONUS PLAN**

**SERIES FY02-6 PERFORMANCE UNIT AGREEMENT**

**SERIES FY02-6 PERFORMANCE UNIT AGREEMENT** dated as of April 19, 2002 by and between Applera Corporation, a Delaware corporation (the “Company”), and «Name», a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Performance Units.** The Company hereby grants to you «Number» Series FY02-6 Performance Units (the “Performance Units”) under the terms of the Applera Corporation Performance Unit Bonus Plan (the “Plan”).

**2. Value of Performance Unit.** The value of each Performance Unit (the “Unit Value”) is \$19.475.

**3. Expiration Date of Performance Units.** The Performance Units will expire as of 12:00 a.m. midnight (New York time) on April 19, 2012 (the “Expiration Date”), unless they are terminated earlier as provided in this Agreement.

**4. Stock Price Targets.** The Performance Units will be payable in accordance with paragraph 5 below based upon the attainment of the stock price targets set forth below (the “Stock Price Targets”) after the date hereof:

«Share\_1» Performance Units, if the Fair Market Value of a share of Applera Corporation - Celera Genomics Group Common Stock, par value \$.01 per share (the “Celera Genomics Stock”), averages, over a period of 90 consecutive days, \$24.475 or more;  
and

The remaining «Share\_2» Performance Units, if the Fair Market Value of a share of Celera Genomics Stock averages, over a period of 90 consecutive days, \$29.475 or more.

“Fair Market Value” means the simple average of the high and low sales prices of a share of Celera Genomics Stock as reported in the report of composite transactions (or other source designated by the Management Resources Committee of the Board of Directors (the “Committee”)) on the date on which fair market value is to be determined (or if there is no trading on such date, then on the first previous date on which sales were made on a national securities exchange).

## **5. Payment of Unit Value of Performance Units.**

**5.1 Payment of Unit Value.** Subject to paragraph 5.2 below, the Unit Value of each Performance Unit will be paid to you in a minimum of eight quarterly installments commencing as soon as practicable following the attainment of the applicable Stock Price Target. Payment will be made in cash unless the Committee, in its sole discretion, determines to make all or a portion of the payment in shares of Celera Genomics Stock. Except as provided in paragraph 6 below, no payment will be made to you unless you have been at all times from the date hereof to the date of such payment a regular employee of the Company or one of its subsidiaries.

**5.2 Limitation on Payment.** Notwithstanding anything to the contrary contained herein, in the event that the sum of any payment required to be made to you by the Company pursuant to paragraph 5.1 above, together with any other payment required to be made by the Company to you or any other person pursuant to any Series FY02-4 Performance Unit, Series FY02-5 Performance Unit, Series FY02-6 Performance Unit, Series FY02-7 Performance Unit, or any other series of Performance Units designated by the Committee (either before or after the date hereof) for inclusion in this limitation (in each case including any payment deferred pursuant to any deferred compensation plan of the Company) (collectively, the “Capped Performance Units”), exceed \$250,000 in the aggregate for any fiscal quarter of the Company, then the amount of any payment to be made to you (or on your behalf) for such fiscal quarter will be pro rated based on the aggregate amount to be paid to (or on behalf of) all recipients of the Capped Performance Units for such fiscal quarter. Any payment or portion thereof not paid to you (or on your behalf) in any fiscal quarter because of the limitation set forth in this paragraph 5.2 will be carried over to the next fiscal quarter and will again be subject to such limitation.

## **6. Payment Following Termination of Employment.**

**6.1 Termination of Employment Prior to Attainment of Stock Price Targets.** If your employment with the Company is terminated for any reason prior to one or more Stock Price Targets having been attained, then all Performance Units as to which the Stock Price Targets have not been attained will immediately terminate and no payment will be made therefor.

**6.2 Termination of Employment Following Attainment of Stock Price Targets.** If your employment with the Company is terminated following the attainment of one or more Stock Price Targets but prior to payment in full of the Unit Value of the applicable Performance Units, then the Unit Value of the Performance Units, or unpaid portion thereof, corresponding to such Stock Price Targets will be payable as follows:

**6.2.1 Termination of Employment by You or by the Company other than upon Retirement, Death, or Disability.** If your employment with the Company is terminated by you or by the Company for any reason other than retirement, death or disability, then all Performance Units granted to you will immediately terminate and no payment (including, without limitation, any portion of any payment not paid to you because of the limitation set forth in paragraph 5.2 above) will be made therefor after the date of termination.

**6.2.2 Termination of Employment Upon Retirement, Death, or Disability.** If your employment with the Company is terminated due to your retirement from the Company in accordance with the terms of any pension or retirement plan provided by the Company, or if you die while employed by the Company or become totally and permanently disabled, then the Performance Units as to which the Stock Price Targets have been attained as of the date of termination, death, or disability will be paid to you at the same time that payment of the Unit Value of such Performance Units would otherwise be made pursuant to paragraph 5 hereof. All other Performance Units will thereafter terminate and no payment will be made therefor.

7. **Tax Withholding.** As a condition to the payment of the Unit Value of, or dividend equivalents on, any Performance Unit, you agree that the Company may withhold from any such payment an amount in cash or shares of Celera Genomics Stock, as appropriate, sufficient to satisfy any applicable tax withholding obligations.

8. **Stockholder Rights; Dividend Equivalents.** The Performance Units will not confer upon you any rights or privileges of a stockholder of the Company, except that prior to the payment of the Unit Value or termination or expiration of any Performance Unit you will receive dividend equivalents on such Performance Unit if, as, and when dividends are paid on Celera Genomics Stock.

9. **Non-Transferability.** The Performance Units may not be sold, assigned, bequeathed, transferred, pledged, hypothecated, or otherwise disposed of in any way other than by will or by the laws of descent and distribution.

10. **Change of Control.** Notwithstanding anything to the contrary contained herein, but subject to the terms of the Plan, all Stock Price Targets will be deemed attained and the Unit Value of all Performance Units will become immediately payable in full upon the occurrence of any of the events set forth in Section 9 of the Plan.

11. **No Right to Continued Employment.** Neither the Performance Units nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Performance Units will terminate upon the termination of your employment for any reason. The Performance Units will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

12. **Entire Agreement.** This Agreement and the Plan contain the entire agreement between you and the Company regarding the Performance Units and supersede all prior arrangements or understandings with respect thereto.

13. **Terms of Plan Govern.** This Agreement and the terms of the Performance Units will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you agree to be bound by all of the terms of the Plan.

14. **Amendments.** The Performance Units or the Plan may be amended by the Committee at any time in any manner. However, no amendment of the Performance Units or the Plan will adversely affect in any material manner any of your rights under the Performance Units without your consent.

15. **Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_

Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
«Name»

**APPLERA CORPORATION**  
**PERFORMANCE UNIT BONUS PLAN**

**SERIES FY02-7 PERFORMANCE UNIT AGREEMENT**

**SERIES FY02-7 PERFORMANCE UNIT AGREEMENT** dated as of April 19, 2002 by and between Applera Corporation, a Delaware corporation (the “Company”), and «Name», a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Performance Units.** The Company hereby grants to you «Number» Series FY02-7 Performance Units (the “Performance Units”) under the terms of the Applera Corporation Performance Unit Bonus Plan (the “Plan”).

**2. Value of Performance Unit.** The value of each Performance Unit (the “Unit Value”) is \$19.475.

**3. Expiration Date of Performance Units.** The Performance Units will expire as of 12:00 a.m. midnight (New York time) on April 19, 2012 (the “Expiration Date”), unless they are terminated earlier as provided in this Agreement.

**4. Stock Price Targets.** The Performance Units will be payable in accordance with paragraph 5 below based upon the attainment of the stock price targets set forth below (the “Stock Price Targets”) after the date hereof:

«Share\_1» Performance Units, if the Fair Market Value of a share of Applera Corporation - Celera Genomics Group Common Stock, par value \$.01 per share (the “Celera Genomics Stock”), averages, over a period of 90 consecutive days, \$34.475 or more;  
and

The remaining «Share\_2» Performance Units, if the Fair Market Value of a share of Celera Genomics Stock averages, over a period of 90 consecutive days, \$39.475 or more.

“Fair Market Value” means the simple average of the high and low sales prices of a share of Celera Genomics Stock as reported in the report of composite transactions (or other source designated by the Management Resources Committee of the Board of Directors (the “Committee”)) on the date on which fair market value is to be determined (or if there is no trading on such date, then on the first previous date on which sales were made on a national securities exchange).

## **5. Payment of Unit Value of Performance Units.**

**5.1 Payment of Unit Value.** Subject to paragraph 5.2 below, the Unit Value of each Performance Unit will be paid to you in a minimum of eight quarterly installments commencing as soon as practicable following the attainment of the applicable Stock Price Target. Payment will be made in cash unless the Committee, in its sole discretion, determines to make all or a portion of the payment in shares of Celera Genomics Stock. Except as provided in paragraph 6 below, no payment will be made to you unless you have been at all times from the date hereof to the date of such payment a regular employee of the Company or one of its subsidiaries.

**5.2 Limitation on Payment.** Notwithstanding anything to the contrary contained herein, in the event that the sum of any payment required to be made to you by the Company pursuant to paragraph 5.1 above, together with any other payment required to be made by the Company to you or any other person pursuant to any Series FY02-4 Performance Unit, Series FY02-5 Performance Unit, Series FY02-6 Performance Unit, Series FY02-7 Performance Unit, or any other series of Performance Units designated by the Committee (either before or after the date hereof) for inclusion in this limitation (in each case including any payment deferred pursuant to any deferred compensation plan of the Company) (collectively, the “Capped Performance Units”), exceed \$250,000 in the aggregate for any fiscal quarter of the Company, then the amount of any payment to be made to you (or on your behalf) for such fiscal quarter will be pro rated based on the aggregate amount to be paid to (or on behalf of) all recipients of the Capped Performance Units for such fiscal quarter. Any payment or portion thereof not paid to you (or on your behalf) in any fiscal quarter because of the limitation set forth in this paragraph 5.2 will be carried over to the next fiscal quarter and will again be subject to such limitation.

## **6. Payment Following Termination of Employment.**

**6.1 Termination of Employment Prior to Attainment of Stock Price Targets.** If your employment with the Company is terminated for any reason prior to one or more Stock Price Targets having been attained, then all Performance Units as to which the Stock Price Targets have not been attained will immediately terminate and no payment will be made therefor.

**6.2 Termination of Employment Following Attainment of Stock Price Targets.** If your employment with the Company is terminated following the attainment of one or more Stock Price Targets but prior to payment in full of the Unit Value of the applicable Performance Units, then the Unit Value of the Performance Units, or unpaid portion thereof, corresponding to such Stock Price Targets will be payable as follows:

**6.2.1 Termination of Employment by You or by the Company other than upon Retirement, Death, or Disability.** If your employment with the Company is terminated by you or by the Company for any reason other than retirement, death or disability, then all Performance Units granted to you will immediately terminate and no payment (including, without limitation, any portion of any payment not paid to you because of the limitation set forth in paragraph 5.2 above) will be made therefor after the date of termination.

**6.2.2 Termination of Employment Upon Retirement, Death, or Disability.** If your employment with the Company is terminated due to your retirement from the Company in accordance with the terms of any pension or retirement plan provided by the Company, or if you die while employed by the Company or become totally and permanently disabled, then the Performance Units as to which the Stock Price Targets have been attained as of the date of termination, death, or disability will be paid to you at the same time that payment of the Unit Value of such Performance Units would otherwise be made pursuant to paragraph 5 hereof. All other Performance Units will thereafter terminate and no payment will be made therefor.

7. **Tax Withholding.** As a condition to the payment of the Unit Value of, or dividend equivalents on, any Performance Unit, you agree that the Company may withhold from any such payment an amount in cash or shares of Celera Genomics Stock, as appropriate, sufficient to satisfy any applicable tax withholding obligations.

8. **Stockholder Rights; Dividend Equivalents.** The Performance Units will not confer upon you any rights or privileges of a stockholder of the Company, except that at such time as the Unit Value of all Series FY02-6 Performance Units granted to you has been paid to you (or on your behalf), you will receive dividend equivalents on the Performance Units if, as, and when dividends are paid on Celera Genomics Stock, provided that dividend equivalents will not be paid on any Performance Unit following payment of the Unit Value or termination or expiration of such Performance Unit.

9. **Non-Transferability.** The Performance Units may not be sold, assigned, bequeathed, transferred, pledged, hypothecated, or otherwise disposed of in any way other than by will or by the laws of descent and distribution.

10. **Change of Control.** Notwithstanding anything to the contrary contained herein, but subject to the terms of the Plan, all Stock Price Targets will be deemed attained and the Unit Value of all Performance Units will become immediately payable in full upon the occurrence of any of the events set forth in Section 9 of the Plan.

11. **No Right to Continued Employment.** Neither the Performance Units nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Performance Units will terminate upon the termination of your employment for any reason. The Performance Units will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

12. **Entire Agreement.** This Agreement and the Plan contain the entire agreement between you and the Company regarding the Performance Units and supersede all prior arrangements or understandings with respect thereto.

13. **Terms of Plan Govern.** This Agreement and the terms of the Performance Units will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you agree to be bound by all of the terms of the Plan.

14. **Amendments.** The Performance Units or the Plan may be amended by the Committee at any time in any manner. However, no amendment of the Performance Units or the Plan will adversely affect in any material manner any of your rights under the Performance Units without your consent.

15. **Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_

Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
«Name»

**APPLERA CORPORATION**  
**PERFORMANCE UNIT BONUS PLAN**

**SERIES FY03-1 PERFORMANCE UNIT AGREEMENT**

**SERIES FY03-1 PERFORMANCE UNIT AGREEMENT** dated as of August 5, 2002 by and between Applera Corporation, a Delaware corporation (the “Company”), and «Name», a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Performance Units.** The Company hereby grants to you «Number» Series FY03-1 Performance Units (the “Performance Units”) under the terms of the Applera Corporation Performance Unit Bonus Plan (the “Plan”).

**2. Value of Performance Unit.** The value of each Performance Unit (the “Unit Value”) is \$9.675.

**3. Expiration Date of Performance Units.** The Performance Units will expire as of 12:00 a.m. midnight (New York time) on August 5, 2012 (the “Expiration Date”), unless they are terminated earlier as provided in this Agreement.

**4. Stock Price Targets.** The Performance Units will be payable in accordance with paragraph 5 below based upon the attainment of the stock price targets set forth below (the “Stock Price Targets”) after the date hereof:

«Share\_1» Performance Units, if the Fair Market Value of a share of Applera Corporation - Celera Genomics Group Common Stock, par value \$.01 per share (the “Celera Genomics Stock”), averages, over a period of 90 consecutive days, \$14.675 or more;  
and

The remaining «Share\_2» Performance Units, if the Fair Market Value of a share of Celera Genomics Stock averages, over a period of 90 consecutive days, \$19.675 or more.

“Fair Market Value” means the simple average of the high and low sales prices of a share of Celera Genomics Stock as reported in the report of composite transactions (or other source designated by the Management Resources Committee of the Board of Directors (the “Committee”)) on the date on which fair market value is to be determined (or if there is no trading on such date, then on the first previous date on which sales were made on a national securities exchange).

## **5. Payment of Unit Value of Performance Units.**

**5.1 Payment of Unit Value.** Subject to paragraph 5.2 below, the Unit Value of each Performance Unit will be paid to you in a minimum of eight quarterly installments commencing as soon as practicable following the attainment of the applicable Stock Price Target. Payment will be made in cash unless the Committee, in its sole discretion, determines to make all or a portion of the payment in shares of Celera Genomics Stock. Except as provided in paragraph 6 below, no payment will be made to you unless you have been at all times from the date hereof to the date of such payment a regular employee of the Company or one of its subsidiaries.

**5.2 Limitation on Payment.** Notwithstanding anything to the contrary contained herein, in the event that the sum of any payment required to be made to you by the Company pursuant to paragraph 5.1 above, together with any other payment required to be made by the Company to you or any other person pursuant to any Series FY02-4 Performance Unit, Series FY02-5 Performance Unit, Series FY02-6 Performance Unit, Series FY02-7 Performance Unit, Series FY03-1 Performance Unit, Series FY03-2 Performance Unit, or any other series of Performance Units designated by the Committee (either before or after the date hereof) for inclusion in this limitation (in each case including any payment deferred pursuant to any deferred compensation plan of the Company) (collectively, the “Capped Performance Units”), exceed \$250,000 in the aggregate for any fiscal quarter of the Company, then the amount of any payment to be made to you (or on your behalf) for such fiscal quarter will be pro rated based on the aggregate amount to be paid to (or on behalf of) all recipients of the Capped Performance Units for such fiscal quarter. Any payment or portion thereof not paid to you (or on your behalf) in any fiscal quarter because of the limitation set forth in this paragraph 5.2 will be carried over to the next fiscal quarter and will again be subject to such limitation.

## **6. Payment Following Termination of Employment.**

**6.1 Termination of Employment Prior to Attainment of Stock Price Targets.** If your employment with the Company is terminated for any reason prior to one or more Stock Price Targets having been attained, then all Performance Units as to which the Stock Price Targets have not been attained will immediately terminate and no payment will be made therefor.

**6.2 Termination of Employment Following Attainment of Stock Price Targets.** If your employment with the Company is terminated following the attainment of one or more Stock Price Targets but prior to payment in full of the Unit Value of the applicable Performance Units, then the Unit Value of the Performance Units, or unpaid portion thereof, corresponding to such Stock Price Targets will be payable as follows:

**6.2.1 Termination of Employment by You or by the Company other than upon Retirement, Death, or Disability.** If your employment with the Company is terminated by you or by the Company for any reason other than retirement, death or disability, then all Performance Units granted to you will immediately terminate and no payment (including, without limitation, any portion of any payment not paid to you because of the limitation set forth in paragraph 5.2 above) will be made therefor after the date of termination.

**6.2.2 Termination of Employment Upon Retirement, Death, or Disability.** If your employment with the Company is terminated due to your retirement from the Company in accordance with the terms of any pension or retirement plan provided by the Company, or if you die while employed by the Company or become totally and permanently disabled, then the Performance Units as to which the Stock Price Targets have been attained as of the date of termination, death, or disability will be paid to you at the same time that payment of the Unit Value of such Performance Units would otherwise be made pursuant to paragraph 5 hereof. All other Performance Units will thereafter terminate and no payment will be made therefor.

7. **Tax Withholding.** As a condition to the payment of the Unit Value of, or dividend equivalents on, any Performance Unit, you agree that the Company may withhold from any such payment an amount in cash or shares of Celera Genomics Stock, as appropriate, sufficient to satisfy any applicable tax withholding obligations.

8. **Stockholder Rights; Dividend Equivalents.** The Performance Units will not confer upon you any rights or privileges of a stockholder of the Company, except that prior to the payment of the Unit Value or termination or expiration of any Performance Unit you will receive dividend equivalents on such Performance Unit if, as, and when dividends are paid on Celera Genomics Stock.

9. **Non-Transferability.** The Performance Units may not be sold, assigned, bequeathed, transferred, pledged, hypothecated, or otherwise disposed of in any way other than by will or by the laws of descent and distribution.

10. **Change of Control.** Notwithstanding anything to the contrary contained herein, but subject to the terms of the Plan, all Stock Price Targets will be deemed attained and the Unit Value of all Performance Units will become immediately payable in full upon the occurrence of any of the events set forth in Section 9 of the Plan.

11. **No Right to Continued Employment.** Neither the Performance Units nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Performance Units will terminate upon the termination of your employment for any reason. The Performance Units will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

12. **Entire Agreement.** This Agreement and the Plan contain the entire agreement between you and the Company regarding the Performance Units and supersede all prior arrangements or understandings with respect thereto.

13. **Terms of Plan Govern.** This Agreement and the terms of the Performance Units will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you agree to be bound by all of the terms of the Plan.

14. **Amendments.** The Performance Units or the Plan may be amended by the Committee at any time in any manner. However, no amendment of the Performance Units or the Plan will adversely affect in any material manner any of your rights under the Performance Units without your consent.

15. **Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_

Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
«Name»

**APPLERA CORPORATION**  
**PERFORMANCE UNIT BONUS PLAN**

**SERIES FY03-2 PERFORMANCE UNIT AGREEMENT**

**SERIES FY03-2 PERFORMANCE UNIT AGREEMENT** dated as of August 5, 2002 by and between Applera Corporation, a Delaware corporation (the “Company”), and «Name», a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Performance Units.** The Company hereby grants to you «Number» Series FY03-2 Performance Units (the “Performance Units”) under the terms of the Applera Corporation Performance Unit Bonus Plan (the “Plan”).

**2. Value of Performance Unit.** The value of each Performance Unit (the “Unit Value”) is \$9.675.

**3. Expiration Date of Performance Units.** The Performance Units will expire as of 12:00 a.m. midnight (New York time) on August 5, 2012 (the “Expiration Date”), unless they are terminated earlier as provided in this Agreement.

**4. Stock Price Targets.** The Performance Units will be payable in accordance with paragraph 5 below based upon the attainment of the stock price targets set forth below (the “Stock Price Targets”) after the date hereof:

«Share\_1» Performance Units, if the Fair Market Value of a share of Applera Corporation - Celera Genomics Group Common Stock, par value \$.01 per share (the “Celera Genomics Stock”), averages, over a period of 90 consecutive days, \$24.675 or more;  
and

The remaining «Share\_2» Performance Units, if the Fair Market Value of a share of Celera Genomics Stock averages, over a period of 90 consecutive days, \$29.675 or more.

“Fair Market Value” means the simple average of the high and low sales prices of a share of Celera Genomics Stock as reported in the report of composite transactions (or other source designated by the Management Resources Committee of the Board of Directors (the “Committee”)) on the date on which fair market value is to be determined (or if there is no trading on such date, then on the first previous date on which sales were made on a national securities exchange).

## **5. Payment of Unit Value of Performance Units.**

**5.1 Payment of Unit Value.** Subject to paragraph 5.2 below, the Unit Value of each Performance Unit will be paid to you in a minimum of eight quarterly installments commencing as soon as practicable following the attainment of the applicable Stock Price Target. Payment will be made in cash unless the Committee, in its sole discretion, determines to make all or a portion of the payment in shares of Celera Genomics Stock. Except as provided in paragraph 6 below, no payment will be made to you unless you have been at all times from the date hereof to the date of such payment a regular employee of the Company or one of its subsidiaries.

**5.2 Limitation on Payment.** Notwithstanding anything to the contrary contained herein, in the event that the sum of any payment required to be made to you by the Company pursuant to paragraph 5.1 above, together with any other payment required to be made by the Company to you or any other person pursuant to any Series FY02-4 Performance Unit, Series FY02-5 Performance Unit, Series FY02-6 Performance Unit, Series FY02-7 Performance Unit, Series FY03-1 Performance Unit, Series FY03-2 Performance Unit, or any other series of Performance Units designated by the Committee (either before or after the date hereof) for inclusion in this limitation (in each case including any payment deferred pursuant to any deferred compensation plan of the Company) (collectively, the “Capped Performance Units”), exceed \$250,000 in the aggregate for any fiscal quarter of the Company, then the amount of any payment to be made to you (or on your behalf) for such fiscal quarter will be pro rated based on the aggregate amount to be paid to (or on behalf of) all recipients of the Capped Performance Units for such fiscal quarter. Any payment or portion thereof not paid to you (or on your behalf) in any fiscal quarter because of the limitation set forth in this paragraph 5.2 will be carried over to the next fiscal quarter and will again be subject to such limitation.

## **6. Payment Following Termination of Employment.**

**6.1 Termination of Employment Prior to Attainment of Stock Price Targets.** If your employment with the Company is terminated for any reason prior to one or more Stock Price Targets having been attained, then all Performance Units as to which the Stock Price Targets have not been attained will immediately terminate and no payment will be made therefor.

**6.2 Termination of Employment Following Attainment of Stock Price Targets.** If your employment with the Company is terminated following the attainment of one or more Stock Price Targets but prior to payment in full of the Unit Value of the applicable Performance Units, then the Unit Value of the Performance Units, or unpaid portion thereof, corresponding to such Stock Price Targets will be payable as follows:

**6.2.1 Termination of Employment by You or by the Company other than upon Retirement, Death, or Disability.** If your employment with the Company is terminated by you or by the Company for any reason other than retirement, death or disability, then all Performance Units granted to you will immediately terminate and no payment (including, without limitation, any portion of any payment not paid to you because of the limitation set forth in paragraph 5.2 above) will be made therefor after the date of termination.

**6.2.2 Termination of Employment Upon Retirement, Death, or Disability.** If your employment with the Company is terminated due to your retirement from the Company in accordance with the terms of any pension or retirement plan provided by the Company, or if you die while employed by the Company or become totally and permanently disabled, then the Performance Units as to which the Stock Price Targets have been attained as of the date of termination, death, or disability will be paid to you at the same time that payment of the Unit Value of such Performance Units would otherwise be made pursuant to paragraph 5 hereof. All other Performance Units will thereafter terminate and no payment will be made therefor.

7. **Tax Withholding.** As a condition to the payment of the Unit Value of, or dividend equivalents on, any Performance Unit, you agree that the Company may withhold from any such payment an amount in cash or shares of Celera Genomics Stock, as appropriate, sufficient to satisfy any applicable tax withholding obligations.

8. **Stockholder Rights; Dividend Equivalents.** The Performance Units will not confer upon you any rights or privileges of a stockholder of the Company, except that at such time as the Unit Value of all Series FY03-1 Performance Units granted to you has been paid to you (or on your behalf), you will receive dividend equivalents on the Performance Units if, as, and when dividends are paid on Celera Genomics Stock, provided that dividend equivalents will not be paid on any Performance Unit following payment of the Unit Value or termination or expiration of such Performance Unit.

9. **Non-Transferability.** The Performance Units may not be sold, assigned, bequeathed, transferred, pledged, hypothecated, or otherwise disposed of in any way other than by will or by the laws of descent and distribution.

10. **Change of Control.** Notwithstanding anything to the contrary contained herein, but subject to the terms of the Plan, all Stock Price Targets will be deemed attained and the Unit Value of all Performance Units will become immediately payable in full upon the occurrence of any of the events set forth in Section 9 of the Plan.

11. **No Right to Continued Employment.** Neither the Performance Units nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Performance Units will terminate upon the termination of your employment for any reason. The Performance Units will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

12. **Entire Agreement.** This Agreement and the Plan contain the entire agreement between you and the Company regarding the Performance Units and supersede all prior arrangements or understandings with respect thereto.

13. **Terms of Plan Govern.** This Agreement and the terms of the Performance Units will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you agree to be bound by all of the terms of the Plan.

14. **Amendments.** The Performance Units or the Plan may be amended by the Committee at any time in any manner. However, no amendment of the Performance Units or the Plan will adversely affect in any material manner any of your rights under the Performance Units without your consent.

15. **Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_

Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
«Name»

**APPLERA CORPORATION**  
**PERFORMANCE UNIT BONUS PLAN**

**SERIES FY03-3 PERFORMANCE UNIT AGREEMENT**

**SERIES FY03-3 PERFORMANCE UNIT AGREEMENT** dated as of March 24, 2003, by and between Applera Corporation, a Delaware corporation (the “Company”), and «Name», a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Performance Units.** The Company hereby grants to you «Number» Series FY03-3 Performance Units (the “Performance Units”) under the terms of the Applera Corporation Performance Unit Bonus Plan (the “Plan”).

**2. Value of Performance Unit.** The value of each Performance Unit (the “Unit Value”) is \$15.54.

**3. Expiration Date of Performance Unit.** The Performance Units will expire as of 12:00 a.m. midnight (New York time) on March 24, 2013 (the “Expiration Date”), unless they are terminated earlier as provided in this Agreement.

**4. Stock Price Targets.** The Performance Units will be payable in accordance with paragraph 5 below based upon the attainment of the stock price targets set forth below (the “Stock Price Targets”) after the date hereof:

«Share\_1» Performance Units, if the Fair Market Value of a share of Applera Corporation - Applied Biosystems Group Common Stock, par value \$.01 per share (the “Applied Biosystems Stock”), averages, over a period of 90 consecutive days, \$18.54 or more;  
and

The remaining «Share\_2» Performance Units, if the Fair Market Value of a share of Applied Biosystems Stock averages, over a period of 90 consecutive days, \$22.29 or more.

“Fair Market Value” means the simple average of the high and low sales prices of a share of Applied Biosystems Stock as reported in the report of composite transactions (or other source designated by the Management Resources Committee of the Board of Directors (the “Committee”)) on the date on which fair market value is to be determined (or if there is no trading on such date, then on the first previous date on which sales were made on a national securities exchange).

## **5. Payment of Unit Value of Performance Units.**

**5.1 Payment of Unit Value.** Subject to paragraph 5.2 below, the Unit Value of each Performance Unit will be paid to you in a minimum of eight quarterly installments commencing as soon as practicable following the attainment of the applicable Stock Price Target. Payment will be made in cash unless the Committee, in its sole discretion, determines to make all or a portion of the payment in shares of Applied Biosystems Stock. Except as provided in paragraph 6 below, no payment will be made to you unless you have been at all times from the date hereof to the date of such payment a regular employee of the Company or one of its subsidiaries.

**5.2 Limitation on Payment.** Notwithstanding anything to the contrary contained herein, in the event that the sum of any payment required to be made to you by the Company pursuant to paragraph 5.1 above, together with any other payment required to be made by the Company to you or any other person pursuant to any Series FY02-1 Performance Unit, Series FY02-2 Performance Unit, Series FY03-3 Performance Unit, Series FY03-4 Performance Unit, or any other series of Performance Units designated by the Committee (either before or after the date hereof) for inclusion in this limitation (in each case including any payment deferred pursuant to any deferred compensation plan of the Company) (collectively, the “Capped Performance Units”), exceed \$750,000 in the aggregate for any fiscal quarter of the Company, then the amount of any payment to be made to you (or on your behalf) for such fiscal quarter will be pro rated based on the aggregate amount to be paid to (or on behalf of) all recipients of the Capped Performance Units for such fiscal quarter. Any payment or portion thereof not paid to you (or on your behalf) in any fiscal quarter because of the limitation set forth in this paragraph 5.2 will be carried over to the next fiscal quarter and will again be subject to such limitation.

## **6. Payment Following Termination of Employment.**

**6.1 Termination of Employment Prior to Attainment of Stock Price Targets.** If your employment with the Company is terminated for any reason prior to one or more Stock Price Targets having been attained, then all Performance Units as to which the Stock Price Targets have not been attained will immediately terminate and no payment will be made therefor.

**6.2 Termination of Employment Following Attainment of Stock Price Targets.** If your employment with the Company is terminated following the attainment of one or more Stock Price Targets but prior to payment in full of the Unit Value of the applicable Performance Units, then the Unit Value of the Performance Units, or unpaid portion thereof, corresponding to such Stock Price Targets will be payable as follows:

**6.2.1 Termination of Employment by You or by the Company other than upon Retirement, Death, or Disability.** If your employment with the Company is terminated by you or by the Company for any reason other than retirement, death or disability, then all Performance Units granted to you will immediately terminate and no payment (including, without limitation, any portion of any payment not paid to you because of the limitation set forth in paragraph 5.2 above) will be made therefor after the date of termination.

**6.2.2 Termination of Employment Upon Retirement, Death, or Disability.** If your employment with the Company is terminated due to your retirement from the Company in accordance with the terms of any pension or retirement plan provided by the Company, or if you die while employed by the Company or become totally and permanently disabled, then the Performance Units as to which the Stock Price Targets have been attained as of the date of termination, death, or disability will be paid to you at the same time that payment of the Unit Value of such Performance Units would otherwise be made pursuant to paragraph 5 hereof. All other Performance Units will thereafter terminate and no payment will be made therefor.

7. **Tax Withholding.** As a condition to the payment of the Unit Value of, or dividend equivalents on, any Performance Unit, you agree that the Company may withhold from any such payment an amount in cash or shares of Applied Biosystems Stock, as appropriate, sufficient to satisfy any applicable tax withholding obligations.

8. **Stockholder Rights; Dividend Equivalents.** The Performance Units will not confer upon you any rights or privileges of a stockholder of the Company, except that at such time as the Unit Value of all Series FY02-1 Performance Units and Series FY02-2 Performance Units has been paid, you will receive dividend equivalents on the Performance Units if, as, and when dividends are paid on Applied Biosystems Stock, provided that dividend equivalents will not be paid on any Performance Unit following payment of the Unit Value or termination or expiration of such Performance Unit.

9. **Non-Transferability.** The Performance Units may not be sold, assigned, bequeathed, transferred, pledged, hypothecated, or otherwise disposed of in any way other than by will or by the laws of descent and distribution.

10. **Change of Control.** Notwithstanding anything to the contrary contained herein, but subject to the terms of the Plan, all Stock Price Targets will be deemed attained and the Unit Value of all Performance Units will become immediately payable in full upon the occurrence of any of the events set forth in Section 9 of the Plan.

11. **No Right to Continued Employment.** Neither the Performance Units nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Performance Units will terminate upon the termination of your employment for any reason. The Performance Units will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

12. **Entire Agreement.** This Agreement and the Plan contain the entire agreement between you and the Company regarding the Performance Units and supersede all prior arrangements or understandings with respect thereto.

13. **Terms of Plan Govern.** This Agreement and the terms of the Performance Units will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you agree to be bound by all of the terms of the Plan.

14. **Amendments.** The Performance Units or the Plan may be amended by the Committee at any time in any manner. However, no amendment of the Performance Units or the Plan will adversely affect in any material manner any of your rights under the Performance Units without your consent.

15. **Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_

Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
«Name»

**APPLERA CORPORATION**  
**PERFORMANCE UNIT BONUS PLAN**

**SERIES FY03-4 PERFORMANCE UNIT AGREEMENT**

**SERIES FY03-4 PERFORMANCE UNIT AGREEMENT** dated as of March 24, 2003, by and between Applera Corporation, a Delaware corporation (the “Company”), and «Name», a regular salaried employee of the Company or one of its subsidiaries (“you”).

**1. Grant of Performance Units.** The Company hereby grants to you «Number» Series FY03-4 Performance Units (the “Performance Units”) under the terms of the Applera Corporation Performance Unit Bonus Plan (the “Plan”).

**2. Value of Performance Unit.** The value of each Performance Unit (the “Unit Value”) is \$15.54.

**3. Expiration Date of Performance Unit.** The Performance Units will expire as of 12:00 a.m. midnight (New York time) on March 24, 2013 (the “Expiration Date”), unless they are terminated earlier as provided in this Agreement.

**4. Stock Price Targets.** The Performance Units will be payable in accordance with paragraph 5 below based upon the attainment of the stock price targets set forth below (the “Stock Price Targets”) after the date hereof:

«Share\_1» Performance Units, if the Fair Market Value of a share of Applera Corporation - Applied Biosystems Group Common Stock, par value \$.01 per share (the “Applied Biosystems Stock”), averages, over a period of 90 consecutive days, \$26.79 or more;  
and

The remaining «Share\_2» Performance Units, if the Fair Market Value of a share of Applied Biosystems Stock averages, over a period of 90 consecutive days, \$32.04 or more.

“Fair Market Value” means the simple average of the high and low sales prices of a share of Applied Biosystems Stock as reported in the report of composite transactions (or other source designated by the Management Resources Committee of the Board of Directors (the “Committee”)) on the date on which fair market value is to be determined (or if there is no trading on such date, then on the first previous date on which sales were made on a national securities exchange).

## **5. Payment of Unit Value of Performance Units.**

**5.1 Payment of Unit Value.** Subject to paragraph 5.2 below, the Unit Value of each Performance Unit will be paid to you in a minimum of eight quarterly installments commencing as soon as practicable following the attainment of the applicable Stock Price Target. Payment will be made in cash unless the Committee, in its sole discretion, determines to make all or a portion of the payment in shares of Applied Biosystems Stock. Except as provided in paragraph 6 below, no payment will be made to you unless you have been at all times from the date hereof to the date of such payment a regular employee of the Company or one of its subsidiaries.

**5.2 Limitation on Payment.** Notwithstanding anything to the contrary contained herein, in the event that the sum of any payment required to be made to you by the Company pursuant to paragraph 5.1 above, together with any other payment required to be made by the Company to you or any other person pursuant to any Series FY02-1 Performance Unit, Series FY02-2 Performance Unit, Series FY03-3 Performance Unit, Series FY03-4 Performance Unit, or any other series of Performance Units designated by the Committee (either before or after the date hereof) for inclusion in this limitation (in each case including any payment deferred pursuant to any deferred compensation plan of the Company) (collectively, the “Capped Performance Units”), exceed \$750,000 in the aggregate for any fiscal quarter of the Company, then the amount of any payment to be made to you (or on your behalf) for such fiscal quarter will be pro rated based on the aggregate amount to be paid to (or on behalf of) all recipients of the Capped Performance Units for such fiscal quarter. Any payment or portion thereof not paid to you (or on your behalf) in any fiscal quarter because of the limitation set forth in this paragraph 5.2 will be carried over to the next fiscal quarter and will again be subject to such limitation.

## **6. Payment Following Termination of Employment.**

**6.1 Termination of Employment Prior to Attainment of Stock Price Targets.** If your employment with the Company is terminated for any reason prior to one or more Stock Price Targets having been attained, then all Performance Units as to which the Stock Price Targets have not been attained will immediately terminate and no payment will be made therefor.

**6.2 Termination of Employment Following Attainment of Stock Price Targets.** If your employment with the Company is terminated following the attainment of one or more Stock Price Targets but prior to payment in full of the Unit Value of the applicable Performance Units, then the Unit Value of the Performance Units, or unpaid portion thereof, corresponding to such Stock Price Targets will be payable as follows:

**6.2.1 Termination of Employment by You or by the Company other than upon Retirement, Death, or Disability.** If your employment with the Company is terminated by you or by the Company for any reason other than retirement, death or disability, then all Performance Units granted to you will immediately terminate and no payment (including, without limitation, any portion of any payment not paid to you because of the limitation set forth in paragraph 5.2 above) will be made therefor after the date of termination.

**6.2.2 Termination of Employment Upon Retirement, Death, or Disability.** If your employment with the Company is terminated due to your retirement from the Company in accordance with the terms of any pension or retirement plan provided by the Company, or if you die while employed by the Company or become totally and permanently disabled, then the Performance Units as to which the Stock Price Targets have been attained as of the date of termination, death, or disability will be paid to you at the same time that payment of the Unit Value of such Performance Units would otherwise be made pursuant to paragraph 5 hereof. All other Performance Units will thereafter terminate and no payment will be made therefor.

7. **Tax Withholding.** As a condition to the payment of the Unit Value of, or dividend equivalents on, any Performance Unit, you agree that the Company may withhold from any such payment an amount in cash or shares of Applied Biosystems Stock, as appropriate, sufficient to satisfy any applicable tax withholding obligations.

8. **Stockholder Rights; Dividend Equivalents.** The Performance Units will not confer upon you any rights or privileges of a stockholder of the Company, except that at such time as the Unit Value of all Series FY02-1 Performance Units, Series FY02-2 Performance Units, and Series FY03-3 Performance Units has been paid, you will receive dividend equivalents on the Performance Units if, as, and when dividends are paid on Applied Biosystems Stock, provided that dividend equivalents will not be paid on any Performance Unit following payment of the Unit Value or termination or expiration of such Performance Unit.

9. **Non-Transferability.** The Performance Units may not be sold, assigned, bequeathed, transferred, pledged, hypothecated, or otherwise disposed of in any way other than by will or by the laws of descent and distribution.

10. **Change of Control.** Notwithstanding anything to the contrary contained herein, but subject to the terms of the Plan, all Stock Price Targets will be deemed attained and the Unit Value of all Performance Units will become immediately payable in full upon the occurrence of any of the events set forth in Section 9 of the Plan.

11. **No Right to Continued Employment.** Neither the Performance Units nor this Agreement confers upon you any right to continue to be an employee of the Company or any of its subsidiaries or interferes in any way with the right of the Company or any of its subsidiaries to terminate your employment at any time. Except as provided in this Agreement, the Performance Units will terminate upon the termination of your employment for any reason. The Performance Units will not be reinstated if you are subsequently reinstated as an employee of the Company or any subsidiary.

12. **Entire Agreement.** This Agreement and the Plan contain the entire agreement between you and the Company regarding the Performance Units and supersede all prior arrangements or understandings with respect thereto.

13. **Terms of Plan Govern.** This Agreement and the terms of the Performance Units will be governed by the terms of the Plan which is hereby incorporated by reference in this Agreement. In the event of any ambiguity in this Agreement or any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. By your signature below, you agree to be bound by all of the terms of the Plan.

14. **Amendments.** The Performance Units or the Plan may be amended by the Committee at any time in any manner. However, no amendment of the Performance Units or the Plan will adversely affect in any material manner any of your rights under the Performance Units without your consent.

15. **Governing Law.** This Agreement will be governed by and construed in accordance with the internal laws of the State of Delaware.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the undersigned as of the day and year first written above.

**APPLERA CORPORATION**

By: \_\_\_\_\_

Chairman, President and  
Chief Executive Officer

Accepted and Agreed:

\_\_\_\_\_  
«Name»

August 26, 2005

**CONFIDENTIAL**

[Name]

[Address]

[City, State, Zip Code]

Dear [Name],

I am writing to inform you, in case you are not already aware, that on June 2, 2005, the Management Resources Committee approved the accelerated vesting of all stock options previously granted to you in connection with your Performance Unit Bonus Plan awards.

This action followed a similar acceleration of vesting for other option grants which took place in January 2005. The accelerations were approved light of new accounting regulations that became effective as of July 1, 2005.

To prevent unintended personal benefits to holders of the accelerated PUBP options, there is a prohibition on the sale or transfer (including, for example, gifts or pledges) of shares received through the exercise of the accelerated PUBP options until the earlier of the original vesting date or your termination of employment. During the restricted period, shares resulting from your exercise of affected options will be held by the company, although you will be entitled to vote the shares and receive any dividends. If you seek to exercise any of these options before the restriction lapses, you will be required to accept these terms in writing before the exercise will be processed.

Please contact me or Pam Petriello at 650-554-2494 if you have any questions.

Sincerely,

/s/ Barbara J. Kerr

Barbara J. Kerr

Vice President, Human Resources

EMPLOYMENT AGREEMENT

AGREEMENT entered into as of September 2, 2003, between APPLERA CORPORATION, a Delaware corporation having its principal place of business at Norwalk, Connecticut (the “Company”), and Catherine M. Burzik, residing at 7 Odell Place, Atherton, CA 94027 (the “Employee”).

WHEREAS, the Employee has rendered and/or will render valuable services to the Company and it is regarded essential by the Company that it have the benefit of Employee’ s services in future years; and

WHEREAS, the Board of Directors of the Company believes that it is essential that, in the event of the possibility of a Change in Control of the Company (as defined herein), the Employee be able to continue her attention and dedication to her duties and to assess and advise the Board of Directors of the Company (the “Board”) whether such proposals would be in the best interest of the Company and its stockholders without distraction regarding any uncertainty concerning her future with the Company; and

WHEREAS, the Employee is willing to agree to continue to serve the Company in the future;

NOW, THEREFORE, it is mutually agreed as follows:

1. Employment. The Company agrees to employ Employee, and the Employee agrees to serve as an employee of the Company or one or more of its subsidiaries after a Change of Control during the Period of Employment (as those terms are defined in Section 2 hereof) in such executive capacity as Employee served immediately prior to the Change in Control which caused the commencement of the Period of Employment. The Employee also agrees to serve during the Period of Employment, if elected or appointed thereto, as a Director of the Board of Directors of the Company and as a member of any committee of the Board of Directors. Notwith-standing anything to the contrary herein, the Period of Employment shall not commence and the Employee shall not be entitled to any rights, benefits, or payments hereunder unless and until a Change in Control has occurred.

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## 2. Definitions.

(a) Cause. During the Period of Employment, “Cause” means termination upon (i) the willful and continued failure by the Employee to perform substantially her duties with the Company (other than any such failure resulting from the Employee’s incapacity due to physical or mental illness) after a demand for a substantial performance is delivered to the Employee by the Chief Executive Officer of the Company (“CEO”) which specifically identifies the manner in which the CEO believes that the Employee has not substantially performed her duties, or (ii) the willful engaging by the Employee in illegal conduct which is materially and demonstrably injurious to the Company. For purposes of this Section 2(a), no act, or failure to act, on the part of the Employee shall be considered “willful” unless done, or omitted to be done, by the Employee in bad faith and without reasonable belief that the Employee’s action or omission was in, or not opposed to, the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Employee in good faith and in the best interests of the Company. Notwithstanding the foregoing, the Employee shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to the Employee a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the entire membership of the Board at a meeting of the Board called and held for that purpose (after reasonable notice to the Employee and an opportunity for her, together with counsel, to be heard before the Board), finding that in the good faith opinion of the Board the Employee was guilty of the conduct set forth above in (i) or (ii) of this Section 2(a) and specifying the particulars thereof in detail.

(b) Cash Compensation. “Cash Compensation” shall mean the sum of (i) Employee’s Base Salary (determined in accordance with the provisions of Section 4(a) hereof) and (ii) Employee’s incentive compensation (provided for under Section 4(b) hereof), which shall be an amount equal to the greatest of (x) the average of the amount of Employee’s incentive compensation for the last three completed fiscal years immediately prior to the Employee’s termination of employment (whether or not such years occurred during the Period of Employment), (y) the target amount of such Employee’s incentive compensation for the fiscal year in which her termination of employment occurs, or (z) the Employee’s target amount for the fiscal year in which the Change in Control occurs.

(c) Change in Control. “Change in Control” means the occurrence of any of the following: 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 date hereof, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934; provided, however, that, without limitation, such a Change in Control shall be deemed to have occurred at such time as (i) any “person” within the meaning of Section 14(d) of the Securities Exchange Act of 1934 becomes the “beneficial owner” as defined in Rule 13d-3 thereunder, directly or indirectly, of more than 25% of the Company’s Common Stock; (ii) during any two-year period, individuals who constitute the Board of Directors of the Company (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) shall be, for purposes of this clause (ii), considered as though such person were a member of the Incumbent Board; or (iii) the approval by the Company’s stockholders of the sale of all or substantially all of the stock or assets of the Company.

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(d) Disability. “Disability” means the absence of the Employee from her duties with the Company on a full-time basis for one hundred eighty (180) consecutive days as a result of incapacity due to physical or mental illness.

(e) Good Reason. During the Period of Employment, “Good Reason” means:

(i) an adverse change in the status of the Employee (other than any such change primarily attributable to the fact that the Company may no longer be publicly owned) or position(s) as an officer of the Company as in effect immediately prior to the Change in Control or the assignment to the Employee of any duties or responsibilities which, in her reasonable judgment, are inconsistent with such status or position(s), or any removal of the Employee from or any failure to reappoint or reelect her to such position(s) (except in connection with the termination of the Employee’s employment for Cause, Disability, or upon attaining age 65 or upon taking early retirement under any of the Company’s retirement plans, or as a result of death or by the Employee other than for Good Reason);

(ii) a reduction by the Company after a Change in Control in the Employee’s Base Salary;

(iii) a material reduction after a Change in Control in the Employee’s total annual compensation; provided, however, that for these purposes a reduction for any year of over 10% of total compensation measured by the preceding year without a substantially similar reduction to all other executives participating in incentive compensation plans shall be considered “material”; and the failure of the Company to adopt or renew a stock option plan or to grant amounts of restricted stock or stock options, which are consistent with the Company’s prior practices, to the Employee shall also be considered a material reduction, unless the Employee participates in substitute programs that provide substantially equivalent economic value to the Employee;

(iv) the failure by the Company to continue in effect any Benefit Plan (as hereinafter defined) in which Employee was participating at the time of the Change in Control (or Benefit Plans providing Employee with at least substantially similar benefits) other than as a result of the normal expiration of any such Benefit Plan in accordance with its terms as in effect at the time of the Change in Control, or the taking of any action, or the failure to act, by the Company which would adversely affect Employee’s continued participation in any such Benefit Plans on at least as favorable a basis to Employee as was the case immediately prior to the Change in Control or which would materially reduce Employee’s benefits in the future under any of such Benefit Plans or deprive Employee of any material benefit enjoyed by Employee immediately prior to the Change in Control;

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(v) the failure by the Company after a Change in Control to provide and credit Employee with the number of paid vacation days to which Employee was then entitled in accordance with the Company' s normal vacation policy as in effect immediately prior to the Change in Control; or

(vi) the Company' s requiring the Employee after a Change in Control to be based more than fifty miles from the Employee' s principal place of business immediately prior to the Change in Control except for required travel on the Company' s business to an extent substantially consistent with the business travel obligations which she undertook on behalf of the Company prior to the Change in Control.

(f) Period of Employment. (i) "Period of Employment" means, subject to the provisions of Section 2(f)(ii), the period of thirty-six (36) months commencing on the date of a Change in Control (as defined in Section 2(c) hereof) and the period of any extension or extensions thereof in accordance with the terms of this Section. The Period of Employment shall be extended automatically by one week for each week in which the Employee' s employment continues after the date of a Change in Control.

(ii) Notwithstanding the provisions of Section 2(f)(i) hereof, the Period of Employment shall terminate upon the occurrence of the earliest of (A) the Employee' s attainment of age 65, or the election by the Employee to retire early from the Company under any of its retirement plans, (B) the death of the Employee, (C) the Disability of the Employee or (D) a termination of Employee's employment by the Company for Cause or by the Employee without Good Reason.

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(g) Termination Date. "Termination Date" means the date on which the Period of Employment terminates.

3. Duties During the Period of Employment. While employed by the Company during the Period of Employment, the Employee shall devote her full business time, attention, and best efforts to the affairs of the Company and its subsidiaries; provided, however, that the Employee may engage in other activities, such as activities involving charitable, educational, religious, and similar types of organizations, speaking engagements, membership on the board of directors of other organizations, and similar types of activities to the extent that such other activities do not prohibit the performance of her duties under this Agreement, or inhibit or conflict in any material way with the business of the Company and its subsidiaries.

4. Current Cash Compensation.

(a) Base Salary. The Company will pay to the Employee while employed by the Company during the Period of Employment an annual base salary ("Base Salary") in an amount determined by the Board of Directors or its Compensation Committee which shall never be less than the greater of (i) the Employee's Base Salary prior to the commencement of the Period of Employment or (ii) her Base Salary during the preceding year of the Period of Employment; provided, however, that it is agreed between the parties that the Company shall review annually the Employee's Base Salary, and in light of such review may, in the discretion of the Board of Directors or its Compensation Committee, increase such Base Salary taking into account the Employee's responsibilities, inflation in the cost of living, increase in salaries of executives of other corporations, performance by the Employee, and other pertinent factors. The Base Salary shall be paid in substantially equal biweekly installments while Employee is employed by the Company.

(b) Incentive Compensation. While employed by the Company during the Period of Employment, the Employee shall continue to participate in such of the Company's incentive compensation programs for executives as the Employee participated in prior to the commencement of the Period of Employment. Any amount awarded to the Employee under such programs shall be paid to Employee in accordance with the terms thereof.

5. Employee Benefits.

(a) Vacation and Sick Leave. The Employee shall be entitled during the Period of Employment to a paid annual vacation of not less than twenty (20) business days during each calendar year while employed by the Company and to reasonable sick leave.

(b) Regular Reimbursed Business Expenses. The Company shall reimburse the Employee for all expenses and disbursements reasonably incurred by the Employee in the performance of her duties during the Period of Employment.

(c) Employment Benefit Plans or Arrangements. While employed by the Company, Employee shall be entitled to participate in all employee benefit plans, programs, or arrangements (“Benefit Plans”) of the Company, in accordance with the terms thereof, as in effect from time to time, which provide benefits to senior executives of the Company. For purposes of this Agreement, Benefit Plans shall include, without limitation, any compensation plan such as an incentive, deferred, stock option or restricted stock plan, or any employee benefit plan such as a thrift, pension, profit sharing, pre-tax savings, medical, dental, disability, salary continuation, accident, life insurance plan, or a relocation plan or policy, or any other plan, program, or policy of the Company intended to benefit employees.

#### 6. Termination of Employment.

(a) Termination by the Company for Cause or Termination by the Employee Other Than for Good Reason. If during the Period of Employment the Company terminates the employment of the Employee for Cause or if the Employee terminates her employment other than for Good Reason the Company shall pay the Employee (i) the Employee’s Base Salary through the end of the month in which the Termination Date occurs, (ii) any incentive compensation payable to her pursuant to Section 4(b) hereof, including a pro rata share for any partial year, (iii) any accrued vacation pay, and (iv) benefits payable to her pursuant to the Company’s Benefit Plans as provided in Section 5(c) hereof through the end of the month in which the Termination Date occurs. The amounts and benefits set forth in clauses (i), (ii), (iii) and (iv) of the preceding sentence shall hereinafter be referred to as “Accrued Benefits.”

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(b) Termination by the Company Without Cause or by the Employee for Good Reason. If during the Period of Employment the Company terminates the Employee's employment with the Company without Cause or the Employee terminates her employment with the Company for Good Reason, the Company will pay to Employee all Accrued Benefits and, in addition, pay or provide to the Employee the following:

- (i) within thirty (30) days after the date of termination, a lump sum equal to the greater of (A) the Employee's Cash Compensation for the remainder of the Period of Employment or (B) two times the Employee's Cash Compensation;  
  
for the greater of two years or the remainder of the Period of Employment immediately following the Employee's date of termination, the Employee and Employee's family shall continue to participate in any Benefit Plans of the Company (as defined in Section 5(c) hereof) in which Employee or Employee's family participated at any time during the one-year period ending on the day immediately preceding Employee's termination of employment, provided that (a) such continued participation is possible under the terms of such Benefit Plans, and (b) the Employee continues to pay contributions for such participation at the rates paid
  - (ii) for similar participation by active Company employees in similar positions to that held by the Employee immediately prior to the date of termination. If such continued participation is not possible, the Company shall provide, at its sole cost and expense, substantially identical benefits to the Employee plus pay an additional amount to the Employee equal to the Employee's liability for federal, state and local income taxes on any amounts includible in the Employee's income by virtue of the terms of this Section 6(b)(ii) so that Employee does not have to personally pay any federal, state and local income taxes by virtue of the terms of this Section 6(b)(ii);
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(iii) three additional years of service credit under the Company' s Non-Qualified Plans and, for purposes of such plans, Employee' s final average pay shall be deemed to be her Cash Compensation for the year in which the date of termination occurs;

the Company shall take all reasonable actions to cause any Company restricted stock ("Restricted Stock") granted to Employee to become fully vested and any options to purchase Company stock ("Options") granted to Employee to become fully exercisable, and in the event the Company cannot effect such vesting or acceleration within sixty (60) days, the Company shall pay within thirty (30) days thereafter to Employee (i) with respect to each Option, an amount equal to the product of (x) the number of unvested shares subject to such Option, multiplied by (y) the excess of the fair market value of such a share of Company common stock on the date of Employee' s termination of employment, over the per share exercise price of such Option and (ii) with respect to each unvested share of Restricted Stock an amount equal to the fair market value of such a share of Company common stock on the date of Employee' s termination of employment.

Except as provided in the following sentence, the amounts payable to the Employee under this Section 6(b) shall be absolutely owing and shall not be subject to reduction or mitigation as a result of employment of the Employee elsewhere after the date of termination. Notwithstanding any provision herein to the contrary, the benefits described in clauses (i), (ii) and (iii) of this Section 6(b) shall only be payable with respect to the period ending upon the earlier of (i) the end of the period specified in each such clause or (ii) Employee' s attainment of age 65.

7. Gross-Up. In the event any amounts due to the Employee under this Agreement after a Change in Control, under the terms of any Benefit Plan, or otherwise payable by the Company or an affiliate of the Company are subject to excise taxes under Section 4999 of the Internal Revenue Code of 1986, as amended ("Excise Taxes"), the Company shall pay to the Employee, in addition to any other payments due under other provisions of this Agreement, an amount equal to the amount of such Excise Taxes plus the amount of any federal, state and local income or other taxes and Excise Taxes attributable to all amounts, including income taxes, payable under this Section 7, so that after payment of all income, Excise and other taxes with respect to the amounts due to the Employee under this Agreement, the Employee will retain the same net after tax amount with respect to such payments as if no Excise Taxes had been imposed.

8. Governing Law. This Agreement is governed by, and is to be construed and enforced in accordance with, the laws of the State of Connecticut. If under such laws any portion of this Agreement is at any time deemed to be in conflict with any applicable statute, rule, regulation, or ordinance, such portion shall be deemed to be modified or altered to conform thereto or, if that is not possible, to be omitted from this Agreement, and the invalidity of any such portion shall not affect the force, effect, and validity of the remaining portion hereof.

9. Notices. All notices under this Agreement shall be in writing and shall be deemed effective when delivered in person (in the Company's case, to its Secretary) or seventy-two (72) hours after deposit thereof in the U.S. mail, postage prepaid, for delivery as registered or certified mail - addressed, in the case of the Employee, to the Employee at Employee' s residential address, and in the case of the Company, to its corporate headquarters, attention of the Secretary, or to such other address as the Employee or the Company may designate in writing at any time or from time to time to the other party. In lieu of personal notice or notice by deposit in the U.S. mail, a party may give notice by telegram, fax or telex.

10. Miscellaneous. This Agreement may be amended only by a subsequent written agreement of the Employee and the Company. This Agreement shall be binding upon and shall inure to the benefit of the Employee, the Employee' s heirs, executors, administrators, beneficiaries, and assigns and to the benefit of the Company and its successors. Notwithstanding anything in this Agreement to the contrary, nothing herein shall prevent or interfere with the ability of the Company to terminate the employment of the Employee prior to a Change in Control nor be construed to entitle Employee to be continued in employment prior to a Change in Control and this Agreement shall terminate if Employee or the Company terminates Employee' s employment prior to a Change in Control. Similarly, nothing herein shall prevent the Employee from retiring under any of the Company' s retirement plans and receiving the corresponding benefits thereunder consistent with the treatment of other Company employees.

11. Fees and Expenses. The Company shall pay all reasonable legal fees and related expenses incurred by the Employee in connection with this Agreement following a Change in Control of the Company, including without limitation, all such fees and expenses, if any, incurred in connection with (i) contesting or disputing any termination of the Employee' s employment hereunder, or (ii) the Employee seeking to obtain or enforce any right or benefit provided by the Agreement.

12. Arbitration. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in Connecticut by three arbitrators in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator' s award in any court having jurisdiction; provided, however, that the Employee shall be entitled to be paid as if his or her employment continued during the pendency of any dispute or controversy arising under or in connection with this Agreement. The Company shall bear all costs and expenses arising in connection with any arbitration pursuant to this Section 12.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the year and day first above written.

APPLERA CORPORATION

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

ATTEST:

By: /s/ William B. Sawch  
William B. Sawch  
Senior Vice President and  
General Counsel

ACCEPTED AND AGREED:

/s/ Catherine M. Burzik  
Catherine M. Burzik

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850 Lincoln Centre Drive  
 Foster City, CA 94404 U.S.A.  
 T 650.570.6667 F  
 650.572.2743  
 www.appliedbiosystems.com

July 25, 2003

Catherine M. Burzik  
 137 Bedens Brook Road  
 Skillman, New Jersey 08558

Dear Cathy:

On behalf of Applied Biosystems, an Applera Corporation business, I am pleased to offer you the position of Executive Vice President- Applied Biosystems, reporting directly to me. In your new role, you will be a member of my executive staff and also a member of the Applera Executive Committee. I am targeting your start date for September 1, 2003. The terms of your offer are as follows:

<b>Base Salary:</b>	\$450,000 per year, payable bi-weekly
<b>Target Bonus Level:</b>	60% as governed by FY' 04 Incentive Compensation Plan (ICP)
<b>Restricted Stock Grant:</b>	25,000 (ABI) stock vests equally over four years subject to the plan
<b>Stock Option Grant:</b>	100,000 (ABI) stock options vest equally over four years subject to the plan
<b>Car Allowance:</b>	\$15,000 per year, payable in equal monthly installments
<b>Financial and Tax Planning:</b>	\$10,000 per year
<b>Sign On Bonus:</b>	\$110,000 (gross)
<b>Mortgage Subsidy:</b>	Upon purchase of a home in the Bay Area you will be granted a \$50,000 mortgage subsidy annually for a period of 5 years subject to the plan
<b>Performance Unit Bonus Plan:</b>	It will be recommended to the BOD that you participate in the PUBP (subject to plan document) if and when new nominations are accepted
<b>Severance Agreement:</b>	Should your employment with Applied Biosystems be terminated, without just cause, you will receive a separation package which includes twelve months of base pay, twelve months of medical and dental benefits continuation (may be paid in lump sum payment), outplacement assistance, and ICP bonus eligibility pro-rated for the period of employment during that specific fiscal year.

**Change of Control:**

A recommendation will be made to the BOD that Applera Corporation enter into a Change of Control (CoC) agreement with you as per the Applera CoC document.

You will be eligible to participate in our Incentive Compensation Program, with a target annual bonus of 60% based on your eligible fiscal year earnings. Your target bonus is governed by the FY 04 Incentive Compensation Plan, which runs from July 1, 2003, through June 30, 2004 and will be prorated for your service during FY 04. Under this plan your bonus is based on the achievement of both personal and corporate goals.

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This offer includes a recommendation for a new-hire stock option grant. As such, it will be recommended to our Board of Directors that you be granted an option to purchase 100,000 shares of Applied Biosystems (ABI) common stock. The option price will be set based on date of grant or start date whichever is later. The Company guarantees that the 100,000 stock options will produce a yield of \$120,000 within four years. If, after four years, the options are not worth \$120,000, you can surrender the options and the Company will pay you a maximum of \$120,000, subject to normal withholding taxes. Additionally, the Company will recommend to the Board of Directors that a total of 25,000 shares of (ABI) restricted stock be made available to you. The restricted stock will be priced at \$.01 per share and will vest over a period of four years. Both the stock options and restricted stock will vest in equal annual installments over a four-year period with the first 25% of such stock options and restricted stock vesting upon the first anniversary date of your hire (for the prevention of doubt not stock options shall vest before such one year anniversary date). You will receive a packet with complete information about your stock grants approximately 8 to 12 weeks following the next Board meeting.

Applera Corporation offers a deferred compensation program to those employees earning more than \$125,000.00 annually. This deferred compensation program will allow you to defer up to 100% of your base salary and annual bonus amount for U.S. tax planning purposes.

As part of your offer, Applera Corporation will be providing you with relocation benefits as outlined in the attached Applera Corporation Relocation Policy and Provisions. In the event you elect to terminate employment prior to the completion of twelve (12) continuous months of employment, you will be obligated to refund relocation reimbursements and payments on a pro-rated basis. Should you have any questions regarding your relocation benefits, please contact Stacy Hall at (650) 554-2079.

All full time employees and all part time employees working more than 20 hours per week are eligible for participation in the Applera Corporation Total Ownership employee benefits program on their date of hire. Please refer to the enclosed benefits summary for more information on these benefits. During your first few days of employment, Kris Anderson will set up a one on one meeting between yourself and a benefits specialist to review your Applera benefits.

For your information, I have enclosed a Benefits Summary outlining our Applera benefits programs. We will arrange for you to meet with a member of our benefits staff to review your benefits package and enroll in the various programs. As an executive, you may choose to have an annual health screening done at Applera's expense, with a physician of your choice. Please note also that, as an executive, you will not accrue PTO but will instead have the flexibility of taking time off at your discretion in accordance with the business needs of the corporation, approximately four weeks a year.

In compliance with the Immigration Reform and Control Act of 1986, our offer of employment is contingent upon your ability to verify your identity and legal right to work in the United States within three (3) business days of hire. In order to complete the required I-9 Employment Eligibility Verification Form, it is imperative that you bring the appropriate documentation to Kris Anderson on your first day of work. Please review the enclosed list of acceptable documents for completing the I-9 Form.

Applera Corporation is firmly committed to maintaining its position as an employer who provides a safe and healthy work environment in which each employee can develop and produce to his/her maximum capability. In order to uphold this standard, we require that all employees submit to and pass a pre-employment drug test and a pre-employment background check. **Our offer of employment, therefore, is contingent upon your successful completion of both the specified drug test and background check.** Enclosed please find detailed instructions on how to complete both pre-employment screens.

Applera Corporation has a long-standing policy of respecting the rights of prior employers of persons whom the Corporation hires. Applera Corporation, therefore, does not want to receive, and you will not be asked to provide nor should you use in your work, any confidential information of a former employer. This includes information you may have in your possession or that you may have had access to while previously employed. It is very important that no documents of a former employer are brought into the Corporation's premises and computer systems. Should you accept



employment with us, you will be asked to sign the Conflict of Interest and Confidentiality Agreement to likewise protect the Corporation's information.

By signing this letter, you recognize that an employment at-will relationship will exist between you and Applera Corporation and that either you or Applera may terminate this employment relationship at any time for any reason, with or without notice.

Upon acceptance of this offer and commencement of your employment, you will be granted a one-time cash bonus of \$110,000 (gross). The request for your sign-on bonus will be generated during the first week of your employment and may take up to 30 days to process. In the event that you elect to terminate employment prior to the completion of twenty-four (24) continuous months of employment, you will be obligated to refund the sign-on bonus amount, pro-rated for the period of employment during such twenty-four (24) months.

To accept this offer, please sign and date where indicated below and return one executed copy to Victoria Ngo. Please also review the enclosed New Employee Paperwork Checklist, complete all required forms, and return them with your signed original offer using the enclosed envelope. Victoria's phone extension is (650) 554-3182.

This offer will expire on July 31, 2003. Should you have any questions regarding this offer, or if you are unable to accept this offer prior to the above expiration date, please contact me at (650) 638-5500 or Kris Anderson, my HR VP at (650) 638-6839.

On behalf of the Applied Biosystems Executive Team, I look forward to your joining our leadership team. I am confident that you will find Applied Biosystems and the critical role you will play to be a challenging and rewarding opportunity.

Best Regards,

/s/ Michael W. Hunkapiller

Michael W. Hunkapiller

President, Applied Biosystems and Senior Vice President, Applera Corporation

cc: Kris Anderson

**Enclosures**

Please sign below indicating your acceptance of this offer of employment.

Catherine Burzik

/s/ Catherine M. Burzik

Name (Printed)

Signature

July 31, 2003

Sept 2, 2003

Date

Start Date

**List of Enclosures**

- Pre-employment Drug Screening Program and Procedures Packet
  - Pre-employment Background Screening Program and Procedures Packet
  - Total Ownership Benefits Summary
  - List of Acceptable Documents for Completion of I-9 Form
  - New Employee Paperwork Checklist
  - Relocation Summary/Policy and Repayment Agreement Form
  - Conflict of Interest and Confidentiality Agreement
  - Employee Profile Form
  - Conduct of Business Activities Policy Statement and Acknowledgement Form
  - Safe Workplace Policy Statement and Acknowledgement Form
  - Form W-4 for Federal Withholding Allowance
  - Form DE-4 for State Withholding Allowance (or other form if applicable)
  - Postage paid envelope
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EMPLOYMENT AGREEMENT

AGREEMENT entered into as of September 5, 2000 between PE CORPORATION, a Delaware corporation having its principal place of business at Norwalk, Connecticut (the "Company") and Barbara J. Kerr, residing at 410 Pine Street, Mill Valley, CA 94941 (the "Employee").

WHEREAS, the Employee has rendered and/or will render valuable services to the Company and it is regarded essential by the Company that it have the benefit of Employee' s services in future years; and

WHEREAS, the Board of Directors of the Company believes that it is essential that, in the event of the possibility of a Change in Control of the Company (as defined herein), the Employee be able to continue her attention and dedication to her duties and to assess and advise the Board of Directors of the Company (the "Board") whether such proposals would be in the best interest of the Company and its stockholders without distraction regarding any uncertainty concerning her future with the Company; and

WHEREAS, the Employee is willing to agree to continue to serve the Company in the future;

NOW, THEREFORE, it is mutually agreed as follows:

1. Employment. The Company agrees to employ Employee, and the Employee agrees to serve as an employee of the Company or one or more of its subsidiaries after a Change of Control during the Period of Employment (as those terms are defined in Section 2

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hereof) in such executive capacity as Employee served immediately prior to the Change in Control which caused the commencement of the Period of Employment. The Employee also agrees to serve during the Period of Employment, if elected or appointed thereto, as a Director of the Board of Directors of the Company and as a member of any committee of the Board of Directors. Notwithstanding anything to the contrary herein, the Period of Employment shall not commence and the Employee shall not be entitled to any rights, benefits, or payments hereunder unless and until a Change in Control has occurred.

## 2. Definitions.

(a) Cause. During the Period of Employment, “Cause” means termination upon (i) the willful and continued failure by the Employee to perform substantially her duties with the Company (other than any such failure resulting from the Employee’s incapacity due to physical or mental illness) after a demand for a substantial performance is delivered to the Employee by the Chief Executive Officer of the Company (“CEO”) which specifically identifies the manner in which the CEO believes that the Employee has not substantially performed her duties, or (ii) the willful engaging by the Employee in illegal conduct which is materially and demonstrably injurious to the Company. For purposes of this Section 2(a), no act, or failure to act, on the part of the Employee shall be considered “willful” unless done, or omitted to be done, by the Employee in bad faith and without reasonable belief that the Employee’s action or omission was in, or not

opposed to, the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Employee in good faith and in the best interests of the Company. Notwithstanding the foregoing, the Employee shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to the Employee a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the entire membership of the Board at a meeting of the Board called and held for that purpose (after reasonable notice to the Employee and an opportunity for her, together with counsel, to be heard before the Board), finding that in the good faith opinion of the Board the Employee was guilty of the conduct set forth above in (i) or (ii) of this Section 2(a) and specifying the particulars thereof in detail.

(b) Cash Compensation. “Cash Compensation” shall mean the sum of (i) Employee’ s Base Salary (determined in accordance with the provisions of Section 4(a) hereof) and (ii) Employee’ s incentive compensation (provided for under Section 4(b) hereof), which shall be an amount equal to the greatest of (x) the average of the amount of Employee’ s incentive compensation for the last three completed fiscal years immediately prior to the Employee’ s termination of employment (whether or not such years occurred during the Period of Employment), (y) the target amount of such

Employee' s incentive compensation for the fiscal year in which her termination of employment occurs, or (z) the Employee' s target amount for the fiscal year in which the Change in Control occurs.

(c) Change in Control. "Change in Control" means the occurrence of any of the following: 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 date hereof, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934; provided, however, that, without limitation, such a Change in Control shall be deemed to have occurred at such time as (i) any "person" within the meaning of Section 14(d) of the Securities Exchange Act of 1934 becomes the "beneficial owner" as defined in Rule 13d-3 thereunder, directly or indirectly, of more than 25% of the Company' s Common Stock; (ii) during any two-year period, individuals who constitute the Board of Directors of the Company (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) shall be, for purposes of this clause (ii), considered as though

such person were a member of the Incumbent Board; or (iii) the approval by the Company' s stockholders of the sale of all or substantially all of the stock or assets of the Company.

(d) Disability. "Disability" means the absence of the Employee from her duties with the Company on a full-time basis for one hundred eighty (180) consecutive days as a result of incapacity due to physical or mental illness.

(e) Good Reason. During the Period of Employment, "Good Reason" means:

(i) an adverse change in the status of the Employee (other than any such change primarily attributable to the fact that the Company may no longer be publicly owned) or position(s) as an officer of the Company as in effect immediately prior to the Change in Control or the assignment to the Employee of any duties or responsibilities which, in her reasonable judgment, are inconsistent with such status or position(s), or any removal of the Employee from or any failure to reappoint or reelect her to such position(s) (except in connection with the termination of the Employee' s employment for Cause, Disability, or upon attaining age 65 or upon taking early retirement under any of the Company's retirement plans, or as a result of death or by the Employee other than for Good Reason);

(ii) a reduction by the Company after a Change in Control in the Employee' s Base Salary;

(iii) a material reduction after a Change in Control in the Employee' s total annual compensation; provided, however,

that for these purposes a reduction for any year of over 10% of total compensation measured by the preceding year without a substantially similar reduction to all other executives participating in incentive compensation plans shall be considered “material”; and the failure of the Company to adopt or renew a stock option plan or to grant amounts of restricted stock or stock options, which are consistent with the Company’s prior practices, to the Employee shall also be considered a material reduction, unless the Employee participates in substitute programs that provide substantially equivalent economic value to the Employee;

(iv) the failure by the Company to continue in effect any Benefit Plan (as hereinafter defined) in which Employee was participating at the time of the Change in Control (or Benefit Plans providing Employee with at least substantially similar benefits) other than as a result of the normal expiration of any such Benefit Plan in accordance with its terms as in effect at the time of the Change in Control, or the taking of any action, or the failure to act, by the Company which would adversely affect Employee’s continued participation in any such Benefit Plans on at least as favorable a basis to Employee as was the case immediately prior to the Change in Control or which would materially reduce Employee’s benefits in the future under any of such Benefit Plans or deprive Employee of any material benefit enjoyed by Employee immediately prior to the Change in Control;

(v) the failure by the Company after a Change in Control to provide and credit Employee with the number of paid vacation days to which Employee was then entitled in accordance with the Company' s normal vacation policy as in effect immediately prior to the Change in Control; or

(vi) the Company' s requiring the Employee after a Change in Control to be based more than fifty miles from the Employee' s principal place of business immediately prior to the Change in Control except for required travel on the Company' s business to an extent substantially consistent with the business travel obligations which she undertook on behalf of the Company prior to the Change in Control.

(f) Period of Employment. (i) "Period of Employment" means, subject to the provisions of Section 2(f)(ii), the period of thirty-six (36) months commencing on the date of a Change in Control (as defined in Section 2(c) hereof) and the period of any extension or extensions thereof in accordance with the terms of this Section. The Period of Employment shall be extended automatically by one week for each week in which the Employee' s employment continues after the date of a Change in Control.

(ii) Notwithstanding the provisions of Section 2(f)(i) hereof, the Period of Employment shall terminate upon the occurrence of the earliest of (A) the Employee' s attainment of age 65, or the election by the Employee to retire early from the Company under any of its retirement plans, (B) the death of the Employee, (C) the Disability of the Employee or (D) a termination

of Employee's employment by the Company for Cause or by the Employee without Good Reason.

(g) Termination Date. "Termination Date" means the date on which the Period of Employment terminates.

3. Duties During the Period of Employment. While employed by the Company during the Period of Employment, the Employee shall devote her full business time, attention, and best efforts to the affairs of the Company and its subsidiaries; provided, however, that the Employee may engage in other activities, such as activities involving charitable, educational, religious, and similar types of organizations, speaking engagements, membership on the board of directors of other organizations, and similar types of activities to the extent that such other activities do not prohibit the performance of her duties under this Agreement, or inhibit or conflict in any material way with the business of the Company and its subsidiaries.

4. Current Cash Compensation.

(a) Base Salary. The Company will pay to the Employee while employed by the Company during the Period of Employment an annual base salary ("Base Salary") in an amount determined by the Board of Directors or its Compensation Committee which shall never be less than the greater of (i) the Employee' s Base Salary prior to the commencement of the Period of Employment or (ii) her Base Salary during the preceding year of the Period of Employment; provided, however, that it is agreed between the

parties that the Company shall review annually the Employee' s Base Salary, and in light of such review may, in the discretion of the Board of Directors or its Compensation Committee, increase such Base Salary taking into account the Employee' s responsibilities, inflation in the cost of living, increase in salaries of executives of other corporations, performance by the Employee, and other pertinent factors. The Base Salary shall be paid in substantially equal biweekly installments while Employee is employed by the Company.

(b) Incentive Compensation. While employed by the Company during the Period of Employment, the Employee shall continue to participate in such of the Company' s incentive compensation programs for executives as the Employee participated in prior to the commencement of the Period of Employment. Any amount awarded to the Employee under such programs shall be paid to Employee in accordance with the terms thereof.

5. Employee Benefits.

(a) Vacation and Sick Leave. The Employee shall be entitled during the Period of Employment to a paid annual vacation of not less than twenty (20) business days during each calendar year while employed by the Company and to reasonable sick leave.

(b) Regular Reimbursed Business Expenses. The Company shall reimburse the Employee for all expenses and disbursements reasonably incurred by the Employee in the performance of her duties during the Period of Employment.

(c) Employment Benefit Plans or Arrangements. While employed by the Company, Employee shall be entitled to participate in all employee benefit plans, programs, or arrangements (“Benefit Plans”) of the Company, in accordance with the terms thereof, as in effect from time to time, which provide benefits to senior executives of the Company. For purposes of this Agreement, Benefit Plans shall include, without limitation, any compensation plan such as an incentive, deferred, stock option or restricted stock plan, or any employee benefit plan such as a thrift, pension, profit sharing, pre-tax savings, medical, dental, disability, salary continuation, accident, life insurance plan, or a relocation plan or policy, or any other plan, program, or policy of the Company intended to benefit employees.

6. Termination of Employment.

(a) Termination by the Company for Cause or Termination by the Employee Other Than for Good Reason. If during the Period of Employment the Company terminates the employment of the Employee for Cause or if the Employee terminates her employment other than for Good Reason the Company shall pay the Employee (i) the Employee’ s Base Salary through the end of the month in which the Termination Date occurs, (ii) any incentive compensation payable to her pursuant to Section 4(b) hereof, including a pro rata share for any partial year, (iii) any accrued vacation pay, and (iv) benefits payable to her pursuant to the Company’ s Benefit Plans as provided in

Section 5(c) hereof through the end of the month in which the Termination Date occurs. The amounts and benefits set forth in clauses (i), (ii), (iii) and (iv) of the preceding sentence shall hereinafter be referred to as "Accrued Benefits."

(b) Termination by the Company Without Cause or by the Employee for Good Reason. If during the Period of Employment the Company terminates the Employee' s employment with the Company without Cause or the Employee terminates her employment with the Company for Good Reason, the Company will pay to Employee all Accrued Benefits and, in addition, pay or provide to the Employee the following:

- (i) within thirty (30) days after the date of termination, a lump sum equal to the greater of (A) the Employee' s Cash Compensation for the remainder of the Period of Employment or (B) two times the Employee' s Cash Compensation;

- (ii) for the greater of two years or the remainder of the Period of Employment immediately following the Employee' s date of termination, the Employee and Employee' s family shall continue to participate in any Benefit Plans of the Company (as defined in Section 5(c) hereof) in which Employee or Employee' s family participated at any time during the one-year period ending on the day immediately preceding Employee' s termination of employment, provided that (a) such continued participation is

possible under the terms of such Benefit Plans, and (b) the Employee continues to pay contributions for such participation at the rates paid for similar participation by active Company employees in similar positions to that held by the Employee immediately prior to the date of termination. If such continued participation is not possible, the Company shall provide, at its sole cost and expense, substantially identical benefits to the Employee plus pay an additional amount to the Employee equal to the Employee's liability for federal, state and local income taxes on any amounts includible in the Employee's income by virtue of the terms of this Section 6(b)(ii) so that Employee does not have to personally pay any federal, state and local income taxes by virtue of the terms of this Section 6(b)(ii);

- (iii) three additional years of service credit under the Company's Non-Qualified Plans and, for purposes of such plans, Employee's final average pay shall be deemed to be her Cash Compensation for the year in which the date of termination occurs;
- (iv) the Company shall take all reasonable actions to cause any Company restricted stock ("Restricted Stock") granted to Employee to become fully vested and any options to purchase Company stock

("Options") granted to Employee to become fully exercisable, and in the event the Company cannot effect such vesting or acceleration within sixty (60) days, the Company shall pay within thirty (30) days thereafter to Employee (i) with respect to each Option, an amount equal to the product of (x) the number of unvested shares subject to such Option, multiplied by (y) the excess of the fair market value of such a share of Company common stock on the date of Employee' s termination of employment, over the per share exercise price of such Option and (ii) with respect to each unvested share of Restricted Stock an amount equal to the fair market value of such a share of Company common stock on the date of Employee' s termination of employment.

Except as provided in the following sentence, the amounts payable to the Employee under this Section 6(b) shall be absolutely owing and shall not be subject to reduction or mitigation as a result of employment of the Employee elsewhere after the date of termination. Notwithstanding any provision herein to the contrary, the benefits described in clauses (i), (ii) and (iii) of this Section 6(b) shall only be payable with respect to the period ending upon the earlier of (i) the end of the period specified in each such clause or (ii) Employee' s attainment of age 65.

7. Gross-Up. In the event any amounts due to the Employee under this Agreement after a Change in Control, under the terms of any Benefit Plan, or otherwise payable by the Company or an affiliate of the Company are subject to excise taxes under Section 4999 of the Internal Revenue Code of 1986, as amended (“Excise Taxes”), the Company shall pay to the Employee, in addition to any other payments due under other provisions of this Agreement, an amount equal to the amount of such Excise Taxes plus the amount of any federal, state and local income or other taxes and Excise Taxes attributable to all amounts, including income taxes, payable under this Section 7, so that after payment of all income, Excise and other taxes with respect to the amounts due to the Employee under this Agreement, the Employee will retain the same net after tax amount with respect to such payments as if no Excise Taxes had been imposed.

8. Governing Law. This Agreement is governed by, and is to be construed and enforced in accordance with, the laws of the State of Connecticut. If under such laws any portion of this Agreement is at any time deemed to be in conflict with any applicable statute, rule, regulation, or ordinance, such portion shall be deemed to be modified or altered to conform thereto or, if that is not possible, to be omitted from this Agreement, and the invalidity of any such portion shall not affect the force, effect, and validity of the remaining portion hereof.

9. Notices. All notices under this Agreement shall be in writing and shall be deemed effective when delivered in person

(in the Company's case, to its Secretary) or seventy-two (72) hours after deposit thereof in the U.S. mail, postage prepaid, for delivery as registered or certified mail – addressed, in the case of the Employee, to the Employee at Employee' s residential address, and in the case of the Company, to its corporate headquarters, attention of the Secretary, or to such other address as the Employee or the Company may designate in writing at any time or from time to time to the other party. In lieu of personal notice or notice by deposit in the U.S. mail, a party may give notice by telegram, fax or telex.

10. Miscellaneous. This Agreement may be amended only by a subsequent written agreement of the Employee and the Company. This Agreement shall be binding upon and shall inure to the benefit of the Employee, the Employee' s heirs, executors, administrators, beneficiaries, and assigns and to the benefit of the Company and its successors. Notwithstanding anything in this Agreement to the contrary, nothing herein shall prevent or interfere with the ability of the Company to terminate the employment of the Employee prior to a Change in Control nor be construed to entitle Employee to be continued in employment prior to a Change in Control and this Agreement shall terminate if Employee or the Company terminates Employee' s employment prior to a Change in Control. Similarly, nothing herein shall prevent the Employee from retiring under any of the Company' s retirement plans and receiving the corresponding benefits thereunder consistent with the treatment of other Company employees.

11. Fees and Expenses. The Company shall pay all reasonable legal fees and related expenses incurred by the Employee in connection with this Agreement following a Change in Control of the Company, including without limitation, all such fees and expenses, if any, incurred in connection with (i) contesting or disputing any termination of the Employee' s employment hereunder, or (ii) the Employee seeking to obtain or enforce any right or benefit provided by the Agreement.

12. Arbitration. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in Connecticut by three arbitrators in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator' s award in any court having jurisdiction; provided, however, that the Employee shall be entitled to be paid as if her employment continued during the pendency of any dispute or controversy arising under or in connection with this Agreement. The Company shall bear all costs and expenses arising in connection with any arbitration pursuant to this Section 12.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the year and day first above written.

PE CORPORATION

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

ATTEST:

By: /s/ William B. Sawch  
William B. Sawch  
Senior Vice President and  
General Counsel

ACCEPTED AND AGREED:

/s/ Barbara J. Kerr  
Barbara J. Kerr

EMPLOYMENT AGREEMENT

AGREEMENT entered into as of December 2, 1996, between THE PERKIN-ELMER CORPORATION, a New York corporation having its principal place of business at Norwalk, Connecticut (the "Company") and Ugo D. DeBlasi, residing at 14 Spinning Wheel Lane, Stamford, CT 06903 (the "Employee").

WHEREAS, the Employee has rendered and/or will render valuable services to the Company and it is regarded essential by the Company that it have the benefit of Employee's services in future years; and

WHEREAS, the Board of Directors of the Company believes that it is essential that, in the event of the possibility of a Change in Control of the Company (as defined herein), the Employee be able to continue his attention and dedication to his duties and to assess and advise the Board of Directors of the Company (the "Board") whether such proposals would be in the best interest of the Company and its shareholders without distraction regarding any uncertainty concerning his future with the Company; and

WHEREAS, the Employee is willing to agree to continue to serve the Company in the future;

NOW, THEREFORE, it is mutually agreed as follows:

1. Employment. The Company agrees to employ Employee, and the Employee agrees to serve as an employee of the Company or one or more of its subsidiaries after a Change of Control during the Period of Employment (as those terms are defined in Section 2

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hereof) in such executive capacity as Employee served immediately prior to the Change in Control which caused the commencement of the Period of Employment. The Employee also agrees to serve during the Period of Employment, if elected or appointed thereto, as a Director of the Board of Directors of the Company and as a member of any committee of the Board of Directors. Notwithstanding anything to the contrary herein, the Period of Employment shall not commence and the Employee shall not be entitled to any rights, benefits, or payments hereunder unless and until a Change in Control has occurred.

2. Definitions.

(a) Cause. During the Period of Employment, "Cause" means termination upon (i) the willful and continued failure by the Employee to perform substantially his duties with the Company (other than any such failure resulting from the Employee's incapacity due to physical or mental illness) after a demand for a substantial performance is delivered to the Employee by the Chief Executive Officer of the Company ("CEO") which specifically identifies the manner in which the CEO believes that the Employee has not substantially performed his duties, or (ii) the willful engaging by the Employee in illegal conduct which is materially and demonstrably injurious to the Company. For purposes of this Section 2(a), no act, or failure to act, on the part of the Employee shall be considered "willful" unless done, or omitted to be done, by the Employee in bad faith and without reasonable belief that the Employee's action or omission was in, or not

opposed to, the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Employee in good faith and in the best interests of the Company. Notwithstanding the foregoing, the Employee shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to the Employee a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the entire membership of the Board at a meeting of the Board called and held for that purpose (after reasonable notice to the Employee and an opportunity for him, together with counsel, to be heard before the Board), finding that in the good faith opinion of the Board the Employee was guilty of the conduct set forth above in (i) or (ii) of this Section 2(a) and specifying the particulars thereof in detail.

(b) Cash Compensation. "Cash Compensation" shall mean the sum of (i) Employee's Base Salary (determined in accordance with the provisions of Section 4(a) hereof) and (ii) Executive's incentive compensation (provided for under Section 4(b) hereof), which shall be an amount equal to the greatest of (x) the average of the amount of Employee's incentive compensation for the last three completed fiscal years immediately prior to the Employee's termination of employment (whether or not such years occurred during the Period of Employment), (y) the target amount of such

Employee's incentive compensation for the fiscal year in which his termination of employment occurs or (z) the Employee's target amount for the fiscal year in which the Change in Control occurs.

(c) Change in Control. "Change in Control" means the occurrence of any of the following: 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 date hereof, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934; provided, however, that, without limitation, such a Change in Control shall be deemed to have occurred at such time as (i) any "person" within the meaning of Section 14(d) of the Securities Exchange Act of 1934 becomes the "beneficial owner" as defined in Rule 13d-3 thereunder, directly or indirectly, of more than 25% of the Company's Common Stock; (ii) during any two-year period, individuals who constitute the Board of Directors of the Company (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) shall be, for purposes of this clause (ii), considered as though such person were a member of the Incumbent Board; or (iii) the

approval by the Company's stockholders of the sale of all or substantially all of the stock or assets of the Company.

(d) Disability. "Disability" means the absence of the Employee from his duties with the Company on a full-time basis for one hundred eighty (180) consecutive days as a result of incapacity due to physical or mental illness.

(e) Good Reason. During the Period of Employment, "Good Reason" means:

(i) an adverse change in the status of the Employee (other than any such change primarily attributable to the fact that the Company may no longer be publicly owned) or position(s) as an officer of the Company as in effect immediately prior to the Change in Control or the assignment to the Employee of any duties or responsibilities which, in his reasonable judgment, are inconsistent with such status or position(s), or any removal of the Employee from or any failure to reappoint or reelect him to such position(s) (except in connection with the termination of the Employee's employment for Cause, Disability, or upon attaining age 65 or upon taking early retirement under any of the Company's retirement plans, or as a result of death or by the Employee other than for Good Reason);

(ii) a reduction by the Company after a Change in Control in the Employee's Base Salary;

(iii) a material reduction after a Change in Control in the Employee's total annual compensation; provided, however, that for these purposes a reduction for any year of over 10% of

total compensation measured by the preceding year without a substantially similar reduction to all other executives participating in incentive compensation plans shall be considered "material"; and the failure of the Company to adopt or renew a stock option plan or to grant amounts of restricted stock or stock options, which are consistent with the Company's prior practices, to the Employee shall also be considered a material reduction, unless the Employee participates in substitute programs that provide substantially equivalent economic value to the Employee;

(iv) the failure by the Company to continue in effect any Benefit Plan (as hereinafter defined) in which Employee was participating at the time of the Change in Control (or Benefit Plans providing Employee with at least substantially similar benefits) other than as a result of the normal expiration of any such Benefit Plan in accordance with its terms as in effect at the time of the Change in Control, or the taking of any action, or the failure to act, by the Company which would adversely affect Employee's continued participation in any such Benefit Plans on at least as favorable a basis to Employee as is the case immediately prior to the Change in Control or which would materially reduce Employee's benefits in the future under any of such Benefit Plans or deprive Employee of any material benefit enjoyed by Employee immediately prior to the Change in Control;

(v) the failure by the Company after a Change in Control to provide and credit Employee with the number of paid

vacation days to which Employee was then entitled in accordance with the Company's normal vacation policy as in effect immediately prior to the Change in Control; or

(vi) the Company's requiring the Employee after a Change in Control to be based more than fifty miles from the Employee's principal place of business immediately prior to the Change in Control except for required travel on the Company's business to an extent substantially consistent with the business travel obligations which he undertook on behalf of the Company prior to the Change in Control.

(f) Period of Employment. (i) "Period of Employment" means, subject to the provisions of Section 2(f)(ii), the period of thirty-six (36) months commencing on the date of a Change in Control (as defined in Section 2(c) hereof) and the period of any extension or extensions thereof in accordance with the terms of this Section. The Period of Employment shall be extended automatically by one week for each week in which the Employee's employment continues after the date of a Change in Control.

(ii) Notwithstanding the provisions of Section 2(f)(i) hereof, the Period of Employment shall terminate upon the occurrence of the earliest of (A) the Employee's attainment of age 65, or the election by the Employee to retire early from the Company under any of its retirement plans, (B) the death of the Employee, (C) the Disability of the Employee or (D) a termination of Employee's employment by the Company for Cause or by the Employee without Good Reason.

(g) Termination Date. "Termination Date" means the date on which the Period of Employment terminates.

3. Duties During the Period of Employment. While employed by the Company during the Period of Employment, the Employee shall devote his full business time, attention, and best efforts to the affairs of the Company and its subsidiaries; provided, however, that the Employee may engage in other activities, such as activities involving charitable, educational, religious, and similar types of organizations, speaking engagements, membership on the board of directors of other organizations, and similar types of activities to the extent that such other activities do not prohibit the performance of his duties under this Agreement, or inhibit or conflict in any material way with the business of the Company and its subsidiaries.

4. Current Cash Compensation.

(a) Base Salary. The Company will pay to the Employee while employed by the Company during the Period of Employment an annual base salary ("Base Salary") in an amount determined by the Board of Directors or its Compensation Committee which shall never be less than the greater of (i) the Employee's Base Salary prior to the commencement of the Period of Employment or (ii) his Base Salary during the preceding year of the Period of Employment; provided, however, that it is agreed between the parties that the Company shall review annually the Employee' s Base Salary, and in light of such review may, in the discretion

of the Board of Directors or its Compensation Committee, increase such Base Salary taking into account the Employee's responsibilities, inflation in the cost of living, increase in salaries of executives of other corporations, performance by the Employee, and other pertinent factors. The Base Salary shall be paid in substantially equal biweekly installments while Employee is employed by the Company.

(b) Incentive Compensation. While employed by the Company during the Period of Employment, the Employee shall continue to participate in such of the Company's incentive compensation programs for executives as the Employee participated in prior to the commencement of the Period of Employment. Any amount awarded to the Employee under such programs shall be paid to Employee in accordance with the terms thereof.

5. Employee Benefits.

(a) Vacation and Sick Leave. The Employee shall be entitled during the Period of Employment to a paid annual vacation of not less than twenty (20) business days during each calendar year while employed by the Company and to reasonable sick leave.

(b) Regular Reimbursed Business Expenses. The Company shall reimburse the Employee for all expenses and disbursements reasonably incurred by the Employee in the performance of his duties during the Period of Employment.

(c) Employment Benefit Plans or Arrangements. While employed by the Company, Employee shall be entitled to

participate in all employee benefit plans, programs, or arrangements ("Benefit Plans") of the Company, in accordance with the terms thereof, as in effect from time to time, which provide benefits to senior executives of the Company. For purposes of this Agreement, Benefit Plans shall include, without limitation, any compensation plan such as an incentive, deferred, stock option or restricted stock plan, or any employee benefit plan such as a thrift, pension, profit sharing, pre-tax savings, medical, dental, disability, salary continuation, accident, life insurance plan, or a relocation plan or policy, or any other plan, program, or policy of the Company intended to benefit employees.

6. Termination of Employment.

(a) Termination by the Company for Cause or Termination by the Employee Other Than for Good Reason. If during the Period of Employment the Company terminates the employment of the Employee for Cause or if the Employee terminates his employment other than for Good Reason the Company shall pay the Employee (i) the Employee's Base Salary through the end of the month in which the Termination Date occurs, (ii) any incentive compensation payable to him pursuant to Section 4(b) hereof, including a pro rata share for any partial year, (iii) any accrued vacation pay, and (iv) benefits payable to him pursuant to the Company's Benefit Plans as provided in Section 5(c) hereof through the end of the month in which the Termination Date occurs. The amounts and benefits set forth in clauses (i),

(ii), (iii) and (iv) of the preceding sentence shall hereinafter be referred to as "Accrued Benefits."

(b) Termination by the Company Without Cause or by the Employee for Good Reason. If during the Period of Employment the Company terminates the Employee's employment with the Company without Cause or the Employee terminates his employment with the Company for Good Reason, the Company will pay to Employee all Accrued Benefits and, in addition, pay or provide to the Employee the following:

- (i) within thirty (30) days after the date of termination, a lump sum equal to the greater of (A) the Employee's Cash Compensation for the remainder of the Period of Employment or (B) two times the Employee's Cash Compensation;

for the greater of two years or the remainder of the Period of Employment immediately following the Employee's date of termination, the Employee and Employee's family shall continue to participate in any Benefit Plans of the Company (as defined in Section 5(c)

- (ii) hereof) in which Employee or Employee's family participated at any time during the one-year period ending on the day immediately preceding Employee's termination of employment, provided that (a) such continued participation is possible under the terms of such Benefit Plans, and (b) the Employee continues to pay contributions for

such participation at the rates paid for similar participation by active Company employees in similar positions to that held by the Employee immediately prior to the date of termination. If such continued participation is not possible, the Company shall provide, at its sole cost and expense, substantially identical benefits to the Employee plus pay an additional amount to the Employee equal to the Employee's liability for federal, state and local income taxes on any amounts includible in the Employee's income by virtue of the terms of this Section 6(b)(ii) so that Employee does not have to personally pay any federal, state and local income taxes by virtue of the terms of this Section 6(b)(ii);

(iii) three additional years of service credit under the Company's Non-Qualified Plans and, for purposes of such plans, Employee's final average pay shall be deemed to be his Cash Compensation for the year in which the date of termination occurs;

(iv) the Company shall take all reasonable actions to cause any Company restricted stock ("Restricted Stock") granted to Employee to become fully vested and any options to purchase Company stock ("Options") granted to Employee to become fully exercisable, and in the event the Company cannot

effect such vesting or acceleration within sixty (60) days, the Company shall pay within thirty (30) days thereafter to Employee (i) with respect to each Option, an amount equal to the product of (x) the number of unvested shares subject to such Option, multiplied by (y) the excess of the fair market value of a share of Company common stock on the date of Employee's termination of employment, over the per share exercise price of such Option and (ii) with respect to each unvested share of Restricted Stock an amount equal to the fair market value of a share of Company common stock on the date of Employee's termination of employment.

Except as provided in the following sentence, the amounts payable to the Employee under this Section 6(b) shall be absolutely owing and shall not be subject to reduction or mitigation as a result of employment of the Employee elsewhere after the date of termination. Notwithstanding any provision herein to the contrary, the benefits described in clauses (i), (ii) and (iii) of this Section 6(b) shall only be payable with respect to the period ending upon the earlier of (i) the end of the period specified in each such clause or (ii) Employee's attainment of age 65.

7. Gross-Up. In the event any amounts due to the Employee under this Agreement after a Change in Control, under the terms of any Benefit Plan, or otherwise payable by the

Company or an affiliate of the Company are subject to excise taxes under Section 4999 of the Internal Revenue Code of 1986, as amended ("Excise Taxes"), the Company shall pay to the Employee, in addition to any other payments due under other provisions of this Agreement, an amount equal to the amount of such Excise Taxes plus the amount of any federal, state and local income or other taxes and Excise Taxes attributable to all amounts, including income taxes, payable under this Section 7, so that after payment of all income, Excise and other taxes with respect to the amounts due to the Employee under this Agreement, the Employee will retain the same net after tax amount with respect to such payments as if no Excise Taxes had been imposed.

8. Governing Law. This Agreement is governed by, and is to be construed and enforced in accordance with, the laws of the State of Connecticut. If under such laws any portion of this Agreement is at any time deemed to be in conflict with any applicable statute, rule, regulation, or ordinance, such portion shall be deemed to be modified or altered to conform thereto or, if that is not possible, to be omitted from this Agreement, and the invalidity of any such portion shall not affect the force, effect, and validity of the remaining portion hereof.

9. Notices. All notices under this Agreement shall be in writing and shall be deemed effective when delivered in person (in the Company's case, to its Secretary) or seventy-two (72) hours after deposit thereof in the U.S. mail, postage prepaid, for delivery as registered or certified mail – addressed, in the

case of the Employee, to the Employee at Employee's residential address, and in the case of the Company, to its corporate headquarters, attention of the Secretary, or to such other address as the Employee or the Company may designate in writing at any time or from time to time to the other party. In lieu of personal notice or notice by deposit in the U.S. mail, a party may give notice by telegram, fax or telex.

10. Miscellaneous. This Agreement may be amended only by a subsequent written agreement of the Employee and the Company. This Agreement shall be binding upon and shall inure to the benefit of the Employee, the Employee's heirs, executors, administrators, beneficiaries, and assigns and to the benefit of the Company and its successors. Notwithstanding anything in this Agreement to the contrary, nothing herein shall prevent or interfere with the ability of the Company to terminate the employment of the Employee prior to a Change in Control nor be construed to entitle Employee to be continued in employment prior to a Change in Control and this Agreement shall terminate if Employee or the Company terminates Employee's employment prior to a Change in Control. Similarly, nothing herein shall prevent the Employee from retiring under any of the Company's retirement plans and receiving the corresponding benefits thereunder consistent with the treatment of other Company employees.

11. Fees and Expenses. The Company shall pay all reasonable legal fees and related expenses incurred by the Employee in connection with this Agreement following a Change in

Control of the Company, including without limitation, all such fees and expenses, if any, incurred in connection with: (i) contesting or disputing, any termination of the Employee's employment hereunder; or (ii) the Employee seeking to obtain or enforce any right or benefit provided by the Agreement.

12. Arbitration. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in Connecticut by three arbitrators in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that the Employee shall be entitled to be paid as if his or her employment continued during the pendency of any dispute or controversy arising under or in connection with this Agreement. The Company shall bear all costs and expenses arising in connection with any arbitration pursuant to this Section 12.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the year and day first above written.

THE PERKIN-ELMER CORPORATION

By: /s/ Tony L. White

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Tony L. White  
Chairman, President and  
Chief Executive Officer

ATTEST:

By: /s/ William B. Sawch

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William B. Sawch  
Vice President  
General Counsel & Secretary

ACCEPTED AND AGREED:

/s/ Ugo D. DeBlasi



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## APPLERA CORPORATION

consists of the following businesses:

### **Applied Biosystems**

Applied Biosystems serves the life science industry a

### **Celera Genomics**

Celera Genomics is discovering and developing targ

### **Celera Diagnostics**

Celera Diagnostics, a joint venture between Applied

Applera Corporation has two classes of common stock. Applera C



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## LETTER to Stockholders

**DEAR STOCKHOLDERS,** From biosecurity to cancer diagnosis, the molecular analysis technologies in which Applera is a global leader are expanding beyond their traditional applications in biological research. This expansion, a trend for which we have been planning for several years, is bringing new products and insights to bear on some of society's most vexing problems, while providing new avenues to increase value for Applera stockholders.

In this annual report, we highlight ways in which Applera technologies are helping to advance science and touch lives. Consider the following examples from fiscal 2005:

- Celera Genomics used its powerful proteomics discovery platform to discover and validate additional novel targets for potential cancer drugs, and moved its lead oncology drug candidate into Phase I clinical trials.
- Celera Diagnostics published promising findings from its genetic discoveries program in cardiovascular disease, progressive liver disease, autoimmune disease, and breast cancer. These discoveries, including genetic risk for disease or likelihood of drug response, may help in the development of new targeted diagnostics and therapeutics.
- Applied Biosystems provided customers with innovative products, including reagents employed by the United States Postal Service to detect weapons-grade anthrax spores and four new mass spectrometers introduced to proteomics and pharmaceutical customers for facilitating the evaluation of proteins and drug metabolism and toxicity.

Discoveries enabled by Applied Biosystems and being made at Celera Genomics and Celera Diagnostics could lead to “smarter” methods of preventing, diagnosing, monitoring and treating major diseases. Central to our work is our vision of Targeted Medicine, in which diagnostic tests are paired with targeted therapeutics to improve patient outcomes - an approach based on our growing understanding of human biology and the relationship between human genetic variation and disease. In another example of how we are moving Applera technologies beyond the research lab, Applied Biosystems has formed

an Applied Markets division to focus dedicated resources on emerging opportunities such as biosecurity and quality and safety testing, in addition to forensic DNA analysis, an application of DNA sequencing technology where Applied Biosystems is already the market leader. We believe the expansion of our technologies to new markets is key to Applera's ongoing leadership and success.





CELERA GENOMICS is creating value by advancing its proteomics and small molecule drug discovery and development programs. The proteomics-based target discovery program has been highly productive. Initially focused on identifying cell surface proteins associated with cancer, this platform is now also being used to discover proteins that are shed or secreted from tumor cells. These shed or secreted proteins are being evaluated as another source of targets for cancer drugs that could be developed internally or through new external alliances. They could also enable the development of diagnostic and pharmacogenomic markers.

Current proteomics-based collaborations with Abbott Laboratories and Seattle Genetics are aimed at creating new targeted cancer therapeutics from validated targets supplied by Celera Genomics. Seattle Genetics selected one, and Abbott selected two Celera-identified antigen targets for further investigation. In addition, Genentech initiated an agreement to develop antibody, protein or small molecule cancer drugs against therapeutic targets licensed from Celera Genomics. These therapeutic alliances, along with a collaboration with General Electric to develop diagnostic imaging agents, serve to diversify risk and broaden opportunities for potential downstream value for Celera Genomics.

In the small molecule area, Celera Genomics has recently initiated Phase I clinical trials for its novel HDAC inhibitor. This achievement points to the maturation of Celera's small molecule capability to the point where new opportunities for partnering and value creation are under consideration. Celera Genomics' pipeline includes compounds in preclinical development for the treatment of allergic asthma, psoriasis, rheumatoid arthritis, thrombotic disorders, and for a number of cancer targets. In addition, Celera Genomics is working closely with Celera Diagnostics to advance programs in psoriasis and rheumatoid arthritis and to couple its drug candidates with diagnostic assays that could predict patient outcome.

By the end of fiscal 2005, Celera Genomics substantially discontinued its Online/Information business in order to concentrate on drug discovery and development. With cash resources and short-term securities of \$668 million as Celera Genomics began fiscal 2006, it intends to focus its efforts on its most promising opportunities while carefully managing its use of cash by seeking partners for selected assets. Celera Genomics has the staying power to leverage its most promising assets and create additional value for stockholders.





CELERA DIAGNOSTICS is moving its discoveries toward the market while continuing its positive business performance. With its collaborators and clinical partners, in fiscal 2005 Celera Diagnostics conducted several medical utility studies demonstrating the potential usefulness of its novel genetic markers to predict disease risk or progression and response to therapy. Findings in probable risks for myocardial infarction and breast cancer metastasis are particularly promising and are being prepared by collaborators for publication. At the same time, Celera Diagnostics is transferring technology related to these markers to its clinical laboratory partners for potential commercialization. In addition, Celera Diagnostics scientists have identified markers that may help pinpoint individuals most likely to benefit from statin therapy. Discoveries such as these could potentially benefit countless patients.

In fiscal 2005, Celera Diagnostics continued to report strong sales growth and a trend toward profitability. Total end-user sales for all products sold through its strategic alliance with Abbott Laboratories increased 34 percent to \$61.7 million. This increase was due to increased sales of analyte specific reagents (ASRs) for hepatitis C virus genotyping and viral load, HLA products, and our FDA-cleared ViroSeq™ HIV-1 Genotyping System. Importantly, net losses at Celera Diagnostics declined to \$29.9 million in fiscal 2005 from \$42 million in fiscal 2004, while cash used in the business dropped to \$32.1 million from \$43.3 million.

In fiscal 2006, Celera Diagnostics anticipates further increases in sales from products offered through the Abbott alliance. New products are expected to include analyte specific reagents for detecting mutations that have been associated with Fragile X, the leading cause of mental retardation in children. Additionally, Abbott has recently introduced a new *in vitro* diagnostic system, the Abbott *m2000*™ system, developed with real-time PCR technology from Applied Biosystems. Infectious disease assays developed by Celera Diagnostics and Abbott that run on this novel system have received regulatory clearance in Europe. On pages 6 and 7, Kathy Ordoñez, President of Celera Genomics and Celera Diagnostics, discusses these businesses in greater detail.

APPLIED BIOSYSTEMS generated earnings before interest and taxes of \$283.3 million during fiscal 2005, a 24 percent increase over the prior year. Higher profits and careful working capital management contributed to \$334 million in operating cash flow. These results were achieved on a 3 percent increase in revenues. Cathy Burzik, president of Applied Biosystems, comments in more detail on Applied Biosystems' 2005 performance, 2006 priorities, and strategies for growth on pages 12 and 13.



Applied Biosystems and other providers of life science technology continue to face a dynamic business environment that offers both challenges and opportunities. Academic researchers are experiencing no-growth to low-growth budgets in the U.S., Western Europe, and Japan, as governments confront other budget priorities. Conversely, U.S. funding related to biothreat detection and forensic DNA science is rising rapidly, as is demand, particularly outside the U.S., for more sensitive and faster detection technologies for food safety and water quality testing. In the pharmaceutical industry, research and development spending, while increasing at single-digit rates, is constrained by slowing sales growth due to patent expirations and a dearth of new drugs. On the other hand, there is increasing interest from both the academic and pharmaceutical sectors in what is known as medical sequencing or resequencing - an application aimed at identifying genetic variation patterns relative to disease states, with the goal of better matching drugs to individual genetic makeup. In support of this and other targeted medicine approaches, in 2004 the U.S. Food and Drug Administration published pharmacogenomic guidelines for use in drug development.

The number-one goal for Applied Biosystems is to achieve stronger revenue growth, while increasing earnings at a commensurate or higher rate. To that end, the Group is making considerable progress implementing the following priority initiatives:

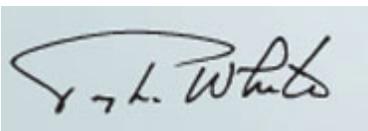
- The new divisional organizational structure adopted at the beginning of fiscal 2005 is providing better transparency about market trends and opportunities, clearer resource allocation, and better accountability. Each of the four new divisions has profit and loss responsibility and dedicated sales, R&D, manufacturing and marketing teams. A number of management appointments and changes were made in support of the new structure.
- The R&D portfolio has been realigned with a mixture of near- and longer-term investments. A noteworthy change in fiscal 2005 was the integration of the Group's MALDI TOF product line into the Applied Biosystems/MDS Sciex instruments joint venture with MDS Inc. The R&D alignment should improve efficiency and quality and lead to lower reported R&D spending as a percent of sales in fiscal 2006.





- Increasing sales of consumable products for gene expression, genotyping and other molecular biology applications is a strategic priority, and the North American field sales and service organization is being expanded to support this initiative.
- Business re-engineering programs new to Applied Biosystems are increasing operational efficiency and quality. Process Excellence techniques such as lean manufacturing and Six Sigma are eliminating unnecessary costs and process variability. The product commercialization process has been redesigned for faster cycle time and a sharpened focus on customer and market needs.
- Applied Biosystems will manage an expanded licensing program in core and real-time PCR reagents that should substantially mitigate the expiration of foundational PCR patents in fiscal years 2005-2006. Agreement on such a licensing program was a key element of the May 2005 settlement with Hoffmann-La Roche Ltd. resolving litigation and arbitration over the rights to and commercialization of core and real-time PCR.
- Beyond actions to drive higher organic growth, Applied Biosystems is evaluating external opportunities including collaborations and acquisitions to augment the Group's product portfolio and market presence. Applied Biosystems has many assets to leverage via external initiatives, including the breadth and depth of its scientific knowledge, strong channel relationships, a respected brand, and a balance sheet with \$756 million in cash and cash equivalents and zero debt at the start of fiscal 2006.

The accomplishments of the Applera businesses in fiscal 2005 accelerated momentum toward our goals of expanding Applera technologies to new markets and enabling and making discoveries to transform medicine, thereby creating value for society and our stockholders. We have strengthened our scientific assets, financial position, and management expertise, as well as our resolve to continue to lead the way in realizing the promise of genomics and Targeted Medicine. In closing, I would like to thank the Applera team around the world for their vision, dedication, and support, which has been and will continue to be key to our success.



Tony L. White

Chairman, President and Chief Executive Officer  
Applera Corporation



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## INTERVIEW with Kathy Ordoñez

### CELERA GENOMICS

**Q}** What competitive advantages does Celera Genomics have in its proteomics discovery platform, and how do these contribute value to Celera?

A} Our industrial-scale proteomics discovery platform employs techniques that allow for higher throughput and efficiency compared to conventional methods. This platform has allowed us to identify and measure the level of hundreds of proteins that are over-expressed on the surface of cancer cells and not on normal cells. These cell surface proteins may represent promising targets for the development of antibody or small molecule drugs. To date, we have initiated three internal oncology research projects based on our proteomics findings and established three therapeutic alliances focused on converting our discoveries into new, targeted therapies for cancer. We believe these collaborations diversify our risk and increase our opportunities for potential downstream value.

**Q}** Building on this initial work, what is next for Celera's proteomics discovery program?

A} Our discovery work to date has focused on cancer indications with significant unmet needs, including pancreatic, lung, colon, breast, kidney, and gastric cancer. These efforts continue to identify significant numbers of novel proteins as we move forward. Additionally, in the past year, we initiated a new program to identify protein biomarkers in serum or tissue that could have diagnostic as well as therapeutic utility. We are also studying the applicability of our proteomics platform for diabetes and obesity.

**Q}** How does your Phase I histone deacetylase (HDAC) inhibitor work as an anti-tumor compound, and what competitive advantage does it have?

A} Our own studies and published reports have shown that inhibition of HDAC enzymes can reduce the proliferation of cancer cells and induce tumor cell death. As an important step in designing our novel HDAC inhibitors, we published the first three-dimensional structure of an HDAC enzyme in July 2004. In April 2005, we presented data showing significant anti-tumor activity of our lead HDAC inhibitor candidate in animal models of human cancers and reported the identification of potential biomarkers of efficacy.

**Q}** What is the status of other compounds in your small molecule portfolio?

A} Our other small-molecule compounds in preclinical development are in the areas of cancer, autoimmune disorders, and inflammation. Our most advanced preclinical programs are a back-up HDAC inhibitor and an inhibitor of the

enzyme Cathepsin S for treating psoriasis. Programs in lead optimization include a kinase inhibitor program that resulted from disease association studies in rheumatoid arthritis, two antiviral programs, a tryptase inhibitor program for treating allergic asthma, and a novel variant HDAC inhibitor, which may be more selective in its mechanism of action in targeting cancer. Now that our pipeline is more mature, we are exploring partnering opportunities for several of these assets as a way to manage risk.





## CELERA DIAGNOSTICS

**Q } What is at the core of Celera Diagnostics' strategy for diagnostics?**

A} We are pursuing three avenues of product development to create a new generation of diagnostic tests for improving the prediction, detection, monitoring and treatment of disease. First, we are conducting large-scale genetic discoveries programs to identify and validate new markers associated with complex diseases for the development of new molecular diagnostic products. Second, we are developing new products based on existing markers, such as improved means for detecting Fragile X, expected to be introduced in the coming year. Third, we are evaluating the diagnostic potential of markers emerging from Celera Genomics' proteomics discovery program.

**Q } How do you see the new Abbott *m2000*<sup>TM</sup> system contributing to the molecular diagnostics field?**

A} Clinical laboratories are beginning to transition from traditional PCR-based tests to real-time PCR tests that provide more sensitive, accurate and reproducible results. Developed by Celera Diagnostics and Abbott, the new Abbott *m2000*<sup>TM</sup> system is a highly automated, easy-to-use *in vitro* molecular diagnostic system that employs technology from Applied Biosystems, the leader in real-time PCR. We already have tests for use on this new system to monitor HIV-1 and HCV viral loads that recently received regulatory approval in Europe. We have plans to develop a broad range of other tests for use on this system.

**Q } What products were the most significant contributors to Celera Diagnostics' growth in fiscal 2005 and why?**

A} The largest contributors in fiscal 2005 were our new analyte specific reagents (ASRs) for the hepatitis C virus, for viral load and genotyping; our ASRs for cystic fibrosis, and our ViroSeq<sup>TM</sup> HIV-1 Genotyping System for determining drug resistance. All of these products are offered through our strategic alliance with Abbott.

**Q } Can you provide an example of how Celera Genomics and Celera Diagnostics are collaborating to leverage their synergistic capabilities?**

A} Guided by their shared vision of Targeted Medicine, Celera Genomics and Celera Diagnostics are collaborating to explore both the diagnostic and therapeutic potential of the markers emerging from their genetic and proteomic discovery programs. In the case of psoriasis, for example, scientists from both organizations are working to identify markers that can be used to predict disease predisposition and progression, to monitor the efficacy of clinical trials, and to provide a targeted therapy that will treat the specific cause of the disease.



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## Discovering New Drug Targets







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## Unraveling Heart Attack Risk



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JOHN KANE, M.D., PH.D., PROFESSOR OF MEDICINE AND BIOCHEMISTRY, AND ASSOCIATE DIRECTOR OF THE CARDIOVASCULAR RESEARCH INSTITUTE AT THE UNIVERSITY OF CALIFORNIA, SAN FRANCISCO (UCSF), IS A COLLABORATOR WITH CELERA DIAGNOSTICS ON THE DISCOVERY AND EVALUATION OF NEW GENETIC MARKERS THAT MAY BE USEFUL IN PREDICTING A GENETIC RISK FOR CARDIOVASCULAR DISEASE AND IN POINTING THE WAY TO NEW TREATMENTS. STATES DR. KANE, *“The power of the scientific dialogue between the scientists at Celera Diagnostics and UCSF is driving discovery in major disease areas, such as heart attack, stroke and coronary artery disease.”*



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## INTERVIEW with Cathy Burzik

### APPLIED BIOSYSTEMS

**Q}** What priorities did you set for fiscal 2005, your first year as president of Applied Biosystems, and what are your priorities in fiscal 2006?

**A}** My priorities for fiscal 2005 grew out of the extensive strategic and operational review that commenced during the preceding fiscal year and had as its goal to identify opportunities for greater growth and operational efficiency. I established five new programs, including: 1) Customers First, for reinforcing a customer-focused culture; 2) Innovation, for developing next-generation technologies and identifying and funding new business opportunities; 3) Flawless Execution, for enhancing our product planning, product launch and other business processes using proven Process Excellence programs; for creating a more robust e-commerce and genomics data portal; and for executing on key products in development; 4) Organizational Excellence, for driving alignment of strategies and goals throughout our new divisional organizational structure; and 5) Financial Performance, for meeting or exceeding our financial targets. In fiscal 2006, these programs, as well as a number of new initiatives, will play an essential role as we pursue our topmost objective - to reignite revenue growth and build stockholder value.

**Q}** What is the strategy to increase revenue growth over the next several years?

**A}** The steps we are taking include investment to grow in the applied markets, molecular biology consumables, real-time PCR and mass spectrometry. An exciting new growth area is in clinical research leading to diagnostics, where our DNA analysis systems are playing a critical role by enabling medical sequencing of specific genes. We are also exploring growth opportunities in new markets, such as cell biology, and geographical expansion into China and India. Additionally, to complement our efforts to spur organic growth we are exploring a number of collaboration and acquisition opportunities in existing and adjacent markets. (See product chart on the next page for product category revenue trends).

**Q}** Revenues from DNA Sequencing peaked in fiscal 2003. What is the outlook for this product category?

**A}** Medical sequencing, also called resequencing - the sequencing of specific genes in many samples to find the genetic basis of disease and individual drug response - as well as a range of other genetic applications such as forensics, has fueled increased demand for low- to medium-throughput systems. In contrast, the large genome centers and core laboratories at universities and

pharmaceutical companies generally now have adequate capacity for their work after many purchased our highest-throughput Genetic Analyzers, the 3730 and 3730xl models, over the last three years. Going forward, we will continue to create sequencing products for the low- to medium-throughput segment of the market, develop additional applications for our installed base of sequencers, and invest in new sequencing technologies that have potential to deliver dramatic gains in price performance to both large and smaller labs.



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**Q} Which individual products performed best in fiscal 2005?**

**A} Our strongest sales came from products in the functional genomics, applied markets, and mass spectrometry categories. In addition to our 3130 line of low-to medium-throughput Genetic Analyzers, strong performers in functional genomics included our gold-standard Real-Time PCR Systems and TaqMan® assays for gene expression, SNP genotyping and applied markets applications. Mass spectrometry sales were led by our API 4000™ LC/MS/MS System used for small molecule studies, followed by our 4000 Q TRAP® System, for both proteomics and small molecules. In applied markets, human identification products continued to grow strongly, and sales of biosecurity products contributed significantly to revenues for the first time.**

**Q} What factors caused earnings to increase more rapidly than sales in fiscal 2005?**

**A} Earnings before interest and taxes increased 24 percent while revenues increased three percent. Earnings rose due to the net effect of foreign currency, operational efficiencies, an increase in gross margin, and gains from asset dispositions and legal settlements. We realize that acceleration of revenue growth is key going forward and are taking measures to reach that goal.**

**Q} You have recruited a number of new senior executives to Applied Biosystems. What are their backgrounds, and what skills and attributes are you promoting in the company?**

**A} We have added new executives experienced in managing multi-product businesses within large medical technology companies. These managers bring skills and attributes that are essential to the success of our new divisional strategy and structure, including an increased commercial orientation, strategic planning expertise, a results-driven approach, and strong leadership capabilities.**

**Q} Why have you decided to invest more in sales of consumable products?**

**A} We believe consumable products - chemical reagents and other disposables used in conjunction with our various instrument systems - represent an opportunity that we have not fully exploited. Sales of consumables were up 12 percent in fiscal 2005 compared to prior year. To support further growth in this revenue source, we are increasing our sales and field support personnel in North America, putting in place consumables-oriented marketing programs and developing a new web portal focused on making it easier to buy consumables from Applied Biosystems.**

**Q} How big an opportunity are the Applied Markets?**

A} Currently estimated at \$100 million or more, DNA forensics is an established and growing market in which Applied Biosystems has the leading position. Biosecurity and quality and safety testing represent large, barely-tapped opportunities for us. By establishing a dedicated Applied Markets division, we believe we now have the organization to expand aggressively in these fields. In biosecurity, our TaqMan® chemistry for anthrax-detection, through a collaboration agreement with Cepheid Corporation, has been deployed by the U.S. Postal Service, while our Real-Time PCR and mass spectrometry instruments are getting wider adoption in food, beverage and environmental testing and in pharmaceutical quality control. To read more about these opportunities, please see pages 16-17.



## Understanding Blindness











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## Solving Crimes



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DEBBIE SMITH, KIDNAPPED AND RAPED IN 1989, HAD TO WAIT MORE THAN SIX YEARS BEFORE HER PERPETRATOR WAS IDENTIFIED THROUGH A DNA DATABASE. ANXIOUS TO HELP OTHER VICTIMS DEVASTATED BY SEXUAL VIOLENCE, SHE BECAME AN ADVOCATE FOR THE USE OF DNA-MATCHING TECHNOLOGY. AS A RESULT, THE DEBBIE SMITH ACT WAS SIGNED INTO LAW BY PRESIDENT BUSH AS PART OF THE JUSTICE FOR ALL ACT OF 2004. SAYS DEBBIE, *“There are as many as 170,000 rape samples waiting to be analyzed - each representing a woman living in fear. DNA testing can give these women back their futures.”*



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## Selected Consolidating Financial Data

## Aplera Corporation

(Dollar amounts in thousands except per share amounts)

Fiscal years ended June 30,	2001	2002	2003	2004	2005
<b>Financial Operations</b>					
Net revenues					
Applied Biosystems group	\$ 1,619,495	\$ 1,604,019	\$ 1,682,943	\$ 1,741,098	\$ <b>1,787,083</b>
Celera Genomics group	89,385	120,886	88,264	60,126	<b>31,048</b>
Celera Diagnostics	1,587	9,206	20,763	36,702	<b>35,479</b>
Eliminations	(66,341 )	(32,893 )	(14,738 )	(12,733 )	<b>(8,470 )</b>
Applera Corporation	1,644,126	1,701,218	1,777,232	1,825,193	<b>1,845,140</b>
Income (loss) from continuing operations					
Applied Biosystems group	\$212,391	\$ 168,481	\$ 199,617	\$ 172,253	\$ <b>236,894</b>
Celera Genomics group	(186,229 )	(211,772 )	(81,929 )	(57,476 )	<b>(77,117 )</b>
Celera Diagnostics	(4,960 )	(44,763 )	(51,237 )	(41,968 )	<b>(29,883 )</b>
Eliminations	6,032	47,473	52,029	42,144	<b>29,901</b>
Applera Corporation	27,234	(40,581 )	118,480	114,953	<b>159,795</b>
<b>Per Share Information</b>					
<b>Applied Biosystems Group</b>					
Income per share from continuing operations					
Basic	\$1.01	\$ 0.80	\$ 0.96	\$ 0.84	\$ <b>1.21</b>
Diluted	\$0.96	\$ 0.78	\$ 0.95	\$ 0.83	\$ <b>1.19</b>
Dividends declared per share	\$0.17	\$ 0.17	\$ 0.17	\$ 0.17	\$ <b>0.17</b>
<b>Celera Genomics Group</b>					
Net loss per share					
Basic and diluted	\$(3.07)	\$(3.21)	\$(1.15)	\$(0.79)	\$( <b>1.05</b> )
<b>Other Information</b>					
Cash and cash equivalents and short-term investments					
Applied Biosystems group	\$392,459	\$ 470,981	\$ 601,666	\$ 504,947	\$ <b>756,236</b>
Celera Genomics group	995,558	888,922	802,402	745,794	<b>668,249</b>
Applera Corporation	1,388,017	1,359,903	1,404,068	1,250,741	<b>1,424,485</b>
Total assets					
Applied Biosystems group	\$1,677,887	\$ 1,818,582	\$ 2,126,715	\$ 1,947,760	\$ <b>2,290,063</b>
Celera Genomics group	1,220,136	1,250,044	1,122,066	1,017,714	<b>869,231</b>
Celera Diagnostics	14,164	21,826	35,902	36,903	<b>37,135</b>
Eliminations	(24,329 )	(15,053 )	(27,191 )	(29,526 )	<b>(32,244 )</b>
Applera Corporation	2,887,858	3,075,399	3,257,492	2,972,851	<b>3,164,185</b>
Long-term debt					
Applied Biosystems group	\$-	\$-	\$-	\$-	\$-
Celera Genomics group		17,983	17,101		
Applera Corporation		17,983	17,101		

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Selected consolidating 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 segments 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 the Celera Genomics group calculated in accordance with accounting principles generally accepted in the United States of America, or GAAP, consistently applied. See Note 14 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 consolidating financial data in conjunction with our consolidated financial statements and related notes.



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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.

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.

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 adjustments, including the valuation allowance reductions, recorded as tax benefits in fiscal 2003 and fiscal 2005.

(Dollar amounts in millions)

Fiscal years ended June 30,	2001	2002	2003	2004	2005
<b>Applied Biosystems Group</b>					
Net gains/(losses) on investments	\$15.0	\$(8.2 )	\$–	\$11.2	\$–
Employee-related charges, asset impairments and other			(29.5 )	(25.0 )	(31.8)
Acquired in-process research and development charge		(2.2 )			
Tax adjustments including valuation allowance reductions			27.8		23.5
Net gains on litigation settlements			25.8	6.7	8.5
Asset dispositions					29.7
<b>Celera Genomics Group</b>					
Employee-related charges, asset impairments and other	\$(69.1)	\$(28.7)	\$(15.1 )	\$(18.1 )	\$(4.3 )
Net gains/(losses) on investments		(6.0 )		24.8	
Acquired in-process research and development charge		(99.0)			
R&D tax credits					2.2

## 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 an understanding of significant factors influencing our historical operating results, financial condition, and cash flows and also to convey our expectations of the potential impact of known trends, events, or uncertainties that may impact our future results. You should read this discussion in conjunction with our consolidated financial statements and related notes. 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.

We have reclassified some prior period amounts in the consolidated financial statements and notes for comparative purposes.

During fiscal 2005, we reclassified \$22.7 million relating to fiscal 2004 and \$20.2 million relating to fiscal 2003 of costs supporting our patent related activities from R&D expenses to SG&A expenses. This reclassification had no impact on net income or earnings per share.

During fiscal 2005, we began classifying all of our investments in auction rate securities as short-term investments. Prior to fiscal 2005, some of these securities were included in cash and cash equivalents. Short-term investments included \$54.1 million of auction rate securities at June 30, 2004. There were no investments in auction rate securities as of June 30, 2005. This reclassification had no impact on results of operations or previously reported cash flows from operations or financing activities.

## Overview

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

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, a 50/50 joint venture between the Applied Biosystems group and the Celera Genomics group, 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 relative performance of a specific business within the corporation.

Applera Corporation-Applied Biosystems Group Common Stock ("Applera-Applied Biosystems stock") is listed on the New York Stock Exchange under the ticker symbol "ABI" and is intended to reflect the relative performance of the Applied Biosystems group. Applera Corporation-Celera Genomics Group Common Stock ("Applera-Celera Genomics 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 as a whole, nor is there a separate security traded for Celera Diagnostics.

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

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 products and services to analyze nucleic acids (DNA and RNA), small molecules, and proteins to make scientific discoveries, develop new pharmaceuticals, and conduct standardized testing. The Applied Biosystems group's products also serve the needs of some markets outside of life science research, which we refer to as "applied markets," such as the fields of: forensic testing and human identification; biosecurity, which refers to products needed in response to the threat of biological terrorism and other malicious, accidental, and natural biological dangers; and food and environmental 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

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 2005.

Our fiscal year ends on June 30. The financial information for each segment is presented in Note 14 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.

## **Business Highlights**

### *Applied Biosystems Group*

In September 2004, the Applied Biosystems group and MDS Inc. announced the signing of a definitive agreement to expand the scope of their joint venture in life science mass spectrometry. Under the terms of the agreement, the Applied Biosystems group sold some Applied Biosystems MALDI Time-of-Flight ("TOF") assets to MDS. This transaction was completed in October 2004. Subsequent to the sale,



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MDS and the Applied Biosystems group each contributed some of the MALDI TOF assets to Applied Biosystems/MDS Sciex Instruments, a 50/50 joint venture of the Applied Biosystems group and MDS Sciex, a division of MDS.

In October 2004, the Applied Biosystems group began commercial sales of the Applied Biosystems 7900HT Fast Real-Time PCR System and the Applied Biosystems 9800 Fast PCR System. Both systems are designed to reduce the time to results and increase productivity for performing polymerase chain reaction (“PCR”). In January 2005, the Applied Biosystems group began commercial sales of the Applied Biosystems 7500 Fast Real-Time PCR System and an optional upgrade kit for the original 7500 Real-Time PCR System to the Fast configuration.

In November 2004, the Applied Biosystems group began commercial sales of a new line of Genetic Analyzers for low-to-medium-throughput laboratories. The Applied Biosystems 3130 Series of Genetic Analyzers, which replace the ABI PRISM® 3100 and 3100-*Avant* Genetic Analyzers, are designed to deliver enhanced automation, faster turnaround times, higher reliability, and higher data quality than previous generation technologies.

Also in November 2004, the Applied Biosystems group announced that the U.S. Patent & Trademark Office granted Applera a fundamental patent pertaining to real-time PCR instrumentation.

In December 2004, the Applied Biosystems group announced that the European Patent Office revoked Applera's European Patent covering real-time PCR thermal cycler technology. The Applied Biosystems group is seeking to have the patent reinstated through the appeal process. A German Court has suspended the previously granted injunctions pending the outcome of this appeal. In April 2005, the Applied Biosystems group announced that the Japanese Patent Office has held invalid Applera's Japanese Patent No. 3136129 covering real-time PCR thermal cycler technology. Applera has appealed the decision.

infringed patents relating to PCR owned by the Applied Biosystems group and Roche, increased damages awarded to the Applied Biosystems group and Roche to approximately \$35 million, in addition to awarding reasonable attorneys' fees. Please refer to Note 9 to our consolidated financial statements for more information.

Also in April 2005, the Applied Biosystems group announced a Joint Research Protocol with the NCI Cohort Consortium in the Study of Breast and Prostate Cancer through which the Consortium will use Applied Biosystems TaqMan® SNP Genotyping Assays and 7900HT Real-Time PCR Systems to identify novel inherited gene variants that may contribute to the development of these two cancers.

In May 2005, the Applied Biosystems group announced that Applera had reached definitive agreement with Hoffmann-La Roche, Inc. and some of its affiliates (“Roche”), effective May 6, 2005, to settle all outstanding litigation and arbitration related to contractual relationships involving rights to and commercialization of PCR and real-time PCR as described under Item 3. “Legal Proceedings” in Part I of our Form 10-K Annual Report for fiscal 2005. The parties subsequently sought and received dismissal of the litigation and arbitration proceedings. In connection with the settlement, the parties amended some licenses granted by each party to the other in the research, applied, and diagnostics fields, worldwide. In addition, Applera has become the exclusive licensor of some Roche patents covering reagents, kits, and methods for practicing PCR and real-time PCR in the research and applied fields. This will allow the Applied Biosystems group to expand its existing PCR licensing program to include PCR and real-time PCR patents not previously part of its licensing program. The settlement also releases the Applied Biosystems group, beginning in May 2007, from its obligations to purchase some enzymes and other PCR-related reagent products from Roche under pre-existing supply agreements. In July 2005, the Applied Biosystems group announced it has granted a license to Invitrogen Corp. under the expanded PCR licensing program.

In June 2005, the Applied Biosystems group and Invitrogen Corporation announced a strategic co-

In January 2005, the Applied Biosystems group began commercial sales of the API 5000™ LC/MS/MS System for small molecule quantification in pharmaceutical drug development. The mass spectrometry system achieves an average nine-fold increase in sensitivity over other commercially available systems.

In March 2005, the Applied Biosystems group announced a collaborative research study with the National Center for Toxicological Research of the U.S. Food and Drug Administration (“FDA/NCTR”) whereby the Applied Biosystems group will use its Expression Array System and Rat Genome Survey Microarray to investigate the toxicity of a common class of diabetes drugs using samples provided by the FDA/NCTR.

In April 2005, the Applied Biosystems group announced that the U.S. District Court in New Haven, Connecticut had issued an additional ruling in Applera’s and Roche Molecular Systems’ patent infringement litigation against MJ Research, a division of Bio-Rad Laboratories, Inc. The Court, based on the jury’s April 2004 finding that MJ Research had willfully

marketing and re-selling alliance to deliver solutions for proteomic analysis and biomarker studies in drug discovery and disease research worldwide.

During the fourth quarter of fiscal 2005, the Applied Biosystems group began shipments of several new mass spectrometers: the 3200 Q TRAP® and the API 3200™ LC/MS/MS Systems, for food and beverage, environmental, forensic, clinical research, and pharmaceutical analysis markets; and the 4800 MALDI TOF/TOF™ Analyzer, offering a new level of sensitivity and efficiency for proteomics workflows.

In July 2005, the Applied Biosystems group and the National Institute of Genomic Medicine of Mexico (Instituto Nacional de Medicina Genómica or “INMEGEN”), announced a collaboration to establish an Applied Biosystems Sequencing and Genotyping Unit at INMEGEN and conduct collaborative research studies focused on health issues important to the Mexican population.

*Celera Genomics Group*

In September 2004, the Celera Genomics group announced a collaboration with Genentech, Inc. to discover and develop targeted therapies for cancer. Genentech may develop various products against therapeutic targets licensed from the Celera Genomics group, including antibodies, antibody fragments, proteins or small molecule drugs.

In April 2005, the Celera Genomics group announced that two of its protein targets were selected for further investigation by Abbott Laboratories for therapeutic development. These were the first targets selected for advancement in the strategic collaboration established in July 2004 between the Celera Genomics group and Abbott to jointly discover, develop, and commercialize targeted therapies for the treatment of cancer.

In July 2005, the Celera Genomics group reported the initiation of a Phase I clinical trial for its novel histone deacetylase (“HDAC”) inhibitor, CRA-024781, in patients with refractory solid cancers.

In July 2005, the Celera Genomics group announced that it has advanced its third preclinical small molecule program, a Cathepsin S inhibitor, into late preclinical development for the treatment of psoriasis. This compound was developed in South San Francisco, California as part of a proprietary unpartnered program to develop inhibitors of Cathepsin S. Other immune-mediated diseases are under consideration. During fiscal 2005, the Celera Genomics group also commenced a small molecule program to address kinases associated with the phosphatase gene PTPN22, a target arising from the disease association studies conducted at Celera Diagnostics.

In January 2005, the Celera Genomics group moved a small molecule program to lead optimization against a cancer target as a result of findings from its proteomics research activities. During fiscal 2005, the Celera Genomics group also initiated a new

research. In July 2005, the two companies extended their collaboration to study additional genes associated with this disease primarily for the purpose of supporting Merck's therapeutic efforts.

In October 2004, Celera Diagnostics announced and published that it identified genetic variants associated with late-onset Alzheimer's disease that may have pharmacogenomic implications for drugs in development as well as current and future therapies for Alzheimer's and other neurodegenerative diseases.

In January 2005, Celera Diagnostics announced the initiation of two product development programs, one related to Fragile X, the leading cause of inherited mental retardation, and a second related to the detection and genotyping of the human papillomavirus (“HPV”), which is linked to a majority of cervical cancer cases. In April 2005, Celera Diagnostics presented the results of a study of its prototype HPV assay for detection of high risk HPV strains at the 15th European Congress of Clinical Microbiology and Infectious Diseases. The study demonstrated the potential of the Celera Diagnostics prototype assay to detect high risk HPV in samples that were inconclusive when typed by a commercially available HPV diagnostic test.

At the American College of Cardiology meeting in March 2005, Celera Diagnostics and its collaborators reported findings related to studies of cardiovascular disease. In a discovery and replicated study in functional single nucleotide polymorphisms (“SNPs”) that are associated with myocardial infarction (“MI”), a variant in a gene that is a member of a family of targets for drug therapies was identified that conferred approximately twice the risk for MI. These results broaden the understanding of the genetic risk for MI, and may have implications for therapeutic development around this family of targets.

During fiscal 2005, Celera Diagnostics began to transfer information to Laboratory Corporation of America, as part of an ongoing collaboration between the two businesses to develop methods to predict risk for breast cancer metastasis. Celera Diagnostics also

proteomics discovery program related to gastric cancer.

During fiscal 2005, through its proteomic studies, the Celera Genomics group continued to identify and validate new targets in pancreatic, colon, breast, and lung cancer. To date, three of the Celera Genomics group's validated targets have been accepted by collaborators for further study and four are under consideration by collaborators. The Celera Genomics group is seeking new partners for possible therapeutic development for other non-partnered validated targets. The first targets from renal carcinoma were moved into validation, and the first diabetic samples were obtained for our recently initiated metabolic disease program during the fourth quarter of fiscal 2005.

### *Celera Diagnostics*

In fiscal 2005, Celera Diagnostics completed its collaboration with Merck & Co., Inc. to identify novel targets for drug discovery and diagnostic markers related to Alzheimer's disease. Celera Diagnostics received all research milestone payments for the completion of this collaboration, and is reviewing the diagnostic potential of the completed

has begun transferring information to Laboratory Corporation relating to breast cancer patients' responsiveness to hormonal therapy. Celera Diagnostics believes that multiple test procedures could result from this work.

In May 2005, Celera Diagnostics announced finding a genetic variant associated with a greater than 20-fold increase in risk for Non-Alcoholic Steatohepatitis ("NASH"), a common progressive liver disease that often leads to fibrosis and cirrhosis.

Results on a variant in a second gene (CPT1A) associated with progression to fibrosis in hepatitis C ("HCV")-infected patients were presented at the European Society for the Study of the Liver in Paris in April 2005. This variant was also associated with risk for NASH and these findings were reported at a meeting of the American Association for the Study of Liver Diseases in June 2005.





Abbott and Celera Diagnostics announced that Abbott has received CE Mark certifications for a real-time PCR test for monitoring HIV-1 viral load in patients in June 2005 and for a real-time PCR test for monitoring HCV viral load in patients in July 2005.

#### *Other*

During fiscal 2005, our board of directors approved the accelerated vesting of substantially all unvested stock options previously awarded to employees, officers, directors, and consultants. Please refer to Note 1 to our consolidated financial statements for more information. As a result of the accelerated vesting, we recorded a pre-tax charge of \$2.6 million for compensation cost in fiscal 2005.

#### **Critical Accounting Estimates**

Our consolidated 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;
- Asset impairment and valuation allowances;
- Pension benefits;
- Allocation of purchase price to acquired assets and liabilities in business combinations;
- Exit or disposal activities; and
- Allocations to the Applied Biosystems group, the Celera Genomics group, and Celera Diagnostics.

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 some 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**

##### *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 decline 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.

##### *Deferred tax assets*

## 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 some 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

Deferred taxes represent the difference between the tax bases of assets or liabilities, calculated under tax laws, and the reported amounts in our consolidated financial 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 consolidated statements 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. We determine if a valuation allowance is necessary based on estimates of future taxable profits and losses and tax planning strategies. We believe that our deferred tax assets, except as described in Note 3 to our consolidated financial statements, should be realizable due to our estimate of future profitability in the U.S. as well as the extended carryforward expiration periods granted by the American Jobs Creation Act of 2004 (the "Jobs Act".) Please refer to Notes 1 and 3 to our consolidated financial statements

for more information on the Jobs Act. 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.

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 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.

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 5.25% to 8.5% for fiscal 2006, compared to our fiscal 2005 range of 6.5% 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, 2005, we calculated our U.S. pension obligation using a 5.25% discount rate, a 125 basis point decrease from the June 30, 2004 rate of 6.5%. 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 June 30, 2004. Effective in fiscal 2005, the expected rate of compensation increase was no longer factored into the determination of our net periodic pension expense as the accrual for future service benefits was frozen.

As of June 30, 2005, the unrecognized net losses for our U.S. pension plan were approximately \$151.7 million, up from \$114.2 million at June 30, 2004. Unrecognized net loss amounts arise primarily from the effects of changes in actuarial assumptions, as well as differences between expected and actual returns on plan assets, and are being systematically recognized in future net periodic pension expense in accordance with Statement of Financial Accounting Standards ("SFAS") No. 87, "Employers Accounting for Pensions." Amortization of total unrecognized net losses at June 30, 2005, is expected to increase net periodic pension expense by approximately \$4 million in each fiscal year over the next twelve years.

The decrease in our discount rate assumption is expected to increase our net periodic pension expense for our U.S. pension plan by approximately \$3.0 million in fiscal 2006 compared to fiscal 2005. A one percentage point increase or decrease in the discount rate for fiscal 2006 would decrease or increase our net periodic pension expense by approximately \$2 million. A one percentage point increase or decrease in the expected

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% of our consolidated pension plan assets and projected benefit obligations as of the end of fiscal 2005. The accrual of future service benefits for participants in our U.S. pension plan was frozen as of June 30, 2004. As a result, our pension expense decreased by approximately \$7 million in fiscal 2005. Please refer to Note 4 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.

rate of return on our pension assets for fiscal 2006 would also decrease or increase our net periodic pension expense by approximately \$2 million. We do not generally fund pension plans when our contributions would not be tax deductible. In fiscal 2005, we did not make any contributions to the U.S. plan. As of June 30, 2005, we did not expect to fund the U.S. plan in fiscal 2006 as no contributions are expected to be required under the Employee Retirement Income Security Act ("ERISA") regulations due to the level of contributions made in previous fiscal years. Our estimate of annual contributions is based on significant assumptions, such as pension plan benefit 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, 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 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.

### Exit or Disposal Activities

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 SFAS No. 146, "Accounting for Exit or Disposal Activities." Prior to adoption of SFAS No. 146 in January 2003, we expensed costs related to exit or disposal activities 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 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.

accounting, with the Celera Genomics group recording 100% of the initial cash operating losses, up to \$300 million, in its statements of operations as loss from joint venture. The Applied Biosystems group reimburses the Celera Genomics group for all tax benefits generated by Celera Diagnostics to the extent such tax benefits are utilized by the Applied Biosystems group. The Celera Genomics group and the Applied Biosystems group will share operating losses incurred by Celera Diagnostics in excess of \$300 million equally. Celera Diagnostics has accumulated cash operating losses of approximately \$148 million through June 30, 2005. Celera Diagnostics' profits, if any, will be shared in the ratio of 65% to the Celera Genomics group and 35% to the Applied Biosystems group until such time as the Celera Genomics group is reimbursed for any excess funding of initial losses after consideration of tax reimbursements received from the Applied Biosystems group. Once the excess funding is reimbursed, Celera Diagnostics' profits will be shared equally between the groups. Refer to Note 14 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 Genomics 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 for the fiscal years ended June 30 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

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 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

understanding of our on-going operations. You should consider these items when making comparisons to past performance and assessing prospects for future results.

(Dollar amounts in millions)	2003	2004	2005
Severance and benefit costs	\$(22.9)	\$(6.3 )	<b>\$(24.7)</b>
Excess lease space			<b>(10.0)</b>
Asset impairments		(36.1)	<b>(0.8 )</b>
Office closures	(1.4 )		
Reduction of expected costs	4.3	0.6	<b>1.1</b>
<b>Total employee-related charges, asset impairments, and other</b>	<b>\$(20.0)</b>	<b>\$(41.8)</b>	<b>\$(34.4)</b>
Other events impacting comparability:			
Impairment of inventory recorded in cost of sales	\$(9.5 )	\$(1.2 )	<b>\$(1.7 )</b>
Asset dispositions and litigation settlements	25.8	6.7	<b>38.2</b>
Investment gains		36.0	
Tax items	27.8		<b>25.7</b>

### 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.

#### Fiscal 2005

During fiscal 2005, the Applied Biosystems group recorded pre-tax charges consisting of the following components:

(Dollar amounts in millions)	Employee- Excess			Total
	Related Charges	Lease Space	Asset Impairments	
First quarter	\$ 7.3	\$ –	\$ –	\$ 7.3
Second quarter	2.9	2.3		5.2
Fourth quarter	11.6	6.2	2.6	20.4
<b>Total charges</b>	<b>21.8</b>	<b>8.5</b>	<b>2.6</b>	<b>32.9</b>
Cash payments	10.5	0.2		10.7
Non-cash charges		5.2	1.9	7.1
Reduction of expected costs	0.3			0.3
Balance at June 30, 2005	\$11.0	\$ 3.1	\$0.7	\$14.8

The fiscal 2005 severance charges reflect the Applied Biosystems group's decision to reduce and rebalance its workforce and were implemented as a result of a strategic and operational analysis conducted by management. The positions eliminated are primarily in the areas of R&D, manufacturing, marketing, and operations. These actions are intended to allow us to expand personnel in other functional areas including field sales and support, manufacturing quality, and advanced research, as well as better align our resources with the needs of our customers. Additionally, the severance charges recorded in the first and second quarters related, in part, to staff reductions intended to integrate

with the severance and benefit charge recorded in the first quarter of fiscal 2005. In the fourth quarter of fiscal 2005, the Applied Biosystems group recorded a pre-tax benefit of \$0.2 million for a reduction in anticipated employee-related costs associated with the severance and benefit charge recorded in the second quarter of fiscal 2005. The remaining cash expenditures associated with the employee terminations of approximately \$11 million are expected to be disbursed by the end of the third quarter of fiscal 2006. The savings from these actions are expected to be used to expand personnel during fiscal 2006 in other functional areas including field sales and support, manufacturing quality, and advanced research. Augmenting and upgrading skills in these critical functions should support higher levels of sales over time.

The excess lease space charges represented the estimated cost of excess lease space less estimated future sublease income for certain leased facilities in Massachusetts and California whose leases extend through fiscal years 2007 to 2011. The asset impairment charges taken in the fourth quarter related to the write-down in value of the Applied Biosystems group's facilities in San Jose, California and Houston, Texas. See Note 7 to our consolidated financial statements for more information on our California facility.

During fiscal 2005, the Celera Genomics group recorded pre-tax charges totaling \$4.5 million related to our decision to discontinue promotion of products and most operations of Paracel, Inc., a business we acquired in fiscal 2000. Paracel developed high-performance genomic data and text analysis systems for the pharmaceutical, biotechnology, information services, and government markets. Since the focus of the Celera Genomics group had shifted to therapeutic discovery and development, Paracel was no longer deemed strategic to the overall business. The charge consisted of \$1.1 million for severance and benefit costs, \$1.7 million for excess facility lease expenses and asset impairments, and \$1.7 million in cost of sales for the impairment of Paracel inventory. The charge for excess facility lease expenses and asset impairments was primarily for a revision to an accrual initially recorded in

the Applied Biosystems MALDI TOF product line into the Applied Biosystems/MDS Sciex Instruments joint venture with MDS Inc. We believe these actions will improve operational efficiency and quality, while assuring that our R&D spending remains aligned with our strategic initiatives.

As of June 30, 2005, all of the employees affected by the first and second quarter staff reductions had been terminated. In addition, as of June 30, 2005, substantially all of the affected employees related to the fourth quarter staff reduction had been notified and the majority will be terminated or will no longer be actively employed by the end of the first quarter of fiscal 2006. Through June 30, 2005, we made cash payments of \$7.2 million related to the first quarter termination charge, \$2.3 million related to the second quarter termination charge, and \$1.0 million related to the fourth quarter termination charge. In regards to the excess lease space charges, through June 30, 2005, we made cash payments of \$0.2 million related to the second quarter charge. These cash expenditures were funded by cash provided by operating activities. In the third quarter of fiscal 2005, the Applied Biosystems group recorded a pre-tax benefit of \$0.1 million for a reduction in anticipated employee-related costs associated

fiscal 2002 for the estimated cost of excess facility space for a lease that extends through fiscal 2011 and to write off related fixed assets.

As of March 31, 2005, the majority of the affected Paracel employees had been terminated. Substantially all cash payments related to these terminations were made as of June 30, 2005. During fiscal 2005, we made cash payments of \$2.1 million related to the excess lease space charge. The cash expenditures were funded by available cash. Although the Celera Genomics group anticipates modest expenses related to the closure of the Paracel business and completion of remaining service obligations during fiscal 2006, these amounts are not expected to have a material impact on future operating results.

In the fourth quarter of fiscal 2005, the Celera Genomics group recorded a pre-tax charge of \$3.4 million related to the Online/Information Business, an information products and service business. As previously announced, the Celera Genomics group realigned its organization to focus on therapeutic discovery and development and as part of this realignment, the Online/Information Business was determined to be a non-strategic business. In fiscal 2002, the Celera Genomics group entered into an agreement pursuant to which



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the Applied Biosystems group became the exclusive distributor of the Online/Information Business (see Note 14 to our consolidated financial statements for more information).

The pre-tax charge of \$3.4 million consisted of \$1.8 million for severance and benefit costs and \$1.6 million for asset impairments, primarily related to information-technology leases. As of June 30, 2005, all affected employees had been notified and all are expected to be terminated by the end of the first quarter of fiscal 2006. The majority of the cash expenditures related to this action are expected to be disbursed by the end of December 2005. No significant cash payments associated with this action were made through June 30, 2005. The impact of the Celera Genomics group's determination that the Online/Information Business was not strategic and its subsequent agreement with the Applied Biosystems group has been reflected in the Celera Genomics group's financial results over the past several years.

#### *Fiscal 2004*

During fiscal 2004, the Applied Biosystems group recorded pre-tax charges of \$6.3 million for employee terminations. 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. All cash payments were made by March 31, 2005. The cash payments were funded primarily from cash provided by operating activities.

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, Inc., a business we acquired in fiscal 2002. 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

decision to terminate the agreement with HTS Biosystems. In fiscal 2005, the Applied Biosystems group recorded a pre-tax benefit of \$0.7 million as a result of the repayment of this loan by HTS Biosystems.

During the fourth quarter of fiscal 2004, the Celera Genomics group decided to pursue the sale of its Rockville, Maryland facility. As a result of this decision, we 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 of the carrying amount of the facility to its estimated market value less estimated costs to sell. The estimated market value was based on a third-party appraisal. During the fourth quarter of fiscal 2005, the Celera Genomics group completed the sale of this facility and recorded a \$3.6 million pre-tax favorable adjustment to the charge recorded in fiscal 2004.

#### *Fiscal 2003*

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. As the actions for this program were implemented, we incurred lower than anticipated employee-related costs. Accordingly, the Applied Biosystems group recorded pre-tax benefits of \$4.3 million in the fourth quarter of fiscal 2003, \$0.6 million in the second quarter of fiscal 2004, and \$0.1 million in the third quarter of fiscal 2005 for reductions in expected employee-related costs.

The severance and benefits charge related to the termination of approximately 400 employees worldwide. Positions impacted, mainly in the U.S. and Europe, were

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 had no net realizable value. Additionally, we wrote off a loan and accrued the final payments based on our

primarily within the areas of research, manufacturing, sales, marketing and administration. The workforce reduction commenced in January 2003 and substantially all of the affected employees were terminated by the end of fiscal 2004. 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 charges:

(Dollar amounts in millions)	Employee-			Total
	Related Charges	Asset Impairments	Office Closures	
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
Cash payments	<b>0.2</b>		<b>0.2</b>	<b>0.4</b>
Reduction of expected costs	<b>0.1</b>			<b>0.1</b>
Balance at June 30, 2005	<b>\$ 0.5</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 0.5</b>

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 disbursed by fiscal 2007.

### Other Events Impacting Comparability

#### *Asset dispositions and litigation settlements*

The following net gains have been recorded in the consolidated statements of operations in asset dispositions and litigation settlements.

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, which represented the amount received, net of related fees and costs, in the fourth quarter of fiscal 2003.

#### *Investments*

The following gains have been recorded in the consolidated statements of operations in gain (loss) on investments, net, except as noted.

The Applied Biosystems group recorded pre-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 pre-tax gain of \$24.8 million in the fourth quarter of fiscal 2004 from the sale of its investment in Discovery Partners International, Inc. ("DPI") common stock. Our investment in DPI common stock, which resulted from our acquisition of Axys Pharmaceuticals, Inc. in fiscal 2002, 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.

#### *Tax items*

During the fourth quarter of fiscal 2005, the Applied Biosystems group recorded tax benefits of \$23.5 million primarily related to additional U.S. R&D tax credit carryforwards, expected results of Canadian examinations, and settlement of some U.K. tax matters. Also during the fourth quarter of fiscal 2005, the Celera

During fiscal 2005, the Applied Biosystems group recorded a net pre-tax gain of \$29.7 million for the sale of intellectual property, manufacturing inventory, and research and development assets related to the expansion of the scope of its existing joint venture in life science mass spectrometry with MDS Inc. Under the terms of the transaction, we received \$8 million in cash and a \$30 million note receivable for a 50% interest in intellectual property assets related to current Applied Biosystems MALDI TOF mass spectrometry systems and next-generation product-related manufacturing and research and development assets. The note receivable is due in 5 years, of which \$6 million is payable in October 2006 and \$8 million in each of October 2007, 2008, and 2009.

Also in fiscal 2005, the Applied Biosystems group received a payment of \$8.5 million from Illumina, Inc. in connection with the termination of a joint development agreement and settlement of a patent infringement claim and a breach of contract claim.

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.

In March 2003, we received a ruling in favor of the Applied Biosystems group and MDS Inc. in a patent infringement

Genomics group recorded a tax benefit of \$2.2 million related to additional U.S. R&D tax credits.

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 \$86.5 million at June 30, 2003, which consisted of state deferred tax assets and foreign tax loss and foreign tax credit carryforwards. Our state deferred tax assets were subject to a full valuation allowance at June 30, 2003. 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 R&D expenses incurred in fiscal 2003 over a ten-year



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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.

### Acquired Research and Development

During fiscal 2002, the Celera Genomics group recorded a charge of \$99.0 million to write-off the value of acquired IPR&D in connection with the Axys acquisition. 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.

Project	Status
<i>Partnered Projects:</i>	
<b>Cathepsin S</b>	Collaboration between the Celera Genomics group and Aventis Pharmaceuticals Products, Inc., now sanofi-aventis. Sanofi-aventis has informed the Celera Genomics group that it has terminated this program. Our portion of the collaboration was completed prior to fiscal 2004.
<b>Cathepsin K</b>	In July 2004, the Celera Genomics group received a milestone payment from Merck, the Celera Genomics group's partner for the Cathepsin K project, for the advancement of a Cathepsin K inhibitor into a Phase I clinical trial as a potential treatment for osteoporosis. Our portion of the collaboration was completed prior to fiscal 2004 and Merck will make clinical development decisions for this compound.
<b>Tryptase</b>	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. In May 2005, the Celera Genomics group announced that one of its tryptase inhibitors showed efficacy in treating allergic asthma in mice.
<i>Proprietary Projects:</i>	
<b>Factor VIIa</b>	The Celera Genomics group has identified a lead compound and has advanced its Factor VIIa program to a stage where it is seeking a partner for further development. Factor VIIa is a proprietary project for the development of therapeutics for blood clotting disorders.
<b>Cathepsin F, Urokinase, Serm-beta, and Factor Xa</b>	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 ever. These efforts include extensive pre-clinical and clinical testing and are subject to lengthy regulatory review and clearance or approval by the U.S. Food and Drug Administration ("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 established at the acquisition date.

## Discussion of Aplera Corporation's Consolidated Operations

### Results of Continuing Operations – 2005 Compared with 2004

(Dollar amounts in millions)	2004	2005	% Increase/ (Decrease)
Net revenues	\$1,825.2	<b>\$1,845.1</b>	<b>1.1%</b>
Cost of sales	851.9	<b>849.7</b>	<b>(0.3%)</b>
Gross margin	973.3	<b>995.4</b>	<b>2.3%</b>
SG&A expenses	512.3	<b>525.5</b>	<b>2.6%</b>
R&D	354.3	<b>330.7</b>	<b>(6.7%)</b>
Amortization of intangible assets	2.9	<b>2.9</b>	
Employee-related charges, asset impairments and other	41.8	<b>34.4</b>	<b>(17.7%)</b>
Asset dispositions and litigation settlements	(6.7)	<b>(38.2)</b>	<b>470.1%</b>
Operating income	68.7	<b>140.1</b>	<b>103.9%</b>
Gain on investments, net	35.5		<b>(100.0%)</b>
Interest income, net	22.8	<b>28.8</b>	<b>26.3%</b>
Other income (expense), net	2.5	<b>4.5</b>	<b>80.0%</b>
Income before income taxes	129.5	<b>173.4</b>	<b>33.9%</b>
Provision for income taxes	14.5	<b>13.6</b>	<b>(6.2%)</b>
Income from continuing operations	\$115.0	<b>\$159.8</b>	<b>39.0%</b>
Percentage of net revenues:			
Gross margin	53.3	<b>% 53.9</b>	<b>%</b>
SG&A expenses	28.1	<b>% 28.5</b>	<b>%</b>
R&D	19.4	<b>% 17.9</b>	<b>%</b>
Operating income	3.8	<b>% 7.6</b>	<b>%</b>

Net revenues decreased at the Celera Genomics group, primarily as a result of the expiration of Online/Information Business customer agreements and the discontinuation of most of the operations of Paracel during the first quarter of fiscal 2005.

Net revenues decreased 5.0% in the U.S. and 0.9% in Asia Pacific, and increased 11.1% in Europe and 9.8% in Latin America and other markets, compared with the prior fiscal year. The favorable effects of foreign currency increased revenues by approximately 4% in Europe and 2% in Asia Pacific during fiscal 2005 compared to fiscal 2004. European revenues increased due primarily to continued strong sales of the Applied Biosystems 3130 line of Genetic Analyzers and the Applied Biosystems 7300 and 7500 Real-Time PCR Systems and increased sales of human identification products. During fiscal 2005, revenues in Japan declined 5% compared to the prior fiscal year, net of a positive impact from foreign currency of approximately 2%. Factors contributing to this decline included the continued shift of life science research funding to areas outside of sequencing and constrained spending due to anticipated lower growth in the fiscal 2006 government budget for life science research. Revenues in the U.S. decreased primarily due to reduced sales of DNA analyzers to large U.S. genome centers at the Applied Biosystems group and the expiration of Online/Information Business customer agreements and discontinuation of most of the operations of Paracel at the Celera Genomics group.

The higher gross margin percentage in fiscal 2005 compared to fiscal 2004 was due primarily to the favorable effects of foreign currency at the Applied Biosystems group as well as a decrease in both software amortization and warranty costs. Service margins at the Applied Biosystems group have improved for fiscal 2005 primarily driven by growth in volume of service contracts, as well as improved pricing on selective billable parts, labor, and service contracts. Also, strong growth in some higher margin products within the sequence detection systems, human identification, and assays product lines helped minimize the effect of the decline in DNA Sequencing instruments.

Effective income tax rate	11	%	8	%
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The following table summarizes the impact of the previously described events impacting comparability included in the financial results for fiscal 2005 and 2004:

(Dollar amounts in millions)	2004	2005
Income (charge) included in income before income taxes	\$(0.4)	\$ 2.1
Provision (benefit) for income taxes	1.2	(24.8 )

Income from continuing operations increased for fiscal 2005 primarily due to improved gross margin and lower R&D expenses at the Applied Biosystems group, partially offset by higher SG&A expenses at the Applied Biosystems group and lower revenues at the Celera Genomics group. Additionally, income from continuing operations increased for fiscal 2005 due to the impact of the previously described events impacting comparability. The net effect of foreign currency on income from continuing operations in fiscal 2005 was a benefit of approximately \$14 million. Please read our discussion of segments for information on their financial results.

The favorable effects of foreign currency increased net revenues by approximately 2% during fiscal 2005. As a result, net revenues, excluding the effects of foreign currency, decreased slightly in comparison to the prior fiscal year.

Revenues increased at the Applied Biosystems group, driven by strength in both the Real-Time PCR/ Applied Genomics and Mass Spectrometry product categories, partially offset by lower revenues in the DNA Sequencing, Core PCR & DNA Synthesis, and Other Product Lines product categories.

SG&A expenses for fiscal 2005 increased over the prior fiscal year due primarily to: higher employee-related and outside consultant costs of \$14 million at the Applied Biosystems group; the unfavorable effects of foreign currency of approximately \$9 million; and increased spending of approximately \$6 million on both the development of, and enhancements to, the Applied Biosystems myScience<sup>SM</sup> virtual research community and e-commerce and genomics data portal (collectively known as the Applied Biosystems Portal), and a strategic business review. In fiscal 2004, the Applied Biosystems group engaged a consulting firm to assist management in an in-depth review of its entire product portfolio. The increase in fiscal 2005 was partially offset by: lower litigation-related legal expenses of approximately \$8 million; lower insurance and pension costs of approximately \$8 million; the discontinuation of most of the operations of Paracel; and lower Online/Information Business expenses.

R&D expenses decreased for fiscal 2005 compared to fiscal 2004 primarily as a result of the previously announced





realignment of the Applied Biosystems group's R&D product portfolio, the integration of the MALDI TOF product line into the Applied Biosystems/MDS Sciex Instruments joint venture with MDS Inc., cost reductions in the Online/Information Business, and the discontinuation of most of the operations of Paracel. This decrease was partially offset by increased expenditures at the Celera Genomics group to support preclinical development activities and the hiring of additional therapeutic R&D personnel.

Interest income, net increased during fiscal 2005 compared to fiscal 2004 primarily due to higher average interest rates, partially offset by lower average cash and cash equivalents and short-term investments.

Other income, net for fiscal 2005 increased in comparison to the prior fiscal year primarily due to higher benefits associated with our foreign currency risk management program in fiscal 2005 and losses recorded from equity method investments in fiscal 2004. This increase was partially offset by higher non-recurring cash receipts in fiscal 2004.

The decrease in the effective tax rate for fiscal 2005 was primarily due to benefits related to R&D tax credit carryforwards, expected results of Canadian examinations, and settlement of some U.K. tax matters in fiscal 2005. An analysis of the differences between the federal statutory income tax rate and the effective income tax rate is provided in Note 3 to our consolidated financial statements.

### Results of Continuing Operations – 2004 Compared with 2003

(Dollar amounts in millions)	2003	2004	% Increase/ (Decrease)
Net revenues	\$1,777.2	\$1,825.2	2.7%
Cost of sales	849.6	851.9	0.3%
Gross margin	927.6	973.3	4.9%
SG&A expenses	455.3	512.3	12.5%
R&D	381.3	354.3	(7.1%)
Amortization of intangible assets	5.9	2.9	(50.8%)

The following table summarizes the impact of the previously described events impacting comparability included in the financial results for fiscal 2004 and 2003:

(Dollar amounts in millions)	2003	2004
Charge included in income before income taxes	\$(18.8)	\$(0.4)
Provision (benefit) for income taxes	(34.6)	1.2

Income from continuing operations decreased for fiscal 2004 primarily due to the impact of the previously described events impacting comparability, as well as due to higher SG&A expenses resulting primarily from increased litigation-related legal expenses, spending on 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.

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, driven by strength in the Real-Time PCR/Applied Genomics and Mass Spectrometry product categories, partially offset by lower revenues in the DNA Sequencing, Core PCR & DNA Synthesis, and Other Product Lines product categories.

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

Employee-related charges, asset impairments and other	20.0	41.8	109.0%
Asset dispositions and 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 %	53.3 %	
SG&A expenses	25.6 %	28.1 %	
R&D	21.5 %	19.4 %	
Operating income	5.1 %	3.8 %	
Effective income tax (benefit) rate	(12 %)	11 %	

profit-sharing arrangement with Abbott Laboratories and technology-related payments.

Net revenues decreased 2.0% 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 PCR/Applied Genomics instruments and consumables. Partially offsetting the increase in European revenues was an order from a large-scale genome center for a substantial number of 3730xl 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 approximately \$19 million; increased spending of approximately \$12 million on the development of, and enhancements to, the Applied Biosystems Portal; and increased insurance and pension costs of approximately \$7 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 Applied Biosystems group announced in December 2002, and cost reductions in the Online/Information

and a reduction of the income tax liability due to the settlement of overseas tax audits, both of which were recorded in fiscal 2003, as well as changes in R&D tax credits.

## **Applera Corporation**

### **Discussion of Consolidated Financial Resources and Liquidity**

We had cash and cash equivalents and short-term investments of \$1.4 billion at June 30, 2005, and \$1.3 billion at June 30, 2004. We maintain a \$200 million unsecured revolving credit agreement with four banks that matures on April 15, 2010, under which there were no borrowings outstanding at June 30, 2005. This credit agreement replaced a \$50 million unsecured revolving credit agreement that was scheduled to mature in April 2005, under which there were no borrowings outstanding at June 30, 2004. Cash provided by operating activities has been our 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 our normal operating cash flow needs, planned capital expenditures, dividends, and potential 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.

In July 2005, we announced that our board of directors authorized the repurchase of up to 10% of the outstanding shares of Applera Corporation-Applied Biosystems stock. This authorization supplements the Applied Biosystems group's existing authority to replenish shares issued under its employee stock benefit plans. The new authorization has no time restrictions and delegates to our management discretion to purchase shares at times and prices it deems appropriate through open market purchases, privately negotiated transactions, tender offers, exchange offers, or otherwise. It is anticipated that repurchases will be made from time to time depending on market conditions

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 will be funded using the Applied Biosystems group's U.S. cash reserves and cash generated from domestic operations, as well as funds to be borrowed under our revolving credit agreement, if and when required.

(Dollar amounts in millions)	2004	2005
Cash and cash equivalents	\$507.8	<b>\$779.4</b>
Short-term investments	742.9	<b>645.1</b>
<hr/>		
Total cash and cash equivalents and short-term investments	\$1,250.7	<b>\$1,424.5</b>
Total debt	6.1	
Working capital	1,326.6	<b>1,494.9</b>
Debt to total capitalization	0.3%	–%

During fiscal 2005, we repaid the remaining principal amount of the 8% senior secured convertible notes assumed in connection with the Axys acquisition of approximately \$6 million. In fiscal 2004, we repurchased \$10.0 million in principal amount of the outstanding convertible notes. During fiscal 2003, we purchased \$18.1 million of non-callable U.S. government obligations and substituted these government



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obligations for our shares of DPI common stock that originally collateralized the notes. The government obligations were required to be held in a trust and a portion of the proceeds from the maturation of, and interest payments on, these obligations funded the interest and principal payments under the notes. The government obligations, which matured in fiscal 2005, were classified as available-for-sale at June 30, 2004. We sold our investment in DPI stock in fiscal 2004.

Cash and cash equivalents in fiscal 2005 increased as cash generated from operating activities, which included the amount received related to the previously described patent infringement lawsuit, proceeds from the sales and maturities of short-term investments, net of purchases, and proceeds from asset sales and stock issuances for employee stock plans were only partially offset by expenditures for capital assets, debt repayment, the payment of dividends, and the repurchase of Applera-Applied Biosystems stock. Also impacting the increase 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 13 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)	2003	2004	2005
Net cash from operating activities	\$195.9	\$ 194.4	<b>\$216.4</b>
Net cash from investing activities	(22.1 )	21.1	<b>52.2</b>
Net cash from financing activities	(22.6)	(349.7)	<b>11.4</b>
Effect of exchange rate changes on cash	29.1	12.9	<b>(8.9 )</b>

#### *Operating activities*

The increase in net cash provided from operating activities of continuing operations for fiscal 2005 compared to fiscal 2004 resulted primarily from: higher income-related cash flows; the timing of vendor payments; and the funding of our U.S. pension plan 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.

#### *Investing activities*

Capital expenditures were \$93.9 million in fiscal 2005, \$68.4 million in fiscal 2004, and \$144.4 million in fiscal 2003. Fiscal 2005 capital expenditures included \$42 million to purchase several buildings at the Applied Biosystems group's Foster City, California location. Additionally, fiscal 2005 capital expenditures included purchases of production equipment, testing and laboratory equipment for the Applied Biosystems group's facilities, as well as computer equipment purchases at the Applied Biosystems group, and equipment purchases used to support the therapeutics business and improvements made to facilities at the Celera Genomics group.

Fiscal 2004 capital expenditures included: the Applied Biosystems group's facilities expansions in Pleasanton, California and Bedford, Massachusetts, 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, California and Bedford, Massachusetts, 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.

In fiscal 2005, 2004, and 2003, cash was generated from the sales and maturities of available-for-sale investments, net of purchases of available-for-sale

approximately \$51 million in fiscal 2004. This increase was partially offset by: a lower reduction in accounts receivable balance in fiscal 2005 due to the timing of collections; the timing of royalty payments; an increase in a non-trade receivable related to the Applied Biosystems group's joint venture activities; the timing of the receipt of dividends and distributions from investments in unconsolidated subsidiaries; higher severance payments in fiscal 2005; and lower cash receipts in fiscal 2005 due to the expiration of the Online/Information Business customer agreements at the Celera Genomics group. We did not fund our U.S. pension plan in fiscal 2005 as no contributions were required under ERISA regulations.

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

investments. Fiscal 2005 included the maturation of non-callable U.S. government obligations, pledged as collateral for the 8% senior secured convertible notes assumed in connection with the acquisition of Axys. A portion of the proceeds from the principal and interest received from these U.S. government obligations was used to fund the interest and principal payments under the notes. Fiscal 2003 included the purchase of investments to be used as substitute collateral for the 8% senior secured convertible notes. Fiscal 2005 included approximately \$7 million in proceeds received from MDS representing the first installment related to the sale of some MALDI TOF assets, net of expenses, and in the fourth quarter of fiscal 2005, the Celera Genomics group received proceeds of \$42.4 million from the sale of its facilities in Rockville, Maryland. 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*

In fiscal 2005, we repaid the remaining principal amount of the 8% senior secured convertible notes assumed in connection with the Axys acquisition of approximately \$6 million. These notes matured in October 2004. During fiscal 2004, we repurchased \$10.0 million in principal amount of these notes. Fiscal 2005 included four dividend payments on Applera-Applied Biosystems stock compared to five payments in fiscal 2004. 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
2003	1.1	\$ 19.8
2004	15.4	325.0
<b>2005</b>	<b>0.3</b>	<b>6.1</b>

**Contractual Obligations**

Our significant contractual obligations at June 30, 2005, and the anticipated payments under these obligations were as follows:

(Dollar amounts in millions)	Total	Payments by Period				
		2006	2007	2008	2009	Thereafter
Minimum operating lease payments (a)	\$ 139.9	\$ 35.4	\$ 41.4	\$ 28.4	\$ 34.7	
Purchase obligations (b)	108.9	64.2	22.9	19.7	2.1	
Other long-term liabilities (c)	32.6	2.5	1.1	0.7	28.3	
<b>Total</b>	<b>\$ 281.4</b>	<b>\$ 102.1</b>	<b>\$ 65.4</b>	<b>\$ 48.8</b>	<b>\$ 65.1</b>	

(a) Please refer to Note 9 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

**Discussion of Segments' Operations, Financial Resources and Liquidity**

**Applied Biosystems Group**

**Results of Continuing Operations – 2005 Compared with 2004**

(Dollar amounts in millions)	2004	2005	% Increase/ (Decrease)
Net revenues	\$1,741.1	<b>\$1,787.1</b>	<b>2.6%</b>
Cost of sales	828.8	<b>835.5</b>	<b>0.8%</b>
Gross margin	912.3	<b>951.6</b>	<b>4.3%</b>
SG&A expenses	465.2	<b>485.7</b>	<b>4.4%</b>
R&D	214.2	<b>192.2</b>	<b>(10.3%)</b>
Employee-related charges, asset impairments and other	23.7	<b>31.8</b>	<b>34.2%</b>
Asset dispositions and litigation settlements	(6.7)	<b>(38.2)</b>	<b>470.1%</b>
Operating income	215.9	<b>280.1</b>	<b>29.7%</b>
Gain on investments, net	11.2		<b>(100.0%)</b>
Interest income, net	12.0	<b>13.9</b>	<b>15.8%</b>
Other income (expense), net	0.6	<b>3.2</b>	<b>433.3%</b>
Income before income taxes	239.7	<b>297.2</b>	<b>24.0%</b>
Provision for income taxes	67.4	<b>60.3</b>	<b>(10.5%)</b>
Income from continuing operations	\$172.3	<b>\$236.9</b>	<b>37.5%</b>
Percentage of net revenues:			
Gross margin	52.4	% <b>53.2</b>	%
SG&A expenses	26.7	% <b>27.2</b>	%
R&D	12.3	% <b>10.8</b>	%
Operating income	12.4	% <b>15.7</b>	%

capital expenditures, R&D arrangements and collaborations, license agreements, and other services.

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 (c)and other foreign employee-related plans, as they are not contractually fixed as to timing and amount. Please see Note 4 to our consolidated financial statements for more information on these plans.

For additional information regarding our financial obligations and commitments, see Notes 8 and 9 to our consolidated financial statements.

Effective income tax  
rate

28 % **20** %

The following table summarizes the impact of the previously described events impacting comparability included in the financial results for fiscal 2005 and 2004:

(Dollar amounts in millions)	2004	2005
Income (charge) included in income before income taxes	\$(7.1)	<b>\$6.4</b>
Benefit for income taxes	(1.2)	<b>(21.1)</b>

Income from continuing operations increased in fiscal 2005 primarily due to improved gross margin and lower R&D expenses, partially offset by higher SG&A expenses. Additionally, income from continuing operations increased for fiscal 2005 due to the impact of the previously described events impacting comparability. The net effect of foreign currency on income from continuing operations was a benefit of approximately \$14 million in fiscal 2005 compared to the prior fiscal year.





*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)	2004	2005	% Increase/ (Decrease)
DNA Sequencing	\$572.5	<b>\$541.5</b>	<b>(5%)</b>
<i>% of total revenues</i>	33%	<b>30%</b>	
Real-Time PCR/Applied Genomics	430.9	<b>519.7</b>	<b>21%</b>
<i>% of total revenues</i>	25%	<b>29%</b>	
Mass Spectrometry	414.8	<b>426.8</b>	<b>3%</b>
<i>% of total revenues</i>	24%	<b>24%</b>	
Core PCR & DNA Synthesis (a)	202.4	<b>190.7</b>	<b>(6%)</b>
<i>% of total revenues</i>	11%	<b>11%</b>	
Other Product Lines	120.5	<b>108.4</b>	<b>(10%)</b>
<i>% of total revenues</i>	7%	<b>6%</b>	
<b>Total</b>	<b>\$1,741.1</b>	<b>\$1,787.1</b>	<b>3%</b>

(a) The product category Core PCR & DNA Synthesis was previously referred to as Core DNA Synthesis and PCR.

The favorable effects of foreign currency increased net revenues in fiscal 2005 by approximately 2% compared to fiscal 2004. As a result, net revenues, excluding the effects of foreign currency, increased slightly compared with the prior year period.

Revenues in the Real-Time PCR/Applied Genomics product category increased primarily due to higher sales of consumables products. Sales of biosecurity, human identification, and TaqMan<sup>®</sup> Gene Expression Assays and Low Density Arrays products contributed significantly to the product category growth.

Mass Spectrometry revenue growth was led by sales of our API 5000<sup>™</sup> LC/MS/MS and 4000 Q TRAP<sup>®</sup> LC/MS/MS Systems collectively to both proteomics and

*Revenue by sources*

The following table sets forth the Applied Biosystems group's revenues by sources for the fiscal years ended June 30:

(Dollar amounts in millions)	2004	2005	% Increase/ (Decrease)
Instruments	\$841.0	<b>\$803.5</b>	<b>(4.5%)</b>
Consumables	609.2	<b>681.5</b>	<b>11.9%</b>
Other sources	290.9	<b>302.1</b>	<b>3.9%</b>
<b>Total</b>	<b>\$1,741.1</b>	<b>\$1,787.1</b>	<b>2.6%</b>

*Instruments*

For fiscal 2005, instrument revenues decreased from the prior fiscal year primarily due to reduced sales of the Applied Biosystems 3730xII/3730 DNA Analyzers and ABI PRISM<sup>®</sup> 3100 and 3100-Avant Genetic Analyzers in the DNA Sequencing product category. This decrease was partially offset by higher sales of the Applied Biosystems 3130 line of Genetic Analyzers, also in the DNA Sequencing product category, and higher sales in the Real-Time PCR/Applied Genomics product category, resulting primarily from the Applied Biosystems 7300 Real-Time and 7500 Real-Time PCR Systems, partially offset by lower sales of the ABI PRISM<sup>®</sup> 7000 System. In the Mass Spectrometry category, sales of the API 5000<sup>™</sup> LC/MS/MS System, which began to sell commercially in the third quarter of fiscal 2005, and higher sales of the 4000 Q Trap<sup>®</sup> LC/MS/MS System were partially offset by reduced sales of the API 4000<sup>™</sup> LC/MS/MS System.

*Consumables*

The increase in consumables sales in fiscal 2005 compared to fiscal 2004 primarily reflected the strength of Real-Time PCR/Applied Genomics consumables sales. This increase resulted primarily from higher sales of biosecurity products, which included assays for the U.S. Postal Service Biohazard Detection System developed through a collaborative agreement with Cepheid as subcontractor to Northrop Grumman, human

small molecule customers, partially offset by lower sales of the API 4000™ LC/MS/MS System.

DNA Sequencing revenue declined compared to the prior fiscal year, primarily as a result of decreased sales of 3730x//3730 DNA Analyzers.

The decrease in revenues from Other Product Lines for fiscal 2005 resulted primarily from lower software sales, consulting and support revenues, and instrument sales compared with the prior fiscal year.

Revenues in the Core PCR & DNA Synthesis product category declined primarily due to decreased sales of consumables, including decreased sales to some large customers.

identification products used in forensics, TaqMan® Gene Expression Assays and Low Density Arrays, and other consumables products. This increase was partially offset by lower sales of Core PCR & DNA Synthesis consumables.

#### *Other sources*

Revenues from other sources, which included service and support, royalties, licenses, and contract research, increased for fiscal 2005 from fiscal 2004 primarily due to higher service revenues, partially offset by lower consulting and support and testing revenues. Included in revenues for fiscal 2005 was a \$2.5 million non-recurring licensing fee for some mass spectrometry technology.

*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)	2004	2005	% Increase/ (Decrease)
United States	\$809.2	<b>\$781.4</b>	<b>(3.4%)</b> )
Europe	537.8	<b>605.0</b>	<b>12.5%</b>
Asia Pacific	333.0	<b>333.5</b>	<b>0.2%</b>
Latin America and other markets	61.1	<b>67.2</b>	<b>10.0%</b>
<b>Total</b>	<b>\$1,741.1</b>	<b>\$1,787.1</b>	<b>2.6%</b>

The favorable effects of foreign currency increased revenues by approximately 4% in Europe and 2% in Asia Pacific during fiscal 2005 compared to fiscal 2004.

Revenues increased in Europe, primarily as a result of continued strong sales of the Applied Biosystems 3130 line of Genetic Analyzers and the Applied Biosystems 7300 and 7500 Real-Time PCR Systems and increased sales of human identification products. During fiscal 2005, revenues from Japan declined approximately 4% compared to the prior fiscal year, net of a positive impact from foreign currency of approximately 2%. Factors contributing to this decline included the continued shift of life science research funding to areas outside of sequencing and constrained spending due to anticipated lower growth in the fiscal 2006 government budget for life science research. Sales in the U.S. were negatively affected by reduced sales of DNA analyzers to large U.S. genome centers.

Gross margin, as a percentage of net revenues, increased for fiscal 2005 over the prior fiscal year due primarily to the favorable effects of foreign currency and a decrease in both software amortization and warranty costs. Service margins improved for fiscal 2005 primarily driven by growth in volume of service contracts, as well as improved pricing on selective billable parts, labor, and service contracts. Strong growth in some higher margin products within the sequence detection systems, human

Interest income, net increased during fiscal 2005 compared to the prior fiscal year primarily due to higher average interest rates and higher average cash and cash equivalents.

Other income (expense), net in fiscal 2005 included higher benefits associated with our foreign currency risk management program, partially offset by lower other non-operating income in fiscal 2005 in comparison to the prior fiscal year.

The decrease in the effective tax rate for fiscal 2005 compared to fiscal 2004 was primarily due to benefits related to R&D tax credit carryforwards, expected results of Canadian examinations, and settlement of some U.K. tax matters in fiscal 2005.

### 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	828.8	(0.6%) )
Gross margin	849.4	912.3	7.4%
SG&A expenses	410.3	465.2	13.4%
R&D	221.2	214.2	(3.2%) )
Employee-related charges, asset impairments and other	20.0	23.7	18.5%
Asset dispositions and 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%

identification, and assays product lines helped minimize the effect of the decline in DNA Sequencing instruments.

SG&A expenses for fiscal 2005 increased compared to fiscal 2004 due primarily to: higher employee-related and outside consultant costs of approximately \$14 million; the unfavorable effects of foreign currency of approximately \$9 million; and increased spending of approximately \$6 million on both the development of, and enhancements to, the Applied Biosystems Portal and the strategic business review. The increase in fiscal 2005 was partially offset by lower litigation-related legal expenses of approximately \$8 million and lower insurance and pension costs of approximately \$8 million. A significant portion of the Applied Biosystems group's legal fees related to defending the Applied Biosystems group's intellectual property assets.

R&D expenses decreased in fiscal 2005 from fiscal 2004 as a result of the previously announced realignment of the R&D product portfolio and the integration of the MALDI TOF product line into the Applied Biosystems/MDS Sciex Instruments joint venture with MDS Inc.

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Income from continuing operations	\$199.6	\$172.3	(13.7% )
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Percentage of net revenues:				
Gross margin	50.5	%	52.4	%
SG&A expenses	24.4	%	26.7	%
R&D	13.1	%	12.3	%
Operating income	13.3	%	12.4	%

Effective income tax rate	16	%	28	%
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The following table summarizes the impact of the previously described events impacting comparability included in the financial results for fiscal 2004 and 2003:

(Dollar amounts in millions)	2003	2004
Charge included in income before income taxes	\$ (3.7 )	\$(7.1 )
Benefit for income taxes	(28.7 )	(1.2 )

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Income from continuing operations decreased for fiscal 2004 primarily due to the impact of the previously described items impacting comparability, 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/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% )
<i>% of total revenues</i>	<i>37%</i>	<i>33%</i>	
Real-Time PCR/Applied Genomics (a)	352.5	430.9	22%
<i>% of total revenues</i>	<i>21%</i>	<i>25%</i>	
Mass Spectrometry (b)	355.1	414.8	17%
<i>% of total revenues</i>	<i>21%</i>	<i>24%</i>	
Core PCR & DNA Synthesis (c)	202.9	202.4	–%
<i>% of total revenues</i>	<i>12%</i>	<i>11%</i>	
Other Product Lines (a) (b)	140.7	120.5	(14% )
<i>% of total revenues</i>	<i>9%</i>	<i>7%</i>	
<b>Total</b>	<b>\$1,682.9</b>	<b>\$1,741.1</b>	<b>3%</b>

(a) A reclassification of \$0.6 million was made from Other Product Lines to Real-Time PCR/Applied Genomics in fiscal 2003.

(b) A reclassification of \$5.3 million was made from Other Product Lines to Mass Spectrometry in fiscal 2003.

(c) The product category Core PCR & DNA Synthesis was previously referred to as Core DNA Synthesis and PCR.

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/Applied Genomics and Mass Spectrometry product categories were offset by a decline in sales of the Applied Biosystems 3730x/ 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

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.

*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%
<b>Total</b>	<b>\$1,682.9</b>	<b>\$1,741.1</b>	<b>3.5%</b>

The favorable effects of foreign currency increased revenues by approximately 6% in Europe and 2% in Asia

and chromatography instrument sales compared with the prior fiscal year.

### 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)			% Increase/
	2003	2004	(Decrease)
Instruments	\$829.2	\$841.0	1.4%
Consumables	575.4	609.2	5.9%
Other sources	278.3	290.9	4.5%
<b>Total</b>	<b>\$1,682.9</b>	<b>\$1,741.1</b>	<b>3.5%</b>

### Instruments

Revenues from instrument sales increased in fiscal 2004 as growth in the Mass Spectrometry, led by the 4000 Q TRAP<sup>®</sup> LC/MS/MS System, and Real-Time PCR/Applied Genomics product categories were partially offset by a decline in sales of the Applied Biosystems 3730x/ DNA Analyzer to large-scale genome centers and the ABI PRISM<sup>®</sup> 3100 Genetic Analyzer in the DNA Sequencing category. The increase in instrument sales for the Real-Time PCR/Applied Genomics product category

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 PCR/Applied Genomics instruments and consumables. Partially offsetting the increase in European revenues was an order from a large-scale genome center for a substantial number of 3730x/ 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.

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 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 approximately \$19 million; increased spending of approximately \$12 million on the development of, and enhancements to, the Applied Biosystems Portal; and increased insurance and pension costs of approximately \$6 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 a 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 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.

### Applied Biosystems Group

joint venture, dividends, and potential share repurchases for the next twelve months and for the foreseeable future.

In July 2005, we announced that our board of directors authorized the repurchase of up to 10% of the outstanding shares of Applera Corporation-Applied Biosystems stock. This authorization supplements the Applied Biosystems group's existing authority to replenish shares issued under its employee stock benefit plans. The new authorization has no time restrictions and delegates to our management discretion to purchase shares at times and prices it deems appropriate through open market purchases, privately negotiated transactions, tender offers, exchange offers, or otherwise. It is anticipated that repurchases will be made from time to time depending on market conditions and will be funded using the Applied Biosystems group's U.S. cash reserves and cash generated from domestic operations, as well as funds to be borrowed under our revolving credit agreement, if and when required.

We manage the investment of surplus cash and the issuance and repayment of short 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)	2004	2005
Cash and cash equivalents	\$456.3	<b>\$756.2</b>
Short-term investments	48.6	
Total cash and cash equivalents and short-term investments	\$504.9	<b>\$756.2</b>
Working capital	592.0	<b>844.1</b>

Cash and cash equivalents in fiscal 2005 increased as cash generated from operating activities, which included the amount received related to the previously described patent infringement lawsuit, proceeds from the sale of investments, net of purchases, and proceeds from asset sales and stock issuances for employee stock plans

## Discussion of Financial Resources and Liquidity

The Applied Biosystems group had cash and cash equivalents and short-term investments of \$756.2 million at June 30, 2005, and \$504.9 million at June 30, 2004. We maintain a \$200 million unsecured revolving credit agreement with four banks that matures on April 15, 2010, under which there were no borrowings outstanding at June 30, 2005. This credit agreement replaced a \$50 million unsecured revolving credit agreement that was scheduled to mature in April 2005, under which there were no borrowings outstanding at June 30, 2004. Cash provided by operating activities has been the Applied Biosystems group's primary source of funds.

We believe that existing funds, cash generated from operations, and existing sources of debt financing are more than adequate to satisfy the Applied Biosystems group's normal operating cash flow needs, planned capital expenditures, its share of funding of the Celera Diagnostics

were only partially offset by expenditures for capital assets, the funding of the Celera Diagnostics joint venture, the payment of dividends, and the repurchase of Applied Biosystems stock. Also impacting the increase 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 13 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)	2003	2004	2005
Net cash from operating activities	\$279.4	\$289.3	<b>\$334.3</b>
Net cash from investing activities	(111.6)	(76.9 )	<b>(33.8 )</b>
Net cash from financing activities	(40.3 )	(345.5)	<b>8.0</b>
Effect of exchange rate changes on cash	29.1	12.9	<b>(8.9 )</b>

### *Operating activities*

Net cash from operating activities of continuing operations for fiscal 2005 was \$45.0 million higher than in fiscal 2004. This increase resulted primarily from: higher income-related cash flows; the timing of vendor payments; and the funding of our U.S. pension plan of approximately \$51 million in fiscal 2004.





This increase was partially offset by: a lower reduction in accounts receivable balance in fiscal 2005 due to the timing of collections; the timing of royalty payments; an increase in a non-trade receivable related to its joint venture activities; the timing of the receipt of dividends and distributions from investments in unconsolidated subsidiaries; and higher severance payments in fiscal 2005. We did not fund our U.S. pension plan in fiscal 2005 as no contributions were required under ERISA regulations.

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 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.

The Applied Biosystems group's days sales outstanding was 56 days at June 30, 2005, compared to 61 days at June 30, 2004, and 75 days at June 30, 2003. Inventory on hand was 2.4 months at June 30, 2005, 2.8 months at June 30, 2004, and 3.3 months at June 30, 2003.

#### Investing activities

Capital expenditures were \$84.6 million in fiscal 2005, \$60.4 million in fiscal 2004, and \$131.9 million in fiscal 2003. In fiscal 2005, the Applied Biosystems group spent \$42 million to purchase several buildings at its Foster City, California location. Additionally, fiscal 2005 capital expenditures included purchases of production equipment, testing and laboratory equipment for its facilities, as well as computer equipment. Fiscal 2004 capital expenditures included approximately \$12 million for the expansion of facilities, primarily in Pleasanton, California and Bedford, Massachusetts, as well as purchases of production equipment, testing and laboratory equipment for these facilities, and \$13 million

#### Financing activities

Fiscal 2005 included four dividend payments on Applera-Applied Biosystems stock compared to five payments in fiscal 2004. 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 Purchase	
	Repurchased	Price
2003	1.1	\$ 19.8
2004	15.4	325.0
<b>2005</b>	<b>0.3</b>	<b>6.1</b>

#### Celera Genomics Group

#### Results of Operations – 2005 Compared with 2004

(Dollar amounts in millions)	2004	2005	% Increase/ (Decrease)
Net revenues	\$60.1	\$31.0	(48.4% )
Cost of sales	10.8	6.0	(44.4% )
R&D	101.4	103.5	2.1%
SG&A expenses	32.4	26.2	(19.1% )
Amortization of intangible assets	2.9	2.9	
Employee-related charges, asset impairments and other	18.1	2.6	(85.6% )
Operating loss	(105.5)	(110.2)	4.5%
Gain on investments, net	24.3		(100.0%)
Interest income, net	10.8	14.9	38.0%
Other income (expense), net	1.9	1.3	(31.6% )
Loss from joint venture	(42.0 )	(29.9 )	(28.8% )
Loss before income taxes	(110.5)	(123.9)	12.1%
Benefit for income taxes	53.0	46.8	(11.7% )
Net loss	\$(57.5 )	\$(77.1 )	34.1%
Effective income tax benefit rate	48%	38%	

for enterprise system upgrades. Fiscal 2003 capital expenditures included approximately \$87 million for the expansion of facilities, primarily in Pleasanton, California and Bedford, Massachusetts, as well as purchases of production, tool and testing equipment for these facilities.

In fiscal 2005 and fiscal 2003, cash was generated from the sales and maturities of available-for-sale investments, net of purchases of available-for-sale investments. In fiscal 2004, however, purchases of available-for-sale investments exceeded the proceeds received from the sales and maturities of available-for-sale investments. For the three fiscal years ended June 30, 2005, the majority of the amount reported in investments in joint venture and other related to the funding of the Celera Diagnostic joint venture. Fiscal 2005 proceeds from the sale of assets included approximately \$7.0 million received from MDS, representing the first installment related to the sale of some MALDI TOF assets, net of expenses.

The following table summarizes the impact of the previously described events impacting comparability included in the financial results for fiscal 2005 and 2004:

(Dollar amounts in millions)	2004	2005
Income (charge) included in income before income taxes	\$6.7	\$(4.3)
Provision (benefit) for income taxes	2.4	(3.7)

The higher net loss in fiscal 2005 compared to fiscal 2004 primarily resulted from lower net revenues, the decrease in the effective tax benefit rate, and the impact of previously described events impacting comparability, partially offset by lower SG&A expenses, higher net interest income, and lower losses for the Celera Diagnostics joint venture in fiscal 2005.

Revenues decreased for fiscal 2005 compared to fiscal 2004 primarily as a result of the expiration of Online/Information Business customer agreements and the discontinuation of most of the operations of Paracel during the first quarter of fiscal 2005. 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 declined as expected. The CDS online platform is an integrated source of information based on the

human genome and other biological and medical sources. Substantially all of the existing customer contracts terminated prior to June 30, 2005.

Cost of sales in fiscal 2005 included \$1.7 million related to the impairment of Paracel inventory.

R&D expenses increased in fiscal 2005 compared to fiscal 2004 primarily due to increased expenditures to support preclinical development activities and the hiring of additional therapeutic R&D personnel. These increases were partially offset by lower Online/Information Business R&D expenses and the discontinuation of most of the operations of Paracel. R&D expenses for fiscal 2005 included \$0.7 million of expense related to the acceleration of the vesting of substantially all of the unvested stock options relating to Applera-Celera Genomics stock. R&D expenses for fiscal 2004 included a \$1.8 million write-off of building improvements related to a reconfiguration of space in the Rockville, Maryland facility.

SG&A expenses decreased in fiscal 2005 compared to the prior fiscal year primarily due to the discontinuation of most of the operations of Paracel and lower Online/Information Business expenses resulting from lower employee-related costs and bad debt expense, partially offset by higher legal expenses.

Interest income, net increased during fiscal 2005 compared to fiscal 2004 primarily due to higher average interest rates, partially offset by lower average cash and cash equivalents and short-term investments.

The decrease in other income, net for fiscal 2005 compared to fiscal 2004 primarily resulted from higher non-recurring cash receipts in fiscal 2004 and the write-down in fiscal 2005 of an investment acquired as part of the Axys acquisition, partially offset by losses recorded from equity method investments in fiscal 2004.

The decrease in the effective income tax benefit rate for fiscal 2005 compared to the prior fiscal year was primarily attributable to a reduction of the valuation

The following table summarizes the impact of the previously described events impacting comparability included in the financial results for fiscal 2004 and 2003:

(Dollar amounts in millions)	2003	2004
Income (charge) included in income before income taxes	\$(15.1)	\$6.7
Provision (benefit) for income taxes	(5.9 )	2.4

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.

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

allowance in fiscal 2004, partially offset by higher R&D tax credits in fiscal 2005.

## Results of Operations – 2004 Compared with 2003

(Dollar amounts in millions)	2003	2004	% Increase/ (Decrease)
Net revenues	\$88.3	\$60.1	(31.9% )
Cost of sales	14.1	10.8	(23.4% )
R&D	117.8	101.4	(13.9% )
SG&A expenses	33.3	32.4	(2.7% )
Amortization of intangible assets	5.9	2.9	(50.8% )
Employee-related charges, asset impairments and other		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%	

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.

Other income (expense), net for fiscal 2004 included a non-recurring cash receipt of \$2.0 million related to the March 2002 sale of the Celera Genomics group' s animal genomics and genotyping business, partially offset by losses recorded from equity method investments in fiscal 2004. 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 a reduction in the valuation allowance.





## Celera Genomics Group

### Discussion of Financial Resources and Liquidity

The Celera Genomics group had cash and cash equivalents and short-term investments of \$668.3 million at June 30, 2005, and \$745.8 million at June 30, 2004. We maintain a \$200 million unsecured revolving credit agreement with four banks that matures on April 15, 2010, under which there were no borrowings outstanding at June 30, 2005. This credit agreement replaced a \$50 million unsecured revolving credit agreement that was scheduled to mature in April 2005, under which there were no borrowings outstanding at June 30, 2004.

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

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

(Dollar amounts in millions)	2004	2005
Cash and cash equivalents	\$51.5	<b>\$23.2</b>
Short-term investments	694.3	<b>645.1</b>
Total cash and cash equivalents and short-term investments	\$745.8	<b>\$668.3</b>
Total debt	6.1	
Working capital	726.8	<b>635.9</b>
Debt to total capitalization	0.6%	–%

During fiscal 2005, we repaid the remaining principal amount of the 8% senior secured convertible notes assumed in connection with the Axys acquisition of approximately \$6 million. In fiscal 2004, we repurchased

Cash and cash equivalents for fiscal 2005 decreased as expenditures for operations, capital assets, the funding of the Celera Diagnostics joint venture, and debt repayment were only partially offset by proceeds from the sales and maturities of short-term investments, sale of assets and proceeds from stock issuances. Net cash flows for the fiscal years ended June 30 were as follows:

(Dollar amounts in millions)	2003	2004	2005
Net cash from operating activities	\$(31.9)	\$(53.9)	<b>\$(87.6)</b>
Net cash from investing activities	37.9	57.1	<b>55.7</b>
Net cash from financing activities	17.7	(4.3)	<b>3.4</b>

#### Operating activities

Net cash used by operating activities for fiscal 2005 was \$33.7 million higher than in fiscal 2004. Net cash used by operating activities for fiscal 2004 was \$22.0 million higher than in fiscal 2003. The higher use of cash in both periods resulted primarily from higher net cash operating losses and lower cash receipts due to the expiration of Online/Information Business customer agreements.

#### Investing activities

Capital expenditures were \$7.4 million in fiscal 2005 and \$6.0 million in fiscal 2004 and fiscal 2003. Capital expenditures in all three fiscal years consisted primarily of equipment purchases used to support our therapeutics business and improvements made to our therapeutics facilities.

In fiscal 2005, 2004, and 2003, cash was generated from the sales and maturities of available-for-sale investments, net of purchases of available-for-sale investments. Fiscal 2005 included the maturation of non-callable U.S. government obligations, pledged as collateral for the 8% senior secured convertible notes assumed in connection with the acquisition of Axys. A portion of the proceeds from the principal and interest received from these U.S. government obligations was used to fund the interest and principal payments under the notes. Fiscal 2003 included the purchase of investments to be used as substitute collateral for the 8% senior secured convertible notes. Cash paid in

\$10.0 million in principal amount of the outstanding convertible notes. 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 were required to be held in a trust and a portion of the proceeds from the maturation of, and interest payments on, these obligations funded the interest and principal payments under the notes. The government obligations, which matured in fiscal 2005, were classified as available-for-sale at June 30, 2004. We sold our investment in DPI stock in fiscal 2004.

connection with investments in joint venture and other, all of which related to the funding of the Celera Diagnostics joint venture, was \$27.3 million in fiscal 2005, \$38.7 million in fiscal 2004, and \$52.3 million in fiscal 2003. In the fourth quarter of fiscal 2005, the Celera Genomics group received proceeds of \$42.4 million from the sale of its facilities in Rockville, Maryland. 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*

During fiscal 2005, we repaid the remaining principal amount of the 8% senior secured convertible notes assumed in connection with the Axys acquisition of approximately \$6 million. These notes matured in October 2004. In fiscal 2004, we repurchased \$10.0 million in principal amount of these notes.

**Celera Diagnostics****Results of Operations –  
2005 Compared with 2004**

(Dollar amounts in millions)	2004	2005	% Increase/ (Decrease)
Net revenues	\$36.7	<b>\$35.5</b>	<b>(3.3% )</b>
Cost of sales	20.1	<b>13.9</b>	<b>(30.8% )</b>
R&D	43.9	<b>37.9</b>	<b>(13.7% )</b>
SG&A expenses	14.7	<b>13.6</b>	<b>(7.5% )</b>
Operating loss	\$(42.0)	<b>\$(29.9)</b>	<b>(28.8% )</b>

**Supplemental information**

Equalization revenue, net	\$23.3	<b>\$19.1</b>
End-user alliance sales for all products sold primarily through Abbott Laboratories	45.9	<b>61.7</b>

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.

Reported revenues decreased for fiscal 2005 compared to fiscal 2004 due to lower equalization payments and reduced revenue related to shipments to Abbott. This decrease was partially offset by an increase in technology-related revenue, including license fees and royalties from Cepheid and recognition of milestone payments from Merck associated with its target and marker collaboration related to Alzheimer's disease. Reported revenues differ from end-user sales and consist primarily of equalization payments from Abbott resulting from the profit-sharing arrangement between Abbott and Celera Diagnostics, and technology-related revenues for fiscal 2005. Fluctuation in equalization payments can lead to variability in reported revenues, gross margins and cash use from period to period due to

SG&A expenses decreased for fiscal 2005 compared to fiscal 2004 primarily due to a \$1.6 million charge recorded in fiscal 2004 related to a facility lease agreement.

**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%
Operating loss	\$(51.2)	\$(42.0)	(18.0% )

**Supplemental information**

Equalization revenue, net	\$10.5	\$23.3
End-user alliance sales for all products sold primarily through Abbott Laboratories	20.5	45.9

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 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 ASRs. Also impacting the results for fiscal 2004 was growth in products sourced from third parties, including products for HLA typing, and infectious disease testing products. The results for fiscal 2003

differences in end-user sales of alliance products and operating expenses between the alliance partners.

End-user alliance sales for all products sold primarily through Abbott increased for fiscal 2005 compared to the prior fiscal year primarily due to increased sales of HCV genotyping and viral load analyte specific reagents (“ASRs”), products for Human Leukocyte Antigen (“HLA”) typing, and the ViroSeq™ product. HLA-typing products detect specific DNA sequences in several HLA genes. The ViroSeq product includes reagents for identifying key mutations of the Human Immunodeficiency Virus (“HIV-1”) genome.

R&D expenses decreased for fiscal 2005 compared to fiscal 2004 due to decreased spending in discovery and product development programs and for the development of an instrument platform for the alliance. R&D expenses included \$1.8 million for fiscal 2005 and \$4.9 million for fiscal 2004 of lease payments on instruments and purchases of consumables from the Applied Biosystems group.

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.





## Market Risks

We are exposed to potential loss from exposure to market risks represented principally by changes in currency rates, interest rates, and equity prices.

We operate internationally, with manufacturing and distribution facilities in various countries throughout the world. For fiscal 2005, 2004, and 2003, we derived approximately 50% to 55% of our revenues from countries outside of the U.S., while a significant portion of the related costs were based in U.S. dollars. We anticipate that our future results will continue to be affected by market risk, including changes in political and economic conditions in foreign markets and fluctuations in currency rates, primarily the euro, Japanese yen, and British pound.

Our foreign currency risk management strategy uses derivative instruments to hedge various foreign currency forecasted revenues and intercompany transactions and to offset the impact of changes in currency rates on various 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 forward, option, and range forward contracts to manage our foreign currency exposures. Forward contracts commit us to buy or sell a currency at a contracted rate on a specific future date. Option contracts grant us the right, but not the obligation, to buy or sell a currency at a certain rate by or on a specific future date in exchange for a fee. Option contracts provide us with an effective hedge against a negative movement in currency rates at a fixed cost. Range forward contracts consist of the simultaneous purchase and sale of options to create a range within which we can benefit from changes in currency rates. We generally use forward contracts to offset the impact of changes in currency rates on various foreign currency-denominated assets and liabilities. In hedging various foreign currency forecasted revenues and intercompany transactions where we have functional currency exposure, we use a combination of 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.

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 were repaid on their maturity date in fiscal 2005.

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 \$11 million at June 30, 2005, as compared to \$16 million at June 30, 2004.

## 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

### *Applied Biosystems Group*

The Applied Biosystems group believes that its fiscal 2006 outlook and 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; the level of government funding for life science research; the outcome of pending litigation matters; competitive product introductions and pricing; purchase patterns from large genome centers for DNA sequencing instruments and consumables; and the

We performed a sensitivity analysis as of June 30, 2005. Assuming a hypothetical 10% adverse change in currency rates relative to the U.S. dollar, we calculated a hypothetical after-tax loss of \$13.8 million, as compared to a hypothetical after-tax loss of \$22.2 million at June 30, 2004. Our analysis included the change in value of the derivative financial instruments, along with the impact of translation on foreign currency-denominated assets and liabilities. Our analysis excluded the impact of translation of foreign currency-denominated forecasted revenues and intercompany transactions. If currency 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 currency rate movements and actual exposures and hedges.

success of the Applied Biosystems group's expanded licensing program for PCR technology.

Subject to the inherent uncertainty associated with these factors, the Applied Biosystems group has the following expectations regarding its financial performance for fiscal 2006:

Annual revenue growth for fiscal 2006 is anticipated to be in the low single digits. This outlook includes the impact of currency, which at current exchange rates is expected to reduce reported revenue growth by approximately 1%. Revenues are expected to increase for both instruments and consumables. The Applied Biosystems group anticipates revenue growth in the Real-Time PCR/Applied Genomics and Mass Spectrometry product categories and revenue declines in the DNA Sequencing and Core PCR & DNA Synthesis categories. Revenues in the Other Product Lines category are

expected to approximately equal those in fiscal 2005. Quarterly year-over-year revenue changes may be different from our annual expectations due to a variety of factors, including the timing of customer orders and disbursements of government funding.

The Applied Biosystems group anticipates fiscal 2006 gross margin to equal, or slightly exceed, the fiscal 2005 gross margin of 53.2%. Consistent with the decision taken during the fourth quarter of fiscal 2005 to rebalance resources, total operating expenses are expected to be slightly higher in fiscal 2006 compared to the prior year, as higher SG&A expense as a percent of total revenues is expected to be approximately offset by lower R&D expense as a percent of total revenues. The Applied Biosystems group expects operating margin to increase modestly from the fiscal 2005 level, excluding events impacting comparability in both fiscal years.

The Applied Biosystems group expects the effective tax rate for fiscal 2006 to be approximately 30%, compared to 28% in fiscal 2005. Factors contributing to the anticipated increase in the effective tax rate include the phase out of export tax benefits and a change in the mix of U.S. versus foreign income. We continue to analyze certain product manufacturing alternatives that could impact the tax rate. Independent of the expected effective tax rate, we anticipate that several outstanding tax matters in multiple taxing jurisdictions may be resolved in our favor during fiscal 2006.

Excluding the fiscal 2005 events impacting comparability previously mentioned, the Applied Biosystems group expects earnings per share for fiscal 2006 to increase at or slightly above the annual revenue growth rate. In addition, the Applied Biosystems group believes that earnings per share would increase at a low double digit rate over the fiscal 2005 level, excluding the anticipated effects of currency, the expensing of stock options now required under SFAS No. 123, "Share-Based Payment (revised 2004)," and the increase in the effective tax rate.

The agreements with Roche, and the Applied Biosystems group's and Roche's rights to and commercialization of PCR technology, were previously the subject of litigation and arbitration proceedings. In May 2005, the Applied Biosystems group reached definitive agreement with Roche to settle all of these outstanding legal proceedings, as described under Item 3. "Legal Proceedings" in Part I of our Form 10-K Annual Report for fiscal 2005. The parties subsequently sought and received dismissal of the litigation and arbitration proceedings. In connection with the settlement, the parties amended some licenses granted by each party to the other in the research, applied, and diagnostic fields, worldwide. In addition, Applera has become the exclusive licensor of some Roche patents covering reagents, kits, and methods for practicing PCR and real-time PCR in the research and applied fields. This will allow the Applied Biosystems group to expand the existing PCR licensing program to include PCR and real-time PCR patents not previously part of its licensing program. The Applied Biosystems group believes that, if successful, the expanded licensing program should generate significant income that should substantially offset income lost from the patent expirations. The settlement also releases the Applied Biosystems group, beginning in May 2007, from its obligations to purchase some enzymes and other PCR-related reagent products from Roche under pre-existing supply agreements.

Other risks and uncertainties that may affect the Applied Biosystems group's financial performance are detailed in Item 5. "Forward-Looking Statements and Risk Factors" in Part II of our Form 10-K Annual Report for fiscal 2005.

#### *Celera Genomics Group*

The Celera Genomics group believes that its fiscal 2006 financial performance will be influenced by, among other things, the success of its internal and external R&D programs, and the financial performance of Celera Diagnostics. Additionally, the Celera Genomics group anticipates continuing to advance its small molecule pipeline and is seeking partners to maximize the value of this asset in the most cost effective manner. The Celera

Capital spending for fiscal 2006 is expected to be in the range of \$50-60 million.

The Applied Biosystems group continues to develop a plan to repatriate cash balances held outside the U.S. during fiscal 2006 consistent with the repatriation provision of the Jobs Act.

The Applied Biosystems group derives some rights to PCR technology under a series of agreements with Roche, 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 expired in March 2005 in the U.S., and will expire in March 2006 in Europe and some other jurisdictions. As further discussed in the following paragraph, the Applied Biosystems group believes that reduced PCR royalties resulting from the expiration of these patents should be offset to a substantial degree by income from real-time PCR and other PCR-related technologies that it owns or licenses.

Genomics group also expects to continue its proteomics program and seek additional partners to maximize the therapeutic and pharmacogenomic value associated with these programs. Subject to the inherent uncertainty associated with these factors, the Celera Genomics group has the following expectations regarding its financial performance for fiscal 2006:

Excluding the potential effects of the Celera Genomics group's partnering initiatives in fiscal 2006, the proceeds from the sale of the Rockville facility, and the Axys notes repayment in fiscal 2005, net cash use for fiscal 2006 is expected to be approximately the same as fiscal 2005. This includes an anticipated \$10 to \$15 million in fiscal 2006 for the Celera Genomics group's portion of the funding for the Celera Diagnostics joint venture. Revenues are expected to be in the range of \$5 to \$10 million, which reflects the discontinuation of the Online/Information Business.

Excluding the potential effects of the Celera Genomics group's partnering initiatives in fiscal 2006, the Celera Genomics group anticipates R&D expenses to be in the





range of \$95 to \$105 million, and SG&A expenses to be in the range of \$25 to \$30 million. Pre-tax losses related to the Celera Diagnostics joint venture are expected to be in the range of \$19 to \$23 million.

Capital spending in fiscal 2006 is anticipated to be in the range of \$4 to \$8 million.

Other risks and uncertainties that may affect the Celera Genomics group's financial performance are detailed in Item 5. "Forward-Looking Statements and Risk Factors" in Part II of our Form 10-K Annual Report for fiscal 2005.

#### *Celera Diagnostics*

Celera Diagnostics anticipates that its fiscal 2006 financial performance will be affected by, among other things: continued growth in demand for current products, such as ASRs for cystic fibrosis and HCV; sales of new products for infectious disease testing on the Abbott m2000™ system sold through the alliance with Abbott and others in development at Celera Diagnostics; and new alliance product sales for ASRs for Fragile X and other genetic diseases. Celera Diagnostics intends to continue advancing its genomic research and its medical utility studies to create value from diagnostic testing and, together with the Celera Genomics group, to seek partnerships to leverage proteomic capabilities to identify novel targets, pharmacogenomic markers and biomarkers. Subject to the inherent uncertainty associated with these factors, Celera Diagnostics has the following expectations regarding its financial performance for fiscal 2006:

For fiscal 2006, Celera Diagnostics anticipates pre-tax losses to be in the range of \$19 to \$23 million, and fiscal 2006 net cash use to be in the range of \$25 to \$30 million, including capital spending of approximately \$3 to \$5 million. Total end user sales for the alliance between Celera Diagnostics and Abbott are anticipated to be in the range of \$80 to \$90 million.

Other risks and uncertainties that may affect Celera Diagnostics' financial performance are detailed in Item 5. "Forward-Looking Statements and Risk Factors" in Part II of our Form 10-K Annual Report for fiscal 2005.

#### **Forward-Looking Statements**

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 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 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 2005.

Also, we note that owners of Applera-Applied Biosystems stock and Applera-Celera Genomics 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 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 2005.

Some statements contained in this report, including the Outlook section, are forward-looking and are subject to a

(Dollar amounts in thousands except per share amounts)

For the years ended June 30,

	2003	2004	2005
Products	\$1,405,063	\$1,455,959	<b>\$1,490,361</b>
Services	166,646	182,440	<b>205,514</b>
Other	205,523	186,794	<b>149,265</b>
<b>Total Net Revenues</b>	<b>1,777,232</b>	<b>1,825,193</b>	<b>1,845,140</b>
Products	720,388	727,635	<b>735,127</b>
Services	93,542	91,916	<b>95,911</b>
Other	35,726	32,365	<b>18,747</b>
<b>Total Cost of Sales</b>	<b>849,656</b>	<b>851,916</b>	<b>849,785</b>
<b>Gross Margin</b>	<b>927,576</b>	<b>973,277</b>	<b>995,355</b>
Selling, general and administrative	455,232	512,375	<b>525,457</b>
Research, development and engineering	381,325	354,165	<b>330,734</b>
Amortization of intangible assets	5,873	2,900	<b>2,900</b>
Employee-related charges, asset impairments and other	20,041	41,824	<b>34,376</b>
Asset dispositions and litigation settlements	(25,776 )	(6,660 )	<b>(38,172 )</b>
<b>Operating Income</b>	<b>90,881</b>	<b>68,673</b>	<b>140,060</b>
Gain (loss) on investments, net	(2,615 )	35,529	<b>(50 )</b>
Interest expense	(1,048 )	(300 )	<b>(280 )</b>
Interest income	30,665	23,137	<b>29,140</b>
Other income (expense), net	(12,306 )	2,448	<b>4,473</b>
<b>Income before Income Taxes</b>	<b>105,577</b>	<b>129,487</b>	<b>173,343</b>
Provision (benefit) for income taxes	(12,903 )	14,534	<b>13,548</b>
<b>Income from Continuing Operations</b>	<b>118,480</b>	<b>114,953</b>	<b>159,795</b>
Income (loss) from discontinued operations, net of income taxes	(16,400 )	10,628	
<b>Net Income</b>	<b>\$102,080</b>	<b>\$125,581</b>	<b>\$159,795</b>
<b>Applied Biosystems Group (see Note 1)</b>			
<b>Income from Continuing Operations per Share</b>			
Basic	\$0.96	\$0.84	<b>\$1.21</b>
Diluted	\$0.95	\$0.83	<b>\$1.19</b>
<b>Income (Loss) from Discontinued Operations per Share</b>			
Basic and diluted	\$(0.08 )	\$0.05	<b>\$-</b>
<b>Net Income per Share</b>			
Basic	\$0.88	\$0.89	<b>\$1.21</b>

Diluted

\$0.87

\$0.88

\$1.19

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**Celera Genomics Group (see Note 1)**

**Net Loss per Share**

Basic and diluted

\$(1.15

) \$(0.79

) \$(1.05

)

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See accompanying notes to Applera Corporation's consolidated financial statements.



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(Dollar amounts in thousands except share data)

At June 30,

2004

2005

**Assets**

## Current assets

Cash and cash equivalents	\$507,870	\$779,401
Short-term investments	742,871	645,084
Accounts receivable (net of allowances for doubtful accounts of \$8,948 and \$7,025, respectively)	392,170	383,938
Inventories, net	140,796	126,541
Prepaid expenses and other current assets	139,701	152,645

Total current assets	1,923,408	2,087,609
Property, plant and equipment, net	446,027	438,398
Other long-term assets	603,416	638,178

<b>Total Assets</b>	<b>\$2,972,851</b>	<b>\$3,164,185</b>
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**Liabilities and Stockholders' Equity**

## Current liabilities

Current portion of long-term debt	\$6,081	\$-
Accounts payable	147,995	174,022
Accrued salaries and wages	89,704	91,188
Accrued taxes on income	80,599	77,327
Other accrued expenses	272,389	250,134

Total current liabilities	596,768	592,671
Other long-term liabilities	195,034	227,431

<b>Total Liabilities</b>	<b>791,802</b>	<b>820,102</b>
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Commitments and contingencies (see Note 9)

**Stockholders' Equity**

## Capital stock

## Preferred stock

Applera Corporation: \$.01 par value; 10,000,000 shares authorized at June 30, 2004 and 2005; no shares issued and outstanding at June 30, 2004 and 2005

## Common stock

Applera Corporation – Applied Biosystems stock: \$.01 par value; 212,988,000 shares issued at June 30, 2004, and 213,008,000 shares issued at June 30, 2005

Applera Corporation – Celera Genomics stock: \$.01 par value; 73,086,000 shares issued at June 30, 2004, and 74,255,000 shares issued at June 30, 2005

Capital in excess of par value	2,111,805	2,132,364
Retained earnings	441,069	558,065
Accumulated other comprehensive loss	(15,683 )	(41,787 )
Treasury stock, at cost	(359,003 )	(307,432 )

<b>Total Stockholders' Equity</b>	<b>2,181,049</b>	<b>2,344,083</b>
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See accompanying notes to Applera Corporation's consolidated financial statements.

(Dollar amounts in thousands)

For the years ended June 30,

2003

2004

2005

**Operating Activities of Continuing Operations**

Income from continuing operations	\$118,480	\$114,953	\$159,795
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	146,655	125,267	101,955
Asset impairments	9,991	37,288	4,647
Provisions for excess lease space, office closures and severance costs	19,498	5,456	25,682
Share-based compensation programs	5,114	3,309	6,031
Deferred income taxes	(58,014 )	(49,236 )	(34,871 )
(Gains) losses from investments and sales of assets	1,500	(35,463 )	(29,646 )
Loss from equity method investees	18,894	488	
Changes in operating assets and liabilities:			
Accounts receivable	2,949	49,338	9,471
Inventories	(6,847 )	11,787	13,912
Prepaid expenses and other assets	(22,881 )	(13,223 )	(14,135 )
Accounts payable and other liabilities	(39,481 )	(55,529 )	(26,418 )

**Net Cash Provided by Operating Activities of Continuing Operations**

195,858      194,435      216,423

**Investing Activities of Continuing Operations**

Additions to property, plant and equipment	(144,395 )	(68,391 )	(93,881 )
Proceeds from maturities of available-for-sale investments	3,891,204	2,230,846	2,022,558
Proceeds from sales of available-for-sale investments	667,024	1,020,316	670,062
Purchases of available-for-sale investments	(4,425,333)	(3,196,559)	(2,595,919)
Purchases of long-term investments	(16,834 )		
Other investments	(324 )	(288 )	(371 )
Proceeds from the sale of assets, net	6,608	35,221	49,751

**Net Cash Provided (Used) by Investing Activities of Continuing Operations**

(22,050 )      21,145      52,200

**Net Cash Provided (Used) by Operating Activities of Discontinued Operations**

(3,677 )      (17,738 )      338

**Financing Activities**

Net change in loans payable	(290 )		
Principal payments on debt		(10,000 )	(6,000 )
Dividends	(35,567 )	(43,528 )	(33,446 )
Purchases of common stock for treasury	(19,779 )	(324,999 )	(6,100 )
Proceeds from stock issued for stock plans	33,047	28,801	56,982

**Net Cash Provided (Used) by Financing Activities**

(22,589 )      (349,726 )      11,436

<b>Effect of Exchange Rate Changes on Cash</b>	29,123	12,871	<b>(8,866 )</b>
<b>Net Change in Cash and Cash Equivalents</b>	176,665	(139,013 )	<b>271,531</b>
<b>Cash and Cash Equivalents Beginning of Year</b>	470,218	646,883	<b>507,870</b>
<b>Cash and Cash Equivalents End of Year</b>	<b>\$646,883</b>	<b>\$507,870</b>	<b>\$779,401</b>

See accompanying notes to Applera Corporation' s consolidated financial statements.



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(Dollar amounts in thousands)	Aplera-		Aplera-		Accumulated	Aplera-		Total
	Applied Biosystems Stock	Celera Genomics Stock	Capital in Excess of Par Value	Retained Earnings	Other Comprehensive Income (Loss)	Biosystems Treasury Stock	Applied Stockholders' Equity	
<b>Balance at June 30, 2002</b>	\$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 Aplera-								
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	
Share-based compensation			4,939	29		146	5,114	
<b>Balance at June 30, 2003</b>	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 Aplera-								
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	
Share-based compensation			3,149	29		130	3,308	

<b>Balance at June 30, 2004</b>	2,130	731	2,111,805	441,069	(15,683 )	(359,003 )	2,181,049
Comprehensive income							
Net income				<b>159,795</b>			<b>159,795</b>
Other comprehensive income:							
Foreign currency translation adjustments					<b>(8,598 )</b>		
Unrealized gain on hedge contracts, net of reclassification adjustments					<b>10,975</b>		
Minimum pension liability adjustment					<b>(24,610 )</b>		
Unrealized loss on investments, net of reclassification adjustments					<b>(3,871 )</b>		
Other comprehensive loss					<b>(26,104 )</b>		<b>(26,104 )</b>
Comprehensive income							<b>133,691</b>
Cash dividends declared on Applera- Applied Biosystems stock				<b>(33,446 )</b>			<b>(33,446 )</b>
Purchase of shares for treasury stock						<b>(6,100 )</b>	<b>(6,100 )</b>
Issuances under stock plans	<b>12</b>	<b>9,283</b>	<b>(9,379 )</b>		<b>57,433</b>		<b>57,349</b>
Tax benefit related to employee stock options		<b>5,509</b>					<b>5,509</b>
Share-based compensation		<b>5,767</b>	<b>26</b>		<b>238</b>		<b>6,031</b>
<b>Balance at June 30, 2005</b>	<b>\$2,130</b>	<b>\$743</b>	<b>\$2,132,364</b>	<b>\$ 558,065</b>	<b>\$(41,787 )</b>	<b>\$(307,432)</b>	<b>\$2,344,083</b>

See accompanying notes to Applera Corporation's consolidated financial statements.

## Note 1—Accounting Policies and Practices

### Organization

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 14 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. (“FIN”) 46R, “Consolidation of Variable Interest Entities, an interpretation of ARB No. 51,” our consolidation policy requires the consolidation of variable interest entities, or VIEs, in which we are determined to be the primary beneficiary from the date the determination is made. 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.

During fiscal 2005, we reclassified \$20.2 million relating to fiscal 2003 and \$22.7 million relating to fiscal 2004 of costs supporting our patent related activities from R&D expenses to SG&A expenses. This reclassification had no impact on net income or earnings per share.

During fiscal 2005, we began classifying all of our investments in auction rate securities as short-term investments. Prior to 2005, some of these securities were included in cash and cash equivalents. Short-term investments included \$54.1 million of auction rate

### 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 Genomics stock”). Applera-Applied Biosystems stock is intended to reflect the relative performance of the Applied Biosystems group, and Applera-Celera Genomics stock is intended to reflect the relative performance of the Celera Genomics group.

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

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 Genomics 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 2004, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 123, “Share-Based Payment (revised 2004)”. Additional guidance to assist in the initial interpretation of this revised Statement was subsequently issued by the Securities Exchange Commission in Staff Accounting Bulletin (“SAB”) No. 107. SFAS No. 123R requires

securities at June 30, 2004. There were no investments in auction rate securities as of June 30, 2005. This reclassification had no impact on results of operations or previously reported cash flows from operations or financing activities.

### **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, 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.

entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award (often the vesting period). The provisions of SFAS No. 123R were effective for us beginning July 1, 2005. We continued to apply the accounting provisions of Accounting Principles Board Opinion No. (“APB Opinion No.”) 25, “Accounting for Stock Issued to Employees,” in accounting for our share-based compensation plans through June 30, 2005.

We intend to adopt SFAS No. 123R using the modified prospective method of transition. This method will require us to apply the provisions of SFAS No. 123R to new awards and to any awards that are unvested on the effective date and will not require us to restate prior periods. Compensation cost for the unvested awards will be recognized over the remaining service period using the compensation cost calculated for our pro forma disclosures that had been required by SFAS No. 123,





Accounting for Stock-Based Compensation. Some of our share-based compensation plans have a retirement eligible provision, whereby awards granted to employees who have reached the age of 55 and who have provided five years of service, automatically vest when they retire from the Company. For these awards, we have previously followed the nominal vesting period (over a four-year service period) approach in our pro forma disclosures. On adoption of SFAS No. 123R, new awards will be subject to the non-substantive vesting period approach. Under this approach, we will recognize the compensation costs for the awards when the employee is no longer required to provide any additional service to retain the award. Additionally, SFAS No. 123R requires that estimated forfeitures be considered in determining compensation cost. As previously permitted, we recorded forfeitures when they occurred. Accordingly, we expect the adoption of SFAS No. 123R will result in us recognizing an immaterial cumulative benefit of a change in accounting principle, which will represent the difference between the pro forma expense we have disclosed to date and the compensation expense as calculated considering estimated forfeitures.

During fiscal 2005, our board of directors approved the accelerated vesting of substantially all unvested stock options. As a result, the pro forma impact to net income and earnings per share under SFAS No. 123's fair value method of accounting as reflected in this Note is not indicative of future annual expense to be recognized under the SFAS No. 123R. To the extent the Company grants more share-based compensation awards, the adoption of SFAS No. 123R may have a material impact on our consolidated financial statements.

FASB Staff Position ("FSP") No. 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004," provides guidance under SFAS No. 109, "Accounting for Income Taxes," with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the "Jobs Act") on enterprises' income tax expense and deferred tax liability. The Jobs Act was enacted on October 22, 2004. FSP No. 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs

Accordingly, as provided for in FSP No. 109-2, we have not adjusted our tax expense or deferred tax liability to reflect the repatriation provisions of the Jobs Act.

The Jobs Act provides for a one-time 85% dividends received deduction on certain foreign earnings repatriated during a one-year period. The maximum amount of our foreign earnings that qualify for this one-time deduction is \$500 million. The deduction would result in an approximate 5.25% federal tax rate on the repatriated earnings. The tax on repatriated earnings will be impacted by foreign tax credits on the taxable portion of the repatriation and additional tax expense resulting from the required base period dividend needed before receiving the 85% deduction on the incremental \$500 million repatriation. To qualify for the deduction, the earnings must be reinvested in the U.S. pursuant to a domestic reinvestment plan established by a company's chief executive officer and approved by its board of directors. Certain other criteria in the Jobs Act must be satisfied as well. For us, the period during which the qualifying distributions can be made is all of fiscal 2006.

### 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 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

Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109. We have not yet completed evaluating the impact of the repatriation provisions.

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.

The following table presents a reconciliation of basic and diluted earnings (loss) per share for the fiscal years ended June 30:

(Amounts in millions except per share amounts)	Applied Biosystems Group			Celera Genomics Group		
	2003	2004	2005	2003	2004	2005
Income (loss) from continuing operations	\$199.6	\$172.3	<b>\$236.9</b>	\$(81.9)	\$(57.5)	<b>\$(77.1)</b>
Less dividends declared on common stock	35.5	34.6	<b>33.4</b>			
Undistributed earnings (loss)	\$164.1	\$137.7	<b>\$203.5</b>	\$(81.9)	\$(57.5)	<b>\$(77.1)</b>
Allocation of basic earnings (loss) per share						
Basic distributed earnings per share*	\$0.17	\$0.17	<b>\$0.17</b>	\$-	\$-	<b>\$-</b>
Basic undistributed earnings (loss) per share	0.79	0.67	<b>1.04</b>	(1.15)	(0.79)	<b>(1.05)</b>
Total basic earnings (loss) per share from continuing operations	\$0.96	\$0.84	<b>\$1.21</b>	\$(1.15)	\$(0.79)	<b>\$(1.05)</b>
Allocation of diluted earnings (loss) per share						
Diluted distributed earnings per share*	\$0.17	\$0.17	<b>\$0.17</b>	\$-	\$-	<b>\$-</b>
Diluted undistributed earnings (loss) per share	0.78	0.66	<b>1.02</b>	(1.15)	(0.79)	<b>(1.05)</b>
Total diluted earnings (loss) per share from continuing operations	\$0.95	\$0.83	<b>\$1.19</b>	\$(1.15)	\$(0.79)	<b>\$(1.05)</b>
Weighted average number of common shares						
Basic	209.0	204.6	<b>196.4</b>	71.5	72.5	<b>73.4</b>
Common stock equivalents	1.4	3.7	<b>2.6</b>			
Diluted	210.4	208.3	<b>199.0</b>	71.5	72.5	<b>73.4</b>

\* Amounts represent actual dividends per share distributed.

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 Genomics 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 at June 30:

previously awarded to employees, officers, directors, and consultants in light of the new accounting requirements of SFAS No. 123R. In order to prevent unintended personal benefits to directors, officers, and other senior management, the board imposed restrictions on any shares received through the exercise of accelerated options held by those individuals. These restrictions prevent the sale, or any other transfer, of any stock obtained through exercise of an accelerated option prior to the earlier of the original vesting date or the individual's termination of employment.

(Shares in millions)

2003 2004 2005

Applera-Applied Biosystems stock	25.7	27.2	<b>16.5</b>
Applera-Celera Genomics stock	12.3	12.8	<b>11.9</b>

### Share-Based Compensation

We currently sponsor stock option plans, employee stock purchase plans, and a restricted stock plan. See Note 6 for further information. We have applied the provisions of APB Opinion No. 25 and FIN 44, "Accounting for Certain Transactions Involving Stock Compensation- An Interpretation of Accounting Principles Board Opinion No. 25" in accounting for share-based compensation plans. In accordance with APB Opinion No. 25, compensation cost for stock options was 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 equaled the fair market value of our stock prices at the date of grant. Therefore, no compensation expense was recorded. Effective July 1, 2005, we are required to adopt the provisions of SFAS No. 123R for all of our share-based compensation plans.

During fiscal 2005, our board of directors approved the accelerated vesting of substantially all unvested stock options

Our board of directors approved the accelerated vesting based on the belief that it was in the best interest of stockholders as it will reduce our reported compensation expense in future periods. As a result of the acceleration, during fiscal 2005, the Applied Biosystems group recorded a pre-tax charge of \$1.6 million and the Celera Genomics group recorded a pre-tax charge of \$1.0 million of compensation cost that represents the intrinsic value measured at the relevant acceleration dates for the estimated number of awards that, absent the accelerated vesting would have expired unexercisable. Our pro forma tables below include the acceleration of the unamortized portion of unvested stock options, which resulted in an additional pre-tax amount of approximately \$98 million for the Applied Biosystems group and approximately \$19 million for the Celera Genomics group for fiscal 2005.





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 illustrate the effect on reported income (loss) from continuing operations and earnings (loss) per share as if we had applied the fair value method of accounting for employee stock plans as required by SFAS No. 123 for the fiscal years ended June 30:

(Dollar amounts in millions)	Applera Corporation		
	2003	2004	2005
Income from continuing operations, as reported	\$118.5	\$115.0	<b>\$159.8</b>
Add: Share-based employee compensation expense included in reported income from continuing operations, net of tax	1.1	1.9	<b>4.3</b>
Deduct: Share-based employee compensation expense determined under fair value based method, net of tax	148.7	120.9	<b>170.5</b>
Pro forma loss from continuing operations	\$(29.1)	\$(4.0)	<b>\$(6.4)</b>

(Dollar amounts in millions except per share amounts)	Applied Biosystems Group			Celera Genomics Group		
	2003	2004	2005	2003	2004	2005
Income (loss) from continuing operations, as reported	\$199.6	\$172.3	<b>\$236.9</b>	\$(81.9)	\$(57.5)	<b>\$(77.1)</b>
Add: Share-based employee compensation expense included in reported income (loss) from continuing operations, net of tax	0.7	1.2	<b>2.7</b>	0.4	0.7	<b>1.6</b>
Deduct: Share-based employee compensation expense determined under fair value based method, net of tax	118.8	97.6	<b>141.9</b>	29.9	23.3	<b>28.6</b>
Pro forma income (loss) from continuing operations	\$81.5	\$75.9	<b>\$97.7</b>	\$(111.4)	\$(80.1)	<b>\$(104.1)</b>
Earnings (loss) per share from continuing operations						
Basic – as reported	\$0.96	\$0.84	<b>\$1.21</b>	\$(1.15)	\$(0.79)	<b>\$(1.05)</b>
Basic – pro forma	\$0.39	\$0.37	<b>\$0.50</b>	\$(1.56)	\$(1.10)	<b>\$(1.42)</b>
Diluted – as reported	\$0.95	\$0.83	<b>\$1.19</b>	\$(1.15)	\$(0.79)	<b>\$(1.05)</b>
Diluted – pro forma	\$0.39	\$0.36	<b>\$0.49</b>	\$(1.56)	\$(1.10)	<b>\$(1.42)</b>

The weighted average fair value of our stock options granted for the fiscal years ended June 30 was:	2003			2004			2005		
Applera-Applied Biosystems stock options	\$9.15	\$12.32	<b>\$11.15</b>						
Applera-Celera Genomics stock options	6.49	6.05	<b>3.90</b>						

	2003	2004	2005
<b>Applied Biosystems Group</b>			
Dividend yield	1.1%	0.8%	<b>0.9%</b>
Volatility	72%	71%	<b>62%</b>
Risk-free interest rate	3.0%	3.8%	<b>3.6%</b>
Expected option life in years	5	5	<b>5</b>
<b>Celera Genomics Group</b>			
Volatility	97%	66%	<b>43%</b>
Risk-free interest rate	3.0%	3.8%	<b>3.6%</b>
Expected option life in years	4	4	<b>4</b>

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 fiscal years ended June 30:

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Upon adoption of the new accounting guidance under SFAS No. 123R, we will evaluate our option valuation methodologies. Prior to fiscal 2006, we determined expected volatility based on historical volatilities of our two classes of common stock. As required by SFAS No. 123R, we will review other factors in determining our expected volatility assumption. Such consideration will include using implied volatilities of current traded options or using a combination of historical and implied volatilities. The use of implied volatilities, either on a stand alone basis or as a combination with historical volatilities, will generally lead to lower expected volatility. As shown on the table above, our historical volatility has significantly decreased for both classes of common stock over the last several years.

**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 currency 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 currency 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 \$3.0 million for fiscal 2003, net transaction losses were \$0.6 million for fiscal 2004, and net transaction gains were \$3.4 million for fiscal 2005. Net transaction gains and losses include the gains and 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 10 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 currency rates. We used forward, option, and range forward contracts as our derivative financial instruments during fiscal 2004 and 2005 (see Note 10).

**Cash and Cash Equivalents and Short-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. These instruments are readily convertible into cash.

All short-term investments are classified as available-for-sale and are carried at fair value with unrealized gains and losses included as a separate component of stockholders' equity, net of any related tax effect.

The fair value of short-term investments and unrealized gains (losses) at June 30, 2004 and 2005, was as follows:

(Dollar amounts in millions)	2004	2005
Certificates of deposit and time deposits	\$13.0	<b>\$18.8</b>
Commercial paper	69.5	<b>54.8</b>
U.S. government and agency obligations	367.6	<b>326.1</b>
Corporate bonds	188.9	<b>180.4</b>
Asset backed securities	49.8	<b>65.0</b>
Auction rate securities	54.1	
<b>Total short-term investments</b>	<b>\$742.9</b>	<b>\$645.1</b>
Unrealized gains on investments	\$0.2	<b>\$0.1</b>
Unrealized losses on investments	(1.5 )	<b>(2.5 )</b>

The realized gains and losses associated with our short-term investments for the fiscal years ended June 30 were as follows:

(Dollar amounts in millions)	2003	2004	2005
Realized gains on investments	\$0.5	\$ 0.3	<b>\$ 0.1</b>
Realized losses on investments	(0.2)	(0.3 )	<b>(0.2 )</b>

The following table summarizes the contractual maturities of available-for-sale securities at June 30:

(Dollar amounts in millions)	2005
Less than one year	<b>\$378.7</b>
Due in one to two years	<b>176.5</b>
Due in two to five years	<b>88.9</b>
Over five years	<b>1.0</b>
<b>Total</b>	<b>\$645.1</b>

We also held securities that are classified as trading at June 30, 2004 and 2005, which were recorded at fair value with realized and unrealized gains and losses

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 in the Consolidated Statements of Operations.

included in income. These securities are recorded in other current assets. Included in income were unrealized net gains of \$2.2 million during fiscal 2004 and unrealized losses of \$1.9 million during fiscal 2005.

### **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. As of June 30, 2004 and 2005, we did not have any investments in VIEs.

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





(Dollar amounts in millions)

2004 2005

declines in fair value, distributions of earnings and additional investments.

In connection with the acquisition of Axys Pharmaceuticals, Inc. in fiscal 2002, we received an approximate 30% ownership interest in Discovery Partners International, Inc. (“DPI”). The investment was accounted for under the equity method of accounting. During fiscal 2004, we sold our ownership interest in DPI common stock for a pre-tax gain of \$24.8 million.

The following table provides 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 delay. As a result, the unaudited summarized statement of operations information of DPI presented below reflects balances for the year ended March 31:

(Dollar amounts in millions)	2003
Net revenue	\$44.0
Gross profit	5.3
Net loss	(61.0)

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. Reserves for obsolescence and excess inventory are provided based on historical experience and estimates of future product demand. Inventories at June 30, 2004 and 2005, included the following components:

(Dollar amounts in millions)	2004	2005
------------------------------	------	------

Land and improvements	\$101.3	<b>\$117.6</b>
Buildings and leasehold improvements	284.1	<b>288.4</b>
Machinery and equipment	350.3	<b>306.5</b>
Computer software and licenses	133.6	<b>133.9</b>
Property, plant and equipment, at cost	869.3	<b>846.4</b>
Accumulated depreciation and amortization	423.3	<b>408.0</b>
Property, plant and equipment, net	\$446.0	<b>\$438.4</b>

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 \$112.6 million for fiscal 2003, \$94.9 million for fiscal 2004, and \$82.5 million for fiscal 2005. In addition, the Celera Genomics group recorded a pre-tax impairment charge of \$18.1 million in fiscal 2004 related to the anticipated sale of its Rockville, Maryland facility. Upon completion of the sale in fiscal 2005, the Celera Genomics group recorded a \$3.6 million pre-tax favorable adjustment to the charge previously recorded in fiscal 2004. During fiscal 2005, the Applied Biosystems group recorded \$2.6 million of impairment charges related to its San Jose, California, and Houston, Texas facilities. Included in this charge was \$1.9 million of property, plant and equipment. These charges are included in employee-

Raw materials and supplies	\$52.6	<b>\$45.9</b>
Work-in-process	7.4	<b>5.3</b>
Finished products	80.8	<b>75.3</b>
<hr/>		
Total inventories, net	\$140.8	<b>\$126.5</b>
<hr/>		

### Property, Plant and Equipment, and Depreciation

Property, plant and equipment are recorded at cost and consisted of the following at June 30, 2004 and 2005:

related charges, asset impairments and other in the Consolidated Statements of Operations. 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 less. Capitalized software costs, net of accumulated amortization, were \$8.2 million at June 30, 2004, and \$2.8 million at June 30, 2005. Amortization expense was \$15.1 million in fiscal 2003, \$13.6 million in fiscal 2004, and \$6.9 million in fiscal 2005. We expense R&D 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 at June 30, 2004 and 2005, included the following:

(Dollar amounts in millions)	Weighted Average Life	2004		2005	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	<b>8</b>	\$25.5	\$18.8	<b>\$25.5</b>	<b>\$20.7</b>
Acquired technology	<b>6</b>	60.1	35.5	<b>60.5</b>	<b>42.7</b>
Favorable operating leases	<b>4</b>	11.6	7.6	<b>11.6</b>	<b>10.5</b>
<b>Total</b>		<b>\$97.2</b>	<b>\$61.9</b>	<b>\$97.6</b>	<b>\$73.9</b>

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 in the Consolidated Statements of Operations (see Note 2).

Aggregate amortization expense for the fiscal years ended June 30, 2004 and 2005, was as follows:

(Dollar amounts in millions)	2004	2005
Applied Biosystems group	\$10.1	<b>\$7.0</b>
Celera Genomics group	2.9	<b>2.9</b>
Celera Diagnostics	2.1	<b>2.1</b>
<b>Consolidated</b>	<b>\$15.1</b>	<b>\$12.0</b>

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, 2005, we estimated annual amortization expense of our intangible assets for each of the next five

recognized to the extent that the reporting unit's carrying amount of goodwill exceeds the implied fair value of the goodwill.

The carrying amount of goodwill at June 30, 2004 and 2005, 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. 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

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	Celera		
	Biosystems Group	Genomics Group	Celera Diagnostics	Consolidated
2006	<b>\$6.8</b>	<b>\$1.1</b>	<b>\$2.2</b>	<b>\$10.1</b>
2007	<b>5.3</b>		<b>2.0</b>	<b>7.3</b>
2008	<b>2.6</b>		<b>0.4</b>	<b>3.0</b>
2009	<b>1.6</b>			<b>1.6</b>
2010	<b>1.2</b>			<b>1.2</b>

### 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 exceeds its estimated fair value, goodwill impairment is

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.



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The following table provides the analysis of the warranty reserve for the fiscal years ended June 30, 2004 and 2005:

(Dollar amount in millions)	2004	2005
Beginning of year	\$15.1	<b>\$15.9</b>
Accruals for warranties	30.4	<b>20.9</b>
Usage of reserve	(29.6)	<b>(22.8)</b>
End of year	\$15.9	<b>\$14.0</b>

## 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. Amounts billed to customers related to shipping and handling are included in net revenues, whereas shipping and handling costs are included in cost of sales.

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 and reliable evidence of the fair value of the undeliverable item, and delivery or performance of the

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. In addition, we recognize up-front nonrefundable license fees when due under contractual agreement, unless we have specific continuing performance obligations requiring deferral of all or a portion of such fees.

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

We expense research, development and engineering costs as incurred. Research, development and engineering expenses 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)	2003	2004	2005
Interest	\$1.5	\$1.3	<b>\$0.2</b>
Income taxes	66.6	52.8	<b>58.0</b>

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 recognized 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.

Significant non-cash investing and financing activities:

Tax benefit related to employee stock options	1.6	3.4	<b>5.5</b>
Dividends declared not paid	8.9		
Issuances of restricted stock	0.2	6.6	<b>0.8</b>
Stock issued for which proceeds were in-transit		0.5	<b>0.9</b>

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**Note 2—Events Impacting Comparability**

The following table summarizes significant charges and income for the fiscal years ended June 30:

(Dollar amounts in millions)	2003	2004	2005
Severance and benefit costs	\$(22.9)	\$(6.3 )	<b>\$(24.7)</b>
Excess lease space			<b>(10.0)</b>
Asset impairments		(36.1)	<b>(0.8 )</b>
Office closures	(1.4 )		
Reduction of expected costs	4.3	0.6	<b>1.1</b>
<hr/>			
Total employee-related charges, asset impairments, and other	\$(20.0)	\$(41.8)	<b>\$(34.4)</b>
<hr/>			
Other events impacting comparability:			
Impairment of inventory recorded in costs of sales	\$(9.5 )	\$(1.2 )	<b>\$(1.7 )</b>
Asset dispositions and litigation settlements	25.8	6.7	<b>38.2</b>
Investment gains		36.0	
Tax items	27.8		<b>25.7</b>

**Employee-Related Charges, Asset 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.

*Fiscal 2003*

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

fixed assets and leasehold improvements related to these facilities.

The following table details the major components of the fiscal 2003 charges:

(Dollar amounts in millions)	Employee-Related Charges	Asset Impairments	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
<hr/>				
Balance at June 30, 2003	4.4	–	0.7	5.1
<hr/>				
Cash payments	3.0		0.5	3.5
Reduction of expected costs	0.6			0.6
<hr/>				
Balance at June 30, 2004	0.8		0.2	1.0
<hr/>				
Cash payments	<b>0.2</b>		<b>0.2</b>	<b>0.4</b>
Reduction of expected costs	<b>0.1</b>			<b>0.1</b>
<hr/>				
Balance at June 30, 2005	<b>\$ 0.5</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$0.5</b>

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 disbursed by fiscal 2007.

*Fiscal 2004*

During fiscal 2004, the Applied Biosystems group recorded pre-tax charges of \$6.3 million for employee terminations. All cash payments were made by

recorded \$9.5 million for the impairment of assets in cost of sales. As the actions for this program were implemented, we incurred lower than anticipated employee-related costs. Accordingly, the Applied Biosystems group recorded pre-tax benefits of \$4.3 million in the fourth quarter of fiscal 2003, \$0.6 million in the second quarter of fiscal 2004, and \$0.1 million in the third quarter of fiscal 2005 for reductions in expected employee-related costs.

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 and substantially all of the affected employees were terminated by the end of fiscal 2004. 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

March 31, 2005. The cash payments were funded primarily from cash provided by operating activities.

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, Inc., a business we acquired in fiscal 2002. 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 had 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. In fiscal 2005, the Applied Biosystems group recorded a pre-tax benefit of \$0.7 million as a result of the repayment of this loan by HTS Biosystems.

During the fourth quarter of fiscal 2004, the Celera Genomics group decided to pursue the sale of its Rockville, Maryland facility. As a result of this decision, we 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 of the carrying amount of the facility to its estimated market value less estimated costs to sell. The estimated market value was based on a third-party appraisal. During the fourth quarter of fiscal 2005, the Celera Genomics group completed the sale of this facility and recorded a \$3.6 million pre-tax favorable adjustment to the charge recorded in fiscal 2004.

#### Fiscal 2005

During fiscal 2005, the Applied Biosystems group recorded pre-tax charges consisting of the following components:

(Dollar amounts in millions)	Employee- Excess			Total
	Related Charges	Lease Space	Asset Impairments	
First quarter	\$ 7.3	\$ –	\$ –	\$7.3
Second quarter	2.9	2.3		5.2
Fourth quarter	11.6	6.2	2.6	20.4
<b>Total charges</b>	<b>21.8</b>	<b>8.5</b>	<b>2.6</b>	<b>32.9</b>
Cash payments	10.5	0.2		10.7
Non-cash charges		5.2	1.9	7.1
Reduction of expected costs	0.3			0.3
Balance at June 30, 2005	\$11.0	\$3.1	\$0.7	\$14.8

been notified and the majority will be terminated or will no longer be actively employed by the end of the first quarter of fiscal 2006. Through June 30, 2005, we made cash payments of \$7.2 million related to the first quarter termination charge, \$2.3 million related to the second quarter termination charge, and \$1.0 million related to the fourth quarter termination charge. In regards to the excess lease space charges, through June 30, 2005, we made cash payments of \$0.2 million related to the second quarter charge. These cash expenditures were funded by cash provided by operating activities. In the third quarter of fiscal 2005, the Applied Biosystems group recorded a pre-tax benefit of \$0.1 million for a reduction in anticipated employee-related costs associated with the severance and benefit charge recorded in the first quarter of fiscal 2005. In the fourth quarter of fiscal 2005, the Applied Biosystems group recorded a pre-tax benefit of \$0.2 million for a reduction in anticipated employee-related costs associated with the severance and benefit charge recorded in the second quarter of fiscal 2005. The remaining cash expenditures associated with the employee terminations of approximately \$11 million are expected to be disbursed by the end of the third quarter of fiscal 2006.

The excess lease space charges represented the estimated cost of excess lease space less estimated future sublease income for certain leased facilities in Massachusetts and California whose leases extend through fiscal years 2007 to 2011. The asset impairment charges taken in the fourth quarter related to the write-down in value of the Applied Biosystems group's facilities in San Jose, California and Houston, Texas. See Note 7 for more information on our California facility.

During fiscal 2005, the Celera Genomics group recorded pre-tax charges totaling \$4.5 million related to our decision to discontinue promotion of products and most operations of Paracel, Inc., a business we acquired in fiscal 2000. Paracel developed high-performance genomic data and text analysis systems for the pharmaceutical, biotechnology, information services, and government markets. Since the focus of the Celera Genomics group had shifted to therapeutic discovery and development, Paracel was no longer deemed strategic to the overall business. The charge consisted of \$1.1 million for severance and benefit costs, \$1.7 million

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The fiscal 2005 severance charges reflect the Applied Biosystems group's decision to reduce and rebalance its workforce and were implemented as a result of a strategic and operational analysis conducted by management. The positions eliminated are primarily in the areas of R&D, manufacturing, marketing, and operations. These actions are intended to allow us to expand personnel in other functional areas including field sales and support, manufacturing quality, and advanced research, as well as better align our resources with the needs of our customers. Additionally, the severance charges recorded in the first and second quarters related, in part, to staff reductions intended to integrate the Applied Biosystems MALDI Time-of-Flight ("TOF") product line into the Applied Biosystems/MDS Sciex Instruments joint venture with MDS Inc. We believe these actions will improve operational efficiency and quality, while assuring that our R&D spending remains aligned with our strategic initiatives.

As of June 30, 2005, all of the employees affected by the first and second quarter staff reductions had been terminated. In addition, as of June 30, 2005, substantially all of the affected employees related to the fourth quarter staff reduction had

for excess facility lease expenses and asset impairments, and \$1.7 million in cost of sales for the impairment of Paracel inventory. The charge for excess facility lease expenses and asset impairments was primarily for a revision to an accrual initially recorded in fiscal 2002 for the estimated cost of excess facility space for a lease that extends through fiscal 2011 and to write off related fixed assets.

As of March 31, 2005, the majority of the affected Paracel employees had been terminated. Substantially all cash payments related to these terminations were made as of June 30, 2005. During fiscal 2005, we made cash payments of \$2.1 million related to the excess lease space charge. The cash expenditures were funded by available cash.

In the fourth quarter of fiscal 2005, the Celera Genomics group recorded a pre-tax charge of \$3.4 million related to the Online/Information Business, an information products and service business. As previously announced, the Celera

Genomics group realigned its organization to focus on therapeutic discovery and development and as part of this realignment, the Online/Information Business was determined to be a non-strategic business. In fiscal 2002, the Celera Genomics group entered into an agreement pursuant to which the Applied Biosystems group became the exclusive distributor of the Online/Information Business (see Note 14 for more information).

The pre-tax charge of \$3.4 million consisted of \$1.8 million for severance and benefit costs and \$1.6 million for asset impairments, primarily related to information-technology leases. As of June 30, 2005, all affected employees had been notified and all are expected to be terminated by the end of the first quarter of fiscal 2006. The majority of the cash expenditures related to this action are expected to be disbursed by the end of December 2005. No significant cash payments associated with this action were made through June 30, 2005.

### **Other Events Impacting Comparability**

#### *Asset dispositions and litigation settlements*

The following net gains have been recorded in the Consolidated Statements of Operations in asset dispositions and 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, which represented the amount received, net of related fees and costs, in the fourth quarter of fiscal 2003.

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

next-generation product-related manufacturing and research and development assets. The note receivable is due in 5 years, of which \$6 million is payable in October 2006 and \$8 million in each of October 2007, 2008, and 2009.

#### *Investments*

The following gains have been recorded in the Consolidated Statements of Operations in gain (loss) on investments, net, except as noted.

The Applied Biosystems group recorded pre-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 pre-tax gain of \$24.8 million in the fourth quarter of fiscal 2004 from the sale of its investment in Discovery Partners International, Inc. ("DPI") common stock. 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.

#### *Tax items*

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 \$86.5 million at June 30, 2003, which consisted of state deferred tax assets and foreign tax loss and foreign tax credit carryforwards. Our state deferred tax assets were

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.

During fiscal 2005, the Applied Biosystems group received a payment of \$8.5 million from Illumina, Inc. in connection with the termination of a joint development agreement and settlement of a patent infringement claim and a breach of contract claim.

Also in fiscal 2005, the Applied Biosystems group recorded a net pre-tax gain of \$29.7 million for the sale of intellectual property, manufacturing inventory, and research and development assets related to the expansion of the scope of its existing joint venture in life science mass spectrometry with MDS Inc. Under the terms of the transaction, we received \$8 million in cash and a \$30 million note receivable for a 50% interest in intellectual property assets related to current Applied Biosystems MALDI TOF mass spectrometry systems and

subject to a full valuation allowance at June 30, 2003. 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 R&D 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.

During the fourth quarter of fiscal 2005, the Applied Biosystems group recorded tax benefits of \$23.5 million primarily related to additional U.S. R&D tax credit





carryforwards, expected results of Canadian examinations, and settlement of some U.K. tax matters. Also during the fourth quarter of fiscal 2005, the Celera Genomics group recorded a tax benefit of \$2.2 million related to additional U.S. R&D tax credits.

### Note 3—Income Taxes

Income before income taxes from continuing operations for fiscal 2003, 2004, and 2005 is summarized below:

(Dollar amounts in millions)	2003	2004	2005
Domestic*	\$69.7	\$19.6	\$14.9
Foreign	35.9	109.9	158.4
<b>Total</b>	<b>\$105.6</b>	<b>\$129.5</b>	<b>\$173.3</b>

\* U.S. and foreign entities includable in U.S. returns

Our provision (benefit) for income taxes from continuing operations for fiscal 2003, 2004, and 2005 consisted of the following:

(Dollar amounts in millions)	2003	2004	2005
<b>Currently Payable</b>			
Domestic	\$15.0	\$20.8	\$0.8
Foreign	30.1	43.0	47.6
<b>Total currently payable</b>	<b>45.1</b>	<b>63.8</b>	<b>48.4</b>
<b>Deferred</b>			
Domestic	(70.7)	(39.9)	(28.3)
Foreign	12.7	(9.4)	(6.6)
<b>Total deferred</b>	<b>(58.0)</b>	<b>(49.3)</b>	<b>(34.9)</b>
<b>Total provision (benefit) for income taxes</b>	<b>\$(12.9)</b>	<b>\$14.5</b>	<b>\$13.5</b>

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 2003, 2004, and 2005 is set forth in the following table:

(Dollar amounts in millions)	Applied Biosystems Group			Celera Genomics Group			Consolidated		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
Federal statutory rate	35%	35%	35%	35%	35%	35%	35%	35%	35%
Tax at federal statutory rate	\$83.6	\$83.9	\$104.0	\$(47.0)	\$(38.7)	\$(43.4)	\$37.0	\$45.3	\$60.6
State income taxes (net of federal benefit)	1.5	0.5	0.2	0.8	0.3	0.8	2.3	0.8	1.0
Effect on income taxes from Singapore operations	(10.6)	(10.8)	(10.7)				(10.6)	(10.8)	(10.7)
Effect on income taxes from other foreign operations	(5.6)	(2.5)	(12.8)				(5.6)	(2.5)	(12.8)
Effect on income taxes from export operations	(5.4)	1.3	(7.7)				(5.4)	1.3	(7.7)
Goodwill and intangibles	0.4	0.4	(4.0)	(0.9)	(0.9)	(0.9)	(0.5)	(0.5)	(4.9)
R&D tax credit	0.6	(7.5)	(10.0)	(3.9)	(10.1)	(3.1)	(3.3)	(17.6)	(13.1)
Valuation allowance	(26.0)	0.7			(4.0)		(26.0)	(3.3)	
Other	0.6	1.5	1.3	(1.4)	0.3	(0.2)	(0.8)	1.8	1.1
<b>Total provision (benefit) for income taxes</b>	<b>\$39.1</b>	<b>\$67.5</b>	<b>\$60.3</b>	<b>\$(52.4)</b>	<b>\$(53.1)</b>	<b>\$(46.8)</b>	<b>\$(12.9)</b>	<b>\$14.5</b>	<b>\$13.5</b>

We have a zero percent tax grant expiring at the end of fiscal 2014 relating to our manufacturing operations in Singapore. In fiscal 2005, there were favorable tax

practicable to estimate the amount of taxes that might be payable on the eventual remittance of such earnings. We are currently evaluating the impact of the repatriation

adjustments of \$25.7 million primarily related to additional U.S. R&D tax credit carryforwards, expected results of Canadian examinations, and settlement of some U.K. tax matters.

U.S. income and foreign withholding taxes were not provided on approximately \$632.9 million of net accumulated unremitted earnings from foreign subsidiaries at June 30, 2005. Substantially all of this amount represents earnings indefinitely reinvested as part of our ongoing business. It is not

provision of the Jobs Act. Accordingly, we have not adjusted the tax expense or deferred tax liability to reflect the repatriation provisions of the Jobs Act. It is expected that a repatriation plan will be presented to our board of directors during fiscal 2006. If approved, we will record a one-time tax charge associated with the repatriation not to exceed \$500 million, estimated to be between \$15 and \$25 million. See Note 1 for more information on the Jobs Act.

Significant components of deferred tax assets and liabilities at June 30, 2004 and 2005, are summarized below:

(Dollar amounts in millions)	2004	2005
<b>Deferred Tax Assets</b>		
Depreciation	\$6.3	\$21.7
Inventories	10.3	18.0
Postretirement and postemployment benefits	71.5	62.7
Unrealized losses on investments	9.7	2.9
Other accruals	17.7	37.9
Tax credit and loss carryforwards	133.1	137.6
Capitalized R&D expense	240.7	247.6
State taxes	72.5	79.6
Subtotal	561.8	608.0
Valuation allowance	(93.4)	(101.6)
Total deferred tax assets	468.4	506.4
<b>Deferred Tax Liabilities</b>		
Other accruals	14.0	12.3
Intangible assets	6.5	2.9
Total deferred tax liabilities	20.5	15.2
Total deferred tax assets, net	\$447.9	\$491.2

We have U.S. federal loss carryforwards as a result of various acquisitions of approximately \$78.4 million that will expire between fiscal 2012 and 2022. The Internal

deferred tax assets include benefits expected from the utilization of net operating losses and credit carryforwards in the future. The following table identifies the various deferred tax asset components and the related allowances that existed at June 30, 2005. Due to time limitations on the ability to realize the benefit of the carryforwards, additional portions of these deferred tax assets may become unrealizable in the future.

(Dollar amounts in millions)	Deferred Tax Asset	Valuation Allowance	Carryforward period	Earliest Fiscal Year of Expiration
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## Federal

Revenue Code has limited the amount of these net operating loss carryforwards that can be utilized annually to offset future taxable income as a result of these acquisitions. We also have U.S. federal credit carryforwards of \$90.0 million that expire between fiscal 2008 and 2025, and loss carryforwards of approximately \$52.5 million in various foreign countries with varying expiration dates.

Our worldwide valuation allowance of \$101.6 million at June 30, 2005, is detailed in the following table. The valuation allowance increased by \$8.2 million in fiscal 2005, as a result of our assessment of the realization of certain state deferred tax assets and foreign losses. At June 30, 2004, our valuation allowance was \$93.4 million, which consisted of \$72.5 million related to state deferred tax assets and \$20.9 million related to foreign tax losses and passive foreign tax credit carryforwards. In fiscal 2004, the valuation allowance increased by \$6.9 million. 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, \$3.3 million for deferred tax assets, 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. Our state deferred tax asset has always been subject to a full valuation allowance and was not separately presented in prior years. A valuation allowance has been maintained on these carryforwards, since we believe it is more likely than not 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.

Net operating losses	\$ 27.4	\$ -	15 - 20 years	2012
Foreign tax credits	16.5	4.3	10 years	2010
R&D tax credits	51.5		15 - 20 years	2008
Other tax credits	22.0		Unlimited	
Temporary differences	380.3			
<b>Total federal</b>	<b>497.7</b>	<b>4.3</b>		
<b>State</b>				
Net operating losses	8.1	8.1	Various	2006
Tax credits	32.7	32.7	Unlimited	
Temporary differences	38.8	38.8		
<b>Total state</b>	<b>79.6</b>	<b>79.6</b>		
<b>Foreign</b>				
Net operating losses	18.5	17.7	Various	2006
Other non-U.S. temporary differences	(3.0 )		Various	
<b>Total foreign</b>	<b>15.5</b>	<b>17.7</b>		
<b>Total</b>	<b>\$592.8</b>	<b>\$101.6</b>		





**Note 4—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 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 was frozen as of June 30, 2004. The effect of this freeze decreased our pension expense by approximately \$7 million in fiscal 2005. Benefits earned under the plan will be paid out under 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 Medicare or other group coverage. We share the cost of providing these benefits with retirees.

During fiscal 2004, we adopted the provisions of FSP No. 106, “Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003.” We have determined that our prescription plan is “actuarially equivalent” to the Medicare Part D Coverage due to the fact that the plan provides a greater reimbursement than the Medicare benefit, at all levels of annual claim amounts. We remeasured our postretirement benefit obligation as of July 1, 2003, which resulted in a reduction of

June 30:

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 was included as an unrecognized gain to the plan at June 30, 2004. The impact of this remeasurement is being amortized over the average working life of our employees eligible for postretirement benefits beginning July 1, 2004. The remeasurement resulted in a reduction of net postretirement benefit cost of approximately \$2 million in fiscal 2005.

We use a June 30 measurement date for the majority of our pension and postretirement benefit plans.

The components of net pension and postretirement benefit expenses for fiscal 2003, 2004, and 2005 are set forth in the following table:

(Dollar amounts in millions)	2003	2004	2005
<b>Pension</b>			
Service cost	\$9.3	\$10.1	<b>\$2.5</b>
Interest cost	39.4	36.3	<b>39.9</b>
Expected return on plan assets	(40.1)	(37.3)	<b>(41.8)</b>
Amortization of transition asset		0.2	<b>0.1</b>
Amortization of prior service cost	(0.6 )	(0.1 )	<b>(0.1 )</b>
Amortization of losses	1.1	4.6	<b>4.0</b>
Special termination benefits and other		1.2	<b>1.0</b>
Net periodic expense	\$9.1	\$15.0	<b>\$5.6</b>
<b>Postretirement Benefit</b>			
Service cost	\$0.3	\$0.3	<b>\$0.2</b>
The Interest cost	5.1	4.7	<b>3.9</b>
Amortization of gains			<b>(0.9 )</b>
Net periodic expense	\$5.4	\$5.0	<b>\$3.2</b>

following weighted-average actuarial assumptions were used for the pension and postretirement plans for the years ended

Domestic Plans			Foreign Plans		
2003	2004	2005	2003	2004	2005

Discount rate used to determine benefit obligation:						
Pension	6.25%	6.50%	<b>5.25%</b>	1.50-5.25%	2.00-5.25%	<b>1.75- 4.75%</b>
Postretirement	6.25%	6.50%	<b>5.00%</b>			
Discount rate used to determine net benefit cost	7.25%	6.25%	<b>6.50%</b>	2.50-5.75%	1.50-5.25%	<b>2.00-5.25%</b>
Compensation increase	4.00%	4%	–%	1.25-3.50%	1.00-3.50%	<b>1.15-3.50%</b>
Expected rate of return*	7.25-9.00%	6.25-8.50%	<b>6.50-8.50%</b>	2.00-5.20%	1.00-4.00%	<b>1.00-3.50%</b>

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\* 5.25 - 8.50% for domestic pension plan for fiscal 2006.

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, 2004 and 2005:

(Dollar amounts in millions)	Pension		Postretirement	
	2004	2005	2004	2005
<b>Change in Benefit Obligation</b>				
Benefit obligation, beginning of year	\$604.8	<b>\$637.7</b>	\$ 80.2	<b>\$ 65.0</b>
Service cost	10.1	<b>2.5</b>	0.3	<b>0.2</b>
Interest cost	36.3	<b>39.9</b>	4.7	<b>3.9</b>
Participants' contributions	0.3	<b>0.3</b>		
Benefits paid	(34.2 )	<b>(38.3 )</b>	(7.2 )	<b>(7.6 )</b>
Actuarial (gain) loss	(6.5 )	<b>48.8</b>	(13.0 )	<b>6.9</b>
Variable annuity unit value change	25.5	<b>17.4</b>		
Foreign currency translation and other	1.4	<b>(1.4 )</b>		
Benefit obligation	\$637.7	<b>\$706.9</b>	\$ 65.0	<b>\$ 68.4</b>
<b>Change in Plan Assets</b>				
Fair value of plan assets, beginning of year	\$491.4	<b>\$586.7</b>	\$ -	<b>\$ -</b>
Actual return on plan assets	75.0	<b>64.7</b>		
Participants' contributions	0.3	<b>0.3</b>		
Company contributions	52.2	<b>1.2</b>	7.2	<b>7.6</b>
Benefits paid	(32.4 )	<b>(36.0 )</b>	(7.2 )	<b>(7.6 )</b>
Foreign currency translation and other	0.2	<b>(0.1 )</b>		
Fair value of plan assets	\$586.7	<b>\$616.8</b>	\$ -	<b>\$ -</b>
<b>Funded Status Reconciliation</b>				
Funded status	\$ (51.0)	<b>\$ (90.1)</b>	\$(65.0 )	<b>\$(68.4 )</b>
Unrecognized prior service gain		<b>0.1</b>		
Unrecognized transition asset	0.7	<b>0.7</b>		
Unrecognized (gains) losses	114.8	<b>154.0</b>	(9.3 )	<b>(1.5 )</b>
Net amount recognized	\$ 64.5	<b>\$ 64.7</b>	\$(74.3 )	<b>\$(69.9 )</b>
<b>Amounts Recognized in the Consolidated Statements of Financial Position</b>				
Prepaid benefit cost	\$ 1.0	<b>\$ 1.8</b>	\$ -	<b>\$ -</b>
Accrued benefit liability	(50.8 )	<b>(89.1 )</b>	(74.3 )	<b>(69.9 )</b>
Intangible asset	1.2	<b>1.0</b>		
Minimum pension liability adjustment	113.1	<b>151.0</b>		
Net amount recognized	\$ 64.5	<b>\$ 64.7</b>	\$(74.3 )	<b>\$(69.9 )</b>
<b>Supplemental Information</b>				

Accumulated benefit obligation	\$632.0	<b>\$702.1</b>	\$ 65.0	<b>\$ 68.4</b>
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**Selected Information for Plans with Accumulated**

**Benefit Obligations in Excess of Plan Assets**

Accumulated benefit obligation	\$623.3	<b>\$690.0</b>	\$ 65.0	<b>\$ 68.4</b>
Projected benefit obligation	625.9	<b>692.6</b>	65.0	<b>68.4</b>
Fair value of plan assets	574.2	<b>602.5</b>		

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A minimum pension liability adjustment is required when the actuarial present value of accumulated plan benefits exceeds plan assets and accrued pension liabilities.





Our domestic pension plan weighted-average target range for fiscal 2005 and actual domestic and foreign pension plan asset allocation at June 30, 2004 and 2005, are as follows:

	Domestic Plan			Foreign Plans	
	Percentage of Plan Assets		Target Range	Percentage of Plan Assets	
	2004	2005	2005	2004	2005
Equity securities	60%	<b>58%</b>	<b>45 - 65%</b>	14%	<b>14%</b>
Fixed income securities	33%	<b>30%</b>	<b>25 - 45%</b>	82%	<b>83%</b>
Hedge funds	5%	<b>10%</b>	<b>0 - 14%</b>		
Other	2%	<b>2%</b>	<b>0 - 12%</b>	4%	<b>3%</b>
<b>Total</b>	<b>100%</b>	<b>100%</b>		<b>100%</b>	<b>100%</b>

Our asset investment 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. A trustee administers 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 2006, gradually reducing to 6.0% in 2014 and thereafter. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects:

(Dollar amounts in millions)	One- Percentage- Point Increase	One- Percentage- Point Decrease
Effect on the total of service and interest cost components	<b>\$0.3</b>	<b>\$(0.3)</b>

(Dollar amounts in millions)

Pension Postretirement

**Employer Contributions**

2006	<b>\$ 0.9</b>	<b>\$ 5.9</b>
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**Expected Benefit Payments**

2006	<b>\$ 37.2</b>	<b>\$ 5.9</b>
2007	<b>37.6</b>	<b>6.0</b>
2008	<b>38.6</b>	<b>5.9</b>
2009	<b>39.2</b>	<b>5.8</b>
2010	<b>40.2</b>	<b>5.7</b>
2011 and thereafter	<b>250.2</b>	<b>26.2</b>

**Expected Federal Subsidy Receipts**

2006	<b>\$ 1.5</b>
2007	<b>1.5</b>
2008	<b>1.4</b>
2009	<b>1.4</b>
2010	<b>1.3</b>
2011 and thereafter	<b>5.6</b>

Based on the level of our contributions to the U.S. pension plan during previous years, we do not expect to have to fund our U.S. pension plan in fiscal 2006 in order to meet minimum statutory funding requirements.

**Savings Plans**

We provide a 401(k) savings plan for domestic employees with a dollar-for-dollar matching of up to 6% for savings plan participants. Prior to fiscal 2005, automatic Company contributions were 2% of eligible

Effect on postretirement benefit obligation	\$5.1	\$(4.5)	)
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Our estimated future employer contributions, gross expected benefit payments, and gross amount of annual Medicare Part D federal subsidy expected to be received at June 30, 2005, are as follows:

compensation and a dollar-for-dollar matching contribution was 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. Our contributions to this plan, net of plan forfeitures, were \$20.8 million for fiscal 2003, \$21.0 million for fiscal 2004, and \$16.3 million for fiscal 2005. We recorded expenses for foreign defined contribution plans of \$2.3 million in fiscal 2003, \$2.2 million in fiscal 2004, and \$2.5 million in fiscal 2005.

### **Postemployment Benefits**

We provide some postemployment benefits to eligible employees, which generally include severance and outplacement costs, disability, and medical-related costs paid after employment but before retirement.

**Note 5–Stockholders’ Equity****Capital Stock**

We have two classes of common stock: Applera-Applied Biosystems stock and Applera-Celera Genomics stock. Applera-Applied Biosystems stock is intended to reflect the relative performance of the Applied Biosystems group, and Applera-Celera Genomics stock is intended to reflect the relative performance of the Celera Genomics group. Holders of Applera-Applied Biosystems stock and holders of Applera-Celera Genomics 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, 2004 and 2005, 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 Applera Corporation 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 Genomics 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. In July 2005, we announced that our board of directors authorized the repurchase of up to 10% of the outstanding shares 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:

(Shares in millions)	Applera-Applied Biosystems Stock		Applera-Celera Genomics Stock
	Issued Shares	Treasury Stock Shares	Issued Shares
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
Purchases of shares for treasury stock		<b>0.3</b>	
Issuances of shares under stock plans		<b>(3.0 )</b>	<b>1.2</b>
Balance at June 30, 2005	<b>213.0</b>	<b>14.6</b>	<b>74.3</b>

## Stock Purchase Warrants

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 was convertible into one share of Applera-Celera Genomics stock. These warrants had a weighted average exercise price of \$72.27 per share and expired 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 Genomics stock (an "Applera-Celera Genomics 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 Genomics 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 Genomics 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 Genomics 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



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corporation; any person consolidates or merges 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 more of our assets or earnings power is sold or transferred, each Applera-Applied Biosystems Right and each Applera-Celera Genomics 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, 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 6—Stock Plans

### Stock Option Plans

Under our stock option plans, we grant stock options to employees that allow them to purchase shares of our two 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. With the exception of options granted in the fourth quarter of fiscal 2005, as discussed below, most options vest equally over a four-year service period and expire ten years from the grant date. At June 30, 2005, 45.6 million shares of Applera-Applied Biosystems stock and 20.2 million shares of Applera-Celera Genomics stock were authorized for grant of options. In addition, in connection with the acquisition of Axys in fiscal 2002, approximately 600,000 shares of Applera-Celera Genomics stock were available at June 30, 2005, for potential future issuance under the Axys Pharmaceuticals, Inc. 1997 Equity Incentive Plan. The summary below describes our stock option plans. See Note 1 for a discussion of the acceleration of vesting related to our stock plans.

### 1999 Stock Incentive Plans

Our stockholders first approved the Applera Corporation/ Applied Biosystems Group 1999 Stock Incentive Plan

responsibilities. Our board of directors believes that granting awards tied to the performance of the group in which the participants work and, in certain cases the other group, is in the best interests of both the Company and its stockholders.

During the fourth quarter of fiscal 2005, our board of directors approved options to purchase 2.8 million shares of Applera-Applied Biosystems stock and 1.3 million shares of Applera-Celera Genomics stock to some employees, including executive officers. These options have a term of ten years from the grant date, and were fully vested and exercisable as of the grant date. However, shares acquired upon the exercise of these options are subject to a restriction on transfer (covering sales, gifts, pledges, and any other method of disposition). The transfer restriction will lapse, for each grant of options to purchase Applera-Applied Biosystems stock and Applera-Celera Genomics stock, on 25% of the shares covered by these grants on each of the first four anniversaries of the grant date. Also, the transfer restriction will lapse in full upon termination of employment for any reason.

### 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 Genomics 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 fiscal years ended June 30:

	2003	2004	2005
Applera-Applied Biosystems stock	504,000	432,000	359,000
Applera-Celera Genomics stock	525,000	372,000	378,000

(the “Applera-Applied Biosystems Group Plan”) and the Applera Corporation/Celera Genomics Group 1999 Stock Incentive Plan (the “Applera-Celera Genomics Group Plan”) in April 1999. The Applera-Applied Biosystems Group Plan authorizes grants of Applera-Applied Biosystems stock options, restricted stock units, and other equity awards. The Applera-Celera Genomics Group Plan authorizes grants of Applera-Celera Genomics stock options, restricted stock units, and other equity awards. Directors, officers, key employees, and consultants 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

### **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 annual retainer and other board fees to the purchase of common stock. Purchases of Applera-Applied Biosystems stock and Applera-Celera Genomics stock are made in a ratio approximately equal to the number of shares of Applera-Applied Biosystems stock and Applera-Celera Genomics stock outstanding. The purchase price is the fair market value on the date of purchase. At June 30, 2005, we had approximately 195,000 shares of Applera-Applied Biosystems stock and approximately 43,000 shares of Applera-Celera Genomics stock available for issuance under this plan.

**Restricted Stock**

As part of our stock incentive plans, employees and non-employee directors have been granted shares of restricted stock that vest when certain continuous employment/service restrictions and/or specified performance goals are achieved. 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 for the fiscal years ended June 30:

(Dollar amounts in millions  
except per share amounts)

	2003	2004	2005
Shares granted:			
Applera-Applied Biosystems stock	4,000	272,000	<b>44,000</b>
Applera-Celera Genomics stock	21,000	82,000	<b>2,000</b>
Compensation expense	\$4.8	\$3.2	<b>\$3.3</b>
Unearned compensation	\$1.8	\$5.4	<b>\$3.0</b>
Weighted-average grant date fair value:			
Applera-Applied Biosystems stock	\$20.00	\$21.41	<b>\$19.80</b>
Applera-Celera Genomics stock	\$9.62	\$10.48	<b>\$12.01</b>

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 Genomics 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 four series of performance units in fiscal 2003. We did not grant any performance units in fiscal

**Stock Option Activity**

Transactions relating to our stock option plans are summarized below:

	Applera-Applied Biosystems Stock	
	Number of Options	Weighted Average Exercise Price
<b>Fiscal 2003</b>		
Outstanding at June 30, 2002	34,040,464	\$37.40
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
<b>Fiscal 2004</b>		
Granted	5,223,048	\$19.37
Exercised	1,268,475	12.83

2004 and 2005. Accordingly, we recognized compensation expense of \$1.6 million in fiscal 2003, \$1.8 million in fiscal 2004, and \$0.9 million in fiscal 2005.

Cancelled	3,561,123	37.46
<hr/>		
Outstanding at June 30, 2004	39,435,989	31.14
Exercisable at June 30, 2004	22,777,266	39.25
<hr/>		
<b>Fiscal 2005</b>		
Granted	<b>3,569,099</b>	<b>\$20.85</b>
Exercised	<b>2,787,480</b>	<b>15.29</b>
Cancelled	<b>4,671,192</b>	<b>35.00</b>
<hr/>		
Outstanding at June 30, 2005	<b>35,546,416</b>	<b>30.86</b>
Exercisable at June 30, 2005	<b>34,953,415</b>	<b>31.17</b>
<hr/>		





	Applera-Celera Genomics Stock	
	Number of Options	Weighted Average Exercise Price
<b>Fiscal 2003</b>		
Outstanding at June 30, 2002	11,295,843	\$25.40
Granted	2,163,459	9.27
Exercised	820,772	7.44
Cancelled	2,106,994	33.54
<hr/>		
Outstanding at June 30, 2003	10,531,536	21.88
Exercisable at June 30, 2003	5,861,305	23.04
<hr/>		
<b>Fiscal 2004</b>		
Granted	1,681,327	\$10.66
Exercised	392,355	5.95
Cancelled	734,793	31.67
<hr/>		
Outstanding at June 30, 2004	11,085,715	19.90
Exercisable at June 30, 2004	6,674,768	23.90
<hr/>		
<b>Fiscal 2005</b>		
Granted	<b>1,401,850</b>	<b>\$10.28</b>
Exercised	<b>884,247</b>	<b>7.34</b>
Cancelled	<b>1,134,184</b>	<b>26.35</b>
<hr/>		
Outstanding at June 30, 2005	<b>10,469,134</b>	<b>18.96</b>
Exercisable at June 30, 2005	<b>10,393,774</b>	<b>19.07</b>

As a result of the accelerated vesting, options to purchase 13.6 million shares of Applera-Applied Biosystems stock and 3.6 million shares of Applera-Celera Genomics stock became exercisable immediately on January 20, 2005, and options to purchase 405,000 shares of Applera-Applied Biosystems stock and 42,500 shares of Applera-Celera Genomics stock became exercisable immediately on June 2, 2005.

The following tables summarize information regarding options outstanding and exercisable at June 30, 2005:

(Option prices per share)	Number of Options	Weighted Average	
		Exercise Price	Contractual Life

## 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.

## Note 7-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)	2004	2005
<b>Other Long-Term Assets</b>		
Equity investments	\$38.3	<b>\$31.2</b>
Goodwill	39.4	<b>39.4</b>
Noncurrent deferred tax asset, net	444.1	<b>482.8</b>
Other	81.6	<b>84.8</b>
<hr/>		
Total other long-term assets	\$603.4	<b>\$638.2</b>
<hr/>		
<b>Other Accrued Expenses</b>		
Deferred revenues	\$101.0	<b>\$94.6</b>
Other	171.4	<b>155.5</b>
<hr/>		
Total other accrued expenses	\$272.4	<b>\$250.1</b>
<hr/>		
<b>Other Long-Term Liabilities</b>		
Accrued postretirement benefits	\$69.1	<b>\$64.4</b>
Accrued pension benefits	50.9	<b>89.0</b>
Other	75.0	<b>74.0</b>
<hr/>		
Total other long-term liabilities	\$195.0	<b>\$227.4</b>

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 \$16.2 million in fiscal 2004 and \$11.3 million in fiscal 2005. We recorded unrealized gains of \$11.7 million at June 30, 2004, and \$6.8 million at June 30, 2005, on investments in publicly-traded companies. During fiscal 2004, the Applied Biosystems group recorded gains of \$11.2 million related primarily to the sales of minority

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**Applera-Applied Biosystems Stock**

**Options Outstanding**

At \$ 1.82 - \$ 16.00	<b>6,771,402</b>	<b>\$14.81</b>	<b>6.6</b>
At \$16.01 - \$ 20.50	<b>7,304,819</b>	<b>19.11</b>	<b>6.8</b>
At \$20.51 - \$ 25.00	<b>8,683,664</b>	<b>21.31</b>	<b>7.6</b>
At \$25.51 - \$110.00	<b>12,786,531</b>	<b>52.56</b>	<b>4.6</b>

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**Options Exercisable**

At \$ 1.82 - \$ 16.00	<b>6,465,491</b>	<b>\$15.25</b>	
At \$16.01 - \$ 20.50	<b>7,074,553</b>	<b>19.11</b>	
At \$20.51 - \$ 25.00	<b>8,628,840</b>	<b>21.30</b>	
At \$25.51 - \$110.00	<b>12,784,531</b>	<b>52.56</b>	

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**Applera-Celera Genomics Stock**

**Options Outstanding**

At \$ 0.74 - \$ 9.00	<b>2,472,135</b>	<b>\$ 7.79</b>	<b>3.3</b>
At \$ 9.01 - \$ 15.00	<b>4,875,614</b>	<b>10.23</b>	<b>8.1</b>
At \$15.01 - \$ 27.00	<b>1,503,872</b>	<b>19.48</b>	<b>6.3</b>
At \$27.01 - \$133.00	<b>1,617,513</b>	<b>61.89</b>	<b>5.1</b>

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**Options Exercisable**

At \$ 0.74 - \$ 9.00	<b>2,415,801</b>	<b>\$ 7.97</b>	
At \$ 9.01 - \$ 15.00	<b>4,864,827</b>	<b>10.23</b>	
At \$15.01 - \$ 27.00	<b>1,495,633</b>	<b>19.47</b>	
At \$27.01 - \$133.00	<b>1,617,513</b>	<b>61.89</b>	

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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**

In fiscal 2004, the Celera Genomics group decided to pursue the sale of its Rockville, Maryland facility. As a result of this decision, in the fourth quarter of fiscal 2004, we reclassified \$40.3 million of property, plant and equipment into assets held for sale within prepaid expenses and other current assets. In connection with the decision to sell this 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 of the carrying amount of the facility to its estimated market value less estimated costs to sell. The Celera Genomics group completed the sale of this facility in the fourth quarter of fiscal 2005 and received net proceeds of \$42.4 million. In connection with this sale, the

Celera Genomics group recognized a \$3.6 million pre-tax favorable adjustment to the charge recorded in the fourth quarter of fiscal 2004.

In connection with the reduction and rebalancing of the Applied Biosystems group's workforce during the fourth quarter of fiscal 2005, the Applied Biosystems group decided to pursue the sale of its San Jose, California facility. As a result of this decision, at June 30, 2005, we reclassified \$7.0 million of assets into assets held for sale within prepaid expenses and other current assets. The reclassified assets consist of property, plant and equipment. The sale of this facility is expected to occur during the next twelve months. Additionally, the Applied Biosystems group recorded a pre-tax impairment charge of \$1.7 million during the fourth quarter of fiscal 2005. This charge represents the write-down of the carrying amount of the facility to its current estimated market value less estimated costs to sell.

### Other Income (Expense), Net

The following table provides the major components of other income (expense), net in the Consolidated Statements of Operations for the fiscal years ended June 30:

(Dollar amounts in millions)	2003	2004	2005
DPI equity investment income (loss)	\$(17.7)	\$0.6	\$-
Other equity investment losses	(1.2)	(1.0)	
Foreign currency gains (losses)	3.0	(0.6)	3.5
Other	3.6	3.4	1.0
<b>Total other income (expense), net</b>	<b>\$(12.3)</b>	<b>\$2.4</b>	<b>\$4.5</b>

In fiscal 2003, as part of our DPI equity investment loss, we recorded an impairment charge of \$15.1 million. See Note 2 for more information.

### Note 8—Debt and Lines of Credit

Short-term debt at June 30 is summarized as follow:

(Dollar amounts in millions)	2004	2005
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of the outstanding notes. We repaid the remaining principal amount of the outstanding notes of approximately \$6 million on their maturity date in fiscal 2005.

We maintain a \$200 million unsecured revolving credit agreement with four banks that matures on April 15, 2010, under which there were no borrowings outstanding at June 30, 2005. This credit agreement replaced a \$50 million unsecured revolving credit agreement that was scheduled to mature in April 2005, under which there were no borrowings outstanding at June 30, 2004. Borrowings under this credit facility may be made in U.S. dollars and other currencies, and interest rates will vary depending on whether the borrowings are undertaken in the domestic or international markets. Commitment and facility fees are based on our long-term senior unsecured non-credit enhanced debt ratings. We are required to maintain certain minimum net worth and leverage ratios under this credit agreement.

### Note 9—Commitments, Contingencies, and Guarantees

Future minimum payments at June 30, 2005, under non-cancelable operating leases for real estate and equipment were as follows:

(Dollar amounts in millions)	
2006	<b>\$35.4</b>
2007	<b>23.7</b>
2008	<b>17.7</b>
2009	<b>16.0</b>
2010	<b>12.4</b>
2011 and thereafter	<b>34.7</b>
<b>Total</b>	<b>\$139.9</b>

We recorded rental expense of \$64.9 million for fiscal 2003, \$60.7 million for fiscal 2004, and \$57.1 million for fiscal 2005.

### Guarantees

Current portion of long-term debt	\$6.1 \$	–
Total short-term debt	\$6.1 \$	–

In connection with the acquisition of Axys, we assumed \$26.0 million of 8% senior secured convertible notes. Interest was payable quarterly and the principal was 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 were required to be held in a trust and the proceeds from the maturation of, and interest payments on, these obligations funded the interest and principal payments under the notes. During fiscal 2004, we repurchased \$10.0 million in principal amount

There are three types of guarantees related to our business activities that are included in the scope of FIN. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of Statement of Financial Accounting Standards Nos. 5, 57, and 107 and rescission of FIN 34”: 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.

### Leases

We provide lease-financing options to our customers through third party financing companies. For some leases, the financing companies have recourse to us for any unpaid principal balance upon default by the customer. The leases typically have terms of 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 record revenues from these transactions upon the completion of installation/acceptance 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, 2005, the financing companies' outstanding balance of lease receivables with recourse to us was \$9.4 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 purchaser of the Analytical Instruments business is paying for the pension benefits for employees of a former German subsidiary. However, we guaranteed payment of these pension benefits should the purchaser fail to do so, as these benefits were not transferable to the buyer under German law. The guaranteed payment obligation, which approximated \$55 million at June 30, 2005, is not expected to have a material adverse effect on our Consolidated Statements of Financial Position.

### Indemnifications

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

### Legal Proceedings

We are involved in various lawsuits, arbitrations, investigations, and other legal actions from time to time with both private parties and governmental entities.

an amended consolidated complaint was filed on August 21, 2001. The consolidated complaint generally alleges that the prospectus used in connection with the offering was inaccurate or misleading because it failed to adequately disclose the alleged opposition of the Human Genome Project and two of its supporters, the governments of the U.S. and the U.K., to providing patent protection to our genomic-based products. Although the Celera Genomics group has never sought, or intended to seek, a patent on the basic human genome sequence data, the complaint also alleges that we did not adequately disclose the risk that the Celera Genomics group would not be able to patent this data. The consolidated complaint seeks monetary damages, rescission, costs and expenses, and other relief as the court deems proper. On March 31, 2005, the Court certified the case as a class action.

We are involved in several litigation matters with MJ Research, Inc. (acquired by Bio-Rad Laboratories, Inc. since the commencement of litigation), which commenced with our filing claims against MJ Research on June 24, 1998, in the U.S. District Court for the District of Connecticut 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, that some of our patents are unenforceable because of patent misuse, and that some of our patents are invalid and unenforceable because of inequitable conduct. MJ Research is seeking injunctive relief, monetary damages, costs and expenses, and other relief. These matters were adjudicated in part through a jury trial, which resulted in a verdict in our favor rendered in April 2004, and the remaining issues were resolved through a series of summary judgments granted by the District Court in several rulings issued in our favor between December 2004 and April 2005. As a result, MJ Research' s counterclaims were rejected and MJ Research has been held liable to us and Roche Molecular Systems, also a party to the litigation, for infringement of 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

These legal actions currently involve, for example, 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, including some counterclaims brought against us in response to claims filed by us against third parties.

Applera and some of its officers are defendants in a lawsuit brought on behalf of purchasers of Applera-Celera Genomics stock in our follow-on public offering of Applera-Celera Genomics stock completed on March 6, 2000. In the offering, we sold an aggregate of approximately 4.4 million shares of Applera-Celera Genomics stock at a public offering price of \$225 per share. The lawsuit, which was commenced with the filing of several complaints in April and May 2000, is pending in the U.S. District Court for the District of Connecticut, and

technology). Further, the infringement of the ' 195, ' 202, ' 188 and ' 493 patents was held to be willful. As a result of these decisions in our favor, in April 2005, the District Court awarded us and Roche Molecular Systems damages of \$35.4 million plus reasonable attorneys' fees, an enhancement of the original damages award granted by the jury in the amount of \$19.8 million. MJ Research has filed a notice of appeal. Additionally, on August 30, 2005, the Court issued an order enjoining MJ Research from infringing U.S. Patent Nos. 5,333,675, 5,656,493 and 5,475,610.

Subsequent to the filing of our claims against MJ Research which are described in the preceding paragraph, on September 21, 2000, MJ Research filed an action against us in the U.S. District Court for the District of Columbia. This complaint is based on the allegation that the patents underlying our DNA sequencing instruments were improperly obtained because one of the alleged inventors, whose work was funded in part by the U.S. government, was knowingly

omitted from the patent applications. Our patents at issue are U.S. Patent Nos. 5,171,534, entitled “Automated DNA Sequencing Technique,” 5,821,058, entitled “Automated DNA Sequencing Technique,” 6,200,748, entitled “Tagged Extendable Primers and Extension Products,” and 4,811,218, entitled “Real Time Scanning Electrophoresis Apparatus for DNA Sequencing.” The complaint asserts violations of the federal False Claims Act and the federal Bayh Dole Act, invalidity and unenforceability of the patents at issue, patent infringement, and various other civil claims against us. MJ Research is seeking monetary damages, costs and expenses, injunctive relief, transfer of ownership of the patents in dispute, and other relief as the court deems proper. MJ Research claims to be suing in the name of the U.S. government although the government has to date declined to participate in the suit. On October 9, 2003, the case against us was dismissed but MJ Research has filed an appeal.

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

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

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, AmpFLSTR® kits, the SNPlex™ Genotyping System, the SNPbrowser™ tool, and the Celera Discovery System™ (“CDS”). The complaint also alleges that haplotyping analysis performed by our businesses infringes the patents identified above. Genetic Technologies Limited is seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper.

On-Line Technologies, Inc. (since acquired by MKS Instruments, Inc.) filed claims for patent infringement, trade secret misappropriation, fraud, breach of contract and unfair trade practices against PerkinElmer, Inc., Sick UPA, GmbH, and us in the U.S. District Court for the District of Connecticut on or about November 3, 1999. The complaint alleged that products called the Spectrum One and the MCS100E manufactured by former divisions of the Applied Biosystems group, which divisions were sold to the co-defendants in this case, were based on allegedly proprietary information belonging to On-Line Technologies and that the MCS100E infringed U.S. Patent No. 5,440,143. On-Line Technologies sought monetary damages, costs, expenses, injunctive relief, and other relief. On April 2, 2003, the U.S. District Court for the District of Connecticut granted our summary judgment motion and dismissed all claims brought by On-Line Technologies. On-Line Technologies filed an appeal with the U.S. Court of Appeals for the Federal Circuit seeking reinstatement of its claims, and on October 13, 2004, the Court of Appeals upheld dismissal of all claims except for the

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.

patent infringement claim, which will be decided by the District Court in subsequent proceedings.

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 and dismissed the case with prejudice on August 20, 2004. Promega has filed an appeal with the U.S. Court of Appeals for the Fourth Circuit.

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.

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.

other things, this patent and the sale of Taq DNA polymerase. The complaint seeks monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper. This case is largely based on the same set of contentions underlying a claim filed against us by Promega Corporation in the U.S. District Court for the Eastern District of Virginia, which is described above. The Promega claim was dismissed in August 2004 for, among other reasons, failure to state a claim upon which relief could be granted.

We filed a patent infringement action against Bio-Rad Laboratories, Inc., MJ Research, Inc., and Stratagene Corporation in the U.S. District Court for the District of Connecticut on November 9, 2004. The complaint alleges that the defendants infringe U.S. Patent No. 6,814,934. The complaint specifically alleges that the defendants' activities involving instruments for real-time PCR detection result in infringement. We are seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper. Bio-Rad, MJ Research, and Stratagene have each answered the complaint and counterclaimed for declaratory relief that the '934 patent is invalid and not infringed. Bio-Rad, MJ Research, and Stratagene are seeking dismissal of our complaint, a judgment that the '934 patent is invalid and not infringed, costs and expenses, and other relief as the court deems proper.

Thermo Finnigan LLC filed a patent infringement action against us in the U.S. District Court for the District of Delaware on December 8, 2004. The complaint alleges that we have infringed U.S. Patent No. 5,385,654 as a result of, for example, our Applied Biosystems group's commercialization of the ABI PRISM 3700 Genetic Analyzer. Thermo Finnigan is seeking monetary damages, costs, expenses, and other relief as the court deems proper.

The licensor of certain intellectual property to the Company has filed a notice of arbitration alleging, among other things, that the Company underpaid royalties owed under a license agreement. The licensor seeks monetary damages, an injunction against further alleged underpayment of royalties, and other appropriate relief. The arbitrator is expected to render a decision by the end of October 2005.

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 monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper.

Molecular Diagnostics Laboratories filed a class action complaint against us and Hoffmann-La Roche, Inc. in the U.S. District Court for the District of Columbia on September 23, 2004. The complaint alleges anticompetitive conduct in connection with the sale of Taq DNA polymerase and PCR-related products. The anticompetitive conduct is alleged to arise from the prosecution and enforcement of U.S. Patent No. 4,889,818. This patent is assigned to Hoffmann-La Roche, with whom we have a commercial relationship covering, among

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

#### **Note 10–Financial Instruments**

Our foreign currency risk management strategy uses derivative instruments to hedge various foreign currency forecasted revenues and intercompany transactions, and to offset the impact of changes in currency rates on various 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 forward, option, and range forward contracts to manage our foreign currency exposures. Our foreign currency exposures vary, but are primarily concentrated in euro, Japanese yen, and British pound. 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 forward, option, and range forward contracts to hedge a portion of forecasted international sales not denominated in U.S. dollars. We use hedge accounting on the derivative contracts to offset the changes in fair value of various forecasted sales transactions caused by the movements in currency 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 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 losses of \$39.8 million in fiscal 2003, \$40.7 million in fiscal 2004, and \$18.8 million in fiscal 2005 in net revenues from derivative instruments designated as cash flow hedges of anticipated sales. At June 30, 2005, we recorded \$6.5 million of net derivative gains in accumulated other comprehensive income

which are recorded in other income (expense), net in the Consolidated Statements of Operations.

### **Concentration of Credit Risk**

The forward and option contracts 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. We attempt to minimize this risk by limiting the counterparties to a diverse group of highly-rated major domestic and international financial institutions. In the event of non-performance by these counterparties, the carrying values of our financial instruments (see table below) represent the maximum amount of loss we would have incurred as of our fiscal year-end. 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 credit risk are cash and cash equivalents, short-term investments, and accounts receivable. We attempt to minimize the risks related to cash and cash equivalents and short-term investments by using highly-rated financial institutions that invest in a broad and diverse range of financial instruments. We have established guidelines relative to credit ratings and maturities intended 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 different 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-term investments and minority equity investments. We base the fair value of

(loss). This amount, which is net of tax, is expected to be reclassified to revenues within the next twelve months.

Because the critical terms of the derivative contracts designated as cash flow hedges and the underlying forecasted sales transactions are the same, we expect that the changes in the fair value of the underlying exposure will be offset completely by the changes in the fair value of the derivative contracts, both at inception and on an ongoing basis. Our ongoing assessment of hedge effectiveness includes verifying and documenting that the critical terms of the hedge and forecasted transaction have not changed. No amounts related to hedge ineffectiveness were recorded for the fiscal years ended June 30, 2003, 2004, and 2005.

### Other Foreign Currency Derivatives

We also use derivative financial instruments to hedge the impact resulting from changes in currency rates on various 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

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:

	2004		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Dollar amounts in millions)				
Cash and cash equivalents	\$507.9	\$507.9	<b>\$779.4</b>	<b>\$779.4</b>
Short-term investments	741.6	742.9	<b>642.7</b>	<b>645.1</b>
Currency forwards and options	8.8	5.1	<b>3.7</b>	<b>14.0</b>
Other investments	24.7	24.7	<b>27.3</b>	<b>27.3</b>
Minority equity investments	4.5	16.2	<b>4.5</b>	<b>11.3</b>
Short-term debt	(6.1 )	(6.1 )		

We report net unrealized gains and losses on short-term investments and minority equity investments as a separate component of accumulated other comprehensive income (loss) in the Consolidated Statements of Financial Position.





**Note 11—Quarterly Financial Information (Unaudited)**

The following is a summary of quarterly financial results:

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
(Dollar amounts in millions except per share amounts)	2004	2005(a)	2004(b)	2005(c)	2004(d)	2005(e)	2004(f)	2005(g)
<b>Consolidated</b>								
Net revenues	\$ 405.0	\$ 407.2	\$ 485.3	\$ 477.5	\$ 455.2	\$ 469.4	\$ 479.7	\$ 491.0
Gross margin	216.3	219.9	256.6	253.2	240.6	258.5	259.8	263.8
Income from continuing operations	16.0	16.1	42.6	54.9	22.1	34.7	34.3	54.1
Net income	16.0	16.1	42.6	54.9	22.1	34.7	44.9	54.1
<b>Applied Biosystems Group</b>								
Net revenues	\$ 382.7	\$ 390.3	\$ 458.4	\$ 463.4	\$ 439.6	\$ 454.8	\$ 460.4	\$ 478.6
Gross margin	198.1	207.6	237.9	243.1	230.5	247.1	245.8	253.8
Income from continuing operations	33.4	37.1	52.4	72.7	46.0	55.5	40.5	71.6
Net income	33.4	37.1	52.4	72.7	46.0	55.5	51.1	71.6
Dividends declared per share	\$ .0425	\$ .0425	\$ .0425	\$ .0425	\$ .0425	\$ .0425	\$ .0425	\$ .0425
Income per share from continuing operations								
Basic	\$ 0.16	\$ 0.19	\$ 0.25	\$ 0.38	\$ 0.23	\$ 0.28	\$ 0.20	\$ 0.36
Diluted	\$ 0.16	\$ 0.18	\$ 0.25	\$ 0.37	\$ 0.22	\$ 0.28	\$ 0.20	\$ 0.35
Net income per share								
Basic	\$ 0.16	\$ 0.19	\$ 0.25	\$ 0.38	\$ 0.23	\$ 0.28	\$ 0.26	\$ 0.36
Diluted	\$ 0.16	\$ 0.18	\$ 0.25	\$ 0.37	\$ 0.22	\$ 0.28	\$ 0.25	\$ 0.35
<b>Celera Genomics Group</b>								
Net revenues	\$ 17.3	\$ 9.6	\$ 19.2	\$ 8.2	\$ 11.2	\$ 8.2	\$ 12.4	\$ 5.0
Net loss	(16.3)	(20.3)	(13.6)	(19.4)	(21.9)	(21.0)	(5.7 )	(16.4)
Net loss per share								
Basic and diluted	\$ (0.23)	\$ (0.28)	\$ (0.19)	\$ (0.27)	\$ (0.30)	\$ (0.29)	\$ (0.08)	\$ (0.22)
<b>Celera Diagnostics</b>								
Net revenues	\$ 8.5	\$ 9.2	\$ 11.0	\$ 7.9	\$ 7.5	\$ 9.0	\$ 9.7	\$ 9.4
Net loss	(12.0)	(9.3 )	(9.3 )	(8.2 )	(11.9)	(7.8 )	(8.8 )	(4.6 )
Price range of common stock								
<b>Applied Biosystems Group</b>								
High	\$ 22.55	\$ 21.50	\$ 24.00	\$ 21.40	\$ 24.44	\$ 21.27	\$ 21.96	\$ 22.94
Low	18.47	17.76	19.95	18.37	19.10	19.42	18.04	19.20
<b>Celera Genomics Group</b>								
High	12.65	12.55	15.49	14.73	17.99	14.10	15.36	11.70
Low	8.84	10.32	10.08	11.00	13.35	10.12	10.63	9.09

There were no dividends paid on Applera-Celera Genomics stock during the periods presented.

The following transactions impacted the comparability between fiscal 2004 and 2005 and are discussed in detail in Note 2, with the exception of discontinued operations, which is discussed in Note 13.

- (a) The Applied Biosystems group recorded a pre-tax charge of \$7.3 million for severance and benefit costs. The Celera Genomics group recorded pre-tax charges of \$4.5 million related to the discontinuation of most of the operations of Paracel.
- (b) The Applied Biosystems group recorded pre-tax gains of \$6.4 million related to the sales of minority equity investments. The Applied Biosystems also recorded a pre-tax benefit of \$0.6 million for a reduction in anticipated employee-related costs recorded during fiscal 2003. The Applied Biosystems group recorded a net pre-tax gain of \$29.7 million for the sale of intellectual property, manufacturing inventory, and research and development assets related to the expansion of the scope of its existing joint venture in life science mass spectrometry with MDS. Additionally, the Applied Biosystems group recorded a pre-tax charge of \$2.9 million for severance and benefit costs and \$2.3 million related to the cost of excess lease space.
- (c) The Applied Biosystems group recorded pre-tax charges of \$6.3 million for severance and benefit costs. The Applied Biosystems group also recorded a pre-tax net gain of \$6.7 million from legal settlements and \$3.6 million relating primarily to the sales of minority equity investments. The Applied Biosystems group recorded a pre-tax benefit of \$0.7 million as a result of the repayment of a loan previously written off in fiscal 2004, and \$0.2 million for reductions in anticipated employee-related costs associated with severance and benefit charges recorded in fiscal 2003 through fiscal 2005.
- (d) The Applied Biosystems group recorded a pre-tax 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. 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. The Celera Genomics group recorded a pre-tax gain of \$24.8 million from the sale of its equity investment in DPI and a pre-tax impairment charge of \$18.1 million related to the anticipated sale of its Rockville, Maryland facility.
- (e) The Applied Biosystems group recorded a net pre-tax charge of \$11.4 million for severance and benefit costs, \$6.2 million for charges related to facility lease agreements, and \$2.6 million for asset impairments. The Celera Genomics group recorded a \$3.6 million pre-tax favorable adjustment to a charge recorded in fiscal 2004 associated with the sale of its Rockville, Maryland facility and a pre-tax charge of \$3.4 million
- (f) for severance and asset impairments related to the Online/Information Business. Additionally, the Applied Biosystems group recorded tax benefits of \$23.5 million primarily related to additional U.S. R&D tax credit carryforwards, expected results of Canadian examinations and settlement of some U.K. tax matters, and the Celera Genomics group recorded a tax benefit of \$2.2 million related to additional U.S. R&D tax credit carryforwards.
- (g)

**Note 12—Accumulated Other Comprehensive Income (Loss)**

Accumulated other comprehensive income (loss), net of tax, for fiscal 2003, 2004, and 2005 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, 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 benefit of \$9.9		(20.9 )			(20.9 )
Net unrealized losses reclassified into earnings, net of tax benefit 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 )
Change in net unrealized losses on investments, net of tax benefit of \$2.1	<b>(3.9 )</b>				<b>(3.9 )</b>
Change in net unrealized losses on hedge contracts, net of tax benefit of \$7.5		<b>(1.5 )</b>			<b>(1.5 )</b>
Net unrealized losses reclassified into earnings, net of tax benefit of \$6.3		<b>12.5</b>			<b>12.5</b>
Foreign currency translation adjustments			<b>(8.6 )</b>		<b>(8.6 )</b>
Minimum pension liability adjustment, net of tax benefit of \$13.3				<b>(24.6 )</b>	<b>(24.6 )</b>

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Balance at June 30, 2005	\$ 2.9	\$ 6.5	\$ 46.9	\$(98.1	) \$(41.8	)
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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 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 13–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 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 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

molecules, and proteins to make scientific discoveries, develop new pharmaceuticals, and conduct standardized testing. The Applied Biosystems group's products also serve the needs of some markets outside of life science research, which we refer to as "applied markets," such as the fields of: forensic testing and human identification; biosecurity, which refers to products needed in response to the threat of biological terrorism and other malicious, accidental, and natural biological dangers; and food and environmental 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. 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 the fiscal years ended June 30 follows:

(Dollar amounts in millions)	2003	2004	2005
<b>Net Revenues From External Customers</b>			
United States	\$ 885.9	\$ 868.5	<b>\$ 824.7</b>
Europe	487.5	546.8	<b>607.5</b>
Japan	250.4	237.8	<b>225.2</b>
Other Asia Pacific countries	102.0	110.8	<b>120.4</b>
Latin America and other	51.4	61.3	<b>67.3</b>
Consolidated	\$1,777.2	\$1,825.2	<b>\$1,845.1</b>

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 14—Segment, Geographic, Customer and Consolidating Information**

##### **Business Segments**

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 products and services to analyze nucleic acids (DNA and RNA), small

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)	2003	2004	2005
<b>Long-Lived Assets</b>			
United States	\$ 475.8	\$ 391.5	\$ 387.8
Europe	37.0	41.0	37.1
Japan	14.0	14.0	14.0
Other Asia Pacific countries	3.0	2.7	2.5
Latin America and other	0.4	0.4	0.6
Consolidated	\$ 530.2	\$ 449.6	\$ 442.0

Long-lived assets exclude goodwill and other intangible assets.

## Customer Information

We have a large and diverse customer base. No single customer accounted for more than 10% of total net revenues during fiscal 2003, 2004, and 2005.

## 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 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.

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 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 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 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 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 attributable to either businesses'

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

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 tax intersegment transactions as if each segment



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were a stand-alone company. We transfer 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 have, and we will continue, to reimburse existing tax benefits acquired by either group in a 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.

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 2004 and 2005, there was no pooled debt or preferred stock outstanding.

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 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 could 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 Genomics 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 2004 or 2005.

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 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

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 these obligations.

### **Transfers of Assets between Segments**

Transfers of assets can be made between segments without stockholder approval. Such transfers will be made at fair value, as determined by our board of directors. The consideration for such transfers may be paid by one segment 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 \$148 million through June 30, 2005. Celera Diagnostics’ profits, if any, will be shared in the ratio of 65% to the Celera Genomics group and 35% to the Applied Biosystems group until such time as the Celera Genomics group is reimbursed for any excess funding of initial losses after consideration of tax reimbursements received from the Applied Biosystems group. Once the excess funding is reimbursed, Celera Diagnostics’ profits and cash flows will be shared equally between the groups. 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 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% 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 2003 through fiscal 2005. 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% to the Celera Genomics group and 35% to the Applied Biosystems group until the Celera Genomics group has been reimbursed for its excess funding of initial losses after consideration of tax reimbursements. Any additional liquidation proceeds

through fiscal 2008. The royalty rate became a fixed percentage of sales starting in fiscal 2009, and the rate declined each succeeding fiscal year through fiscal 2012. For fiscal 2005, the royalty rate was 3%. The products subject to the royalties generally include some reagents, referred to as “probes” and “primers,” and arrays developed with reference to the genomic and biological information accessed by the Applied Biosystems group under the marketing and distribution agreement. As a result, current products that generate royalties include the Applied Biosystems group’s TaqMan® assays, SNPlex™ Genotyping System probes, VariantSEQ™ Resequencing System, arrays used with the Expression Array System, and TaqMan Low Density Arrays.

Based upon review by our board of directors of past performance, current business conditions, and future expectations with respect to the marketing and distribution agreement, as compared to original expectations, the board approved the following amendments to the agreement, effective February 2005. The board took this action consistent with its authority under the agreement and its responsibility to monitor the performance of the groups thereunder.

The term of the agreement was extended from ten to 15 years, so that the term now runs through the end of our 2017 fiscal year.

The royalty rate was modified such that (i) for prior fiscal years and our fiscal 2005 year, the rate applied was as described above, but (ii) beginning in our 2006 fiscal year, the royalty rate will be fixed at 4% through the remaining term of the agreement.

In April 2005, the Celera Genomics group announced its intention to substantially discontinue the operations of its Online/Information Business, including CDS, effective June 30, 2005, concurrent with the expiration of substantially all of its outstanding contractual obligations to Online/Information Business customers. Pursuant to the marketing and distribution agreement, the Celera Genomics group has been responsible for the performance of its obligations under all contracts relating

would be allocated equally to the Celera Genomics group and the Applied Biosystems group.

### **Online Marketing and Distribution Agreement**

In April 2002, the Celera Genomics group and the Applied Biosystems group entered into a ten-year marketing and distribution agreement pursuant to which the Applied Biosystems group became the exclusive distributor of the CDS online platform operated by the Celera Genomics group and related human genomic 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, when exclusivity commenced under the agreement, through the end of fiscal 2012. The royalty rate, as originally approved by our board of directors, was progressive, up to a maximum of 5%, with the level of sales

to the Online/Information Business existing on June 30, 2002 (including some renewals of these contracts) and was entitled to receive all revenues and other benefits under, and was responsible for all costs and expenses associated with, those contracts. The Applied Biosystems group agreed, subject to some conditions specified in the marketing and distribution agreement, 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. As of the end of fiscal 2005, the obligations under this reimbursement provision had been fully satisfied. The Celera Genomics group will continue to receive royalties on sales of some products sold by the Applied Biosystems group under the marketing and distribution agreement as described above, but otherwise does not expect to receive any further significant revenue from its discontinued products and services business. Under the marketing and distribution agreement, CDS database subscriptions were covered by the royalty provisions, but the Applied Biosystems group discontinued this product as of the end of fiscal 2005.





The following table summarizes the related party transactions between our segments for the fiscal years ended June 30:

(Dollar amounts in millions)	2003	2004	2005
<b>Applied Biosystems Group</b>			
Sales to the Celera Genomics group (a)	\$4.4	\$2.8	\$3.1
Sales to Celera Diagnostics (a)	5.1	7.2	2.4
Nonreimbursable utilization of tax benefits (b)	28.1	12.3	51.1
Payments for reimbursable utilization of tax benefits (c)	20.5	16.4	11.6
Funding of Celera Diagnostics (d)	7.1	4.6	4.8
<b>Celera Genomics Group</b>			
Royalties from the Applied Biosystems group (e)	\$1.9	\$2.7	\$3.0
Funding of Celera Diagnostics (f)	52.3	38.7	27.3
<b>Celera Diagnostics</b>			
Sales to the Applied Biosystems group (g)	\$3.3	\$-	\$-

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

(b) The Applied Biosystems group received, 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 the funding of cash 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.

For the three years ended June 30, 2005, the Celera Genomics group recorded 100% of the losses of Celera Diagnostics in its net loss as well as the tax benefit associated with those losses. In the following tables, the “Eliminations” column represents the elimination of intersegment activity and the losses on Celera Diagnostics, which are included both in the “Celera Diagnostics” column and net within the “Celera Genomics group” column as “Loss from joint venture.”

**Consolidating Statement of Operations for the Year Ended June 30, 2005**

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Consolidated
Products	\$1,480,771	\$2,178	\$7,412	\$–	\$1,490,361
Services	199,036	2,385	4,093		205,514
Other	101,750	23,541	23,974		149,265
Total net revenues from external customers	1,781,557	28,104	35,479	–	1,845,140
Intersegment revenues	5,526	2,944		(8,470 )	
<b>Total Net Revenues</b>	<b>1,787,083</b>	<b>31,048</b>	<b>35,479</b>	<b>(8,470 )</b>	<b>1,845,140</b>
Products	727,674	2,406	8,482	(3,435 )	735,127
Services	94,285	2,140		(514 )	95,911
Other	13,544	1,449	5,441	(1,687 )	18,747
<b>Total Cost of Sales</b>	<b>835,503</b>	<b>5,995</b>	<b>13,923</b>	<b>(5,636 )</b>	<b>849,785</b>
<b>Gross Margin</b>	<b>951,580</b>	<b>25,053</b>	<b>21,556</b>	<b>(2,834 )</b>	<b>995,355</b>
Selling, general and administrative	443,626	20,120	10,882	50,829	525,457
Corporate allocated expenses	42,042	6,097	2,690	(50,829 )	
Research, development and engineering	192,197	103,532	37,867	(2,862 )	330,734
Amortization of intangible assets		2,900			2,900
Employee-related charges, asset impairments and other	31,762	2,614			34,376
Asset dispositions and litigation settlements	(38,172 )				(38,172 )
<b>Operating Income (Loss)</b>	<b>280,125</b>	<b>(110,210)</b>	<b>(29,883 )</b>	<b>28</b>	<b>140,060</b>
Loss on investments, net	(50 )				(50 )
Interest income, net	13,919	14,941			28,860
Other income (expense), net	3,202	1,271			4,473
Loss from joint venture		(29,883 )		29,883	
<b>Income (Loss) before Income Taxes</b>	<b>297,196</b>	<b>(123,881)</b>	<b>(29,883 )</b>	<b>29,911</b>	<b>173,343</b>
Provision (benefit) for income taxes	60,302	(46,764 )		10	13,548
<b>Net Income (Loss)</b>	<b>\$236,894</b>	<b>\$(77,117 )</b>	<b>\$(29,883 )</b>	<b>\$29,901</b>	<b>\$159,795</b>





**Consolidating Statement of Financial Position at June 30, 2005**

(Dollar amounts in thousands)	Applied	Celera	Celera		Consolidated
	Biosystems Group	Genomics Group	Diagnostics	Eliminations	
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$756,236	\$23,165	\$–	\$–	\$779,401
Short-term investments		645,084			645,084
Accounts receivable, net	378,159	1,409	5,352	(982 )	383,938
Inventories, net	117,168	335	9,038		126,541
Prepaid expenses and other current assets	139,246	7,150	11,630	(5,381 )	152,645
<b>Total current assets</b>	<b>1,390,809</b>	<b>677,143</b>	<b>26,020</b>	<b>(6,363 )</b>	<b>2,087,609</b>
Property, plant and equipment, net	400,422	32,131	6,436	(591 )	438,398
Other long-term assets	498,832	159,957	4,679	(25,290 )	638,178
<b>Total Assets</b>	<b>\$2,290,063</b>	<b>\$869,231</b>	<b>\$37,135</b>	<b>\$(32,244 )</b>	<b>\$3,164,185</b>
<b>Liabilities and Stockholders' Equity</b>					
<b>Current liabilities</b>					
Accounts payable	\$167,060	\$7,689	\$5,302	\$(6,029 )	\$174,022
Accrued salaries and wages	74,598	11,925	4,665		91,188
Accrued taxes on income	66,792	10,535			77,327
Other accrued expenses	238,242	11,098	1,528	(734 )	250,134
<b>Total current liabilities</b>	<b>546,692</b>	<b>41,247</b>	<b>11,495</b>	<b>(6,763 )</b>	<b>592,671</b>
Other long-term liabilities	220,461	6,891	79		227,431
<b>Total Liabilities</b>	<b>767,153</b>	<b>48,138</b>	<b>11,574</b>	<b>(6,763 )</b>	<b>820,102</b>
<b>Total Stockholders' Equity</b>	<b>1,522,910</b>	<b>821,093</b>	<b>25,561</b>	<b>(25,481 )</b>	<b>2,344,083</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$2,290,063</b>	<b>\$869,231</b>	<b>\$37,135</b>	<b>\$(32,244 )</b>	<b>\$3,164,185</b>

**Consolidating Statement of Cash Flows for the Year Ended June 30, 2005**

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Consolidated
<b>Operating Activities of Continuing Operations</b>					
Income (loss) from continuing operations	\$ 236,894	\$(77,117)	) \$(29,883)	\$ 29,901	\$ 159,795
Adjustments to reconcile income (loss) from continuing operations to net cash provided (used) by operating activities:					
Depreciation and amortization	82,944	11,831	7,416	(236 )	101,955
Asset impairments	4,853	(206 )			4,647
Provisions for office closures and severance costs	20,975	4,707			25,682
Share-based compensation programs	3,966	2,065			6,031
Deferred income taxes	(53,141 )	19,084		(814 )	(34,871 )
(Gains) losses from investments and sales of assets	(29,672 )	33	(7 )		(29,646 )
Loss from joint venture and equity method investees		29,883		(29,883)	
Nonreimbursable utilization of intergroup tax benefits	51,110	(51,110 )			
Changes in operating assets and liabilities:					
Accounts receivable	6,057	2,673	1,352	(611 )	9,471
Inventories	13,398	22	492		13,912
Prepaid expenses and other assets	(9,357 )	1,556	(7,040 )	706	(14,135 )
Accounts payable and other liabilities	6,243	(30,981 )	(2,009 )	329	(26,418 )
<b>Net Cash Provided (Used) by Operating Activities of Continuing Operations</b>	<b>334,270</b>	<b>(87,560 )</b>	<b>(29,679)</b>	<b>(608 )</b>	<b>216,423</b>
<b>Investing Activities of Continuing Operations</b>					
Additions to property, plant and equipment	(84,591 )	(7,429 )	(2,469 )	608	(93,881 )
Proceeds from maturities of available-for-sale investments		2,022,558			2,022,558
Proceeds from sales of available-for-sale investments	158,150	511,912			670,062
Purchases of available-for-sale investments	(109,525)	(2,486,394)			(2,595,919)
Investments in joint venture and other	(5,196 )	(27,299 )		32,124	(371 )
Proceeds from the sale of assets, net	7,329	42,398	24		49,751
<b>Net Cash Provided (Used) by Investing Activities of Continuing Operations</b>	<b>(33,833 )</b>	<b>55,746</b>	<b>(2,445 )</b>	<b>32,732</b>	<b>52,200</b>
<b>Net Cash Provided by Operating Activities of Discontinued Operations</b>	<b>338</b>				<b>338</b>
<b>Financing Activities</b>					
Principal payments on debt		(6,000 )			(6,000 )
Dividends	(33,446 )				(33,446 )
Net cash funding from groups			32,124	(32,124)	
Purchases of common stock for treasury	(6,100 )				(6,100 )

Proceeds from stock issued for stock plans	47,551	9,431			56,982
<b>Net Cash Provided by Financing Activities</b>	8,005	3,431	32,124	(32,124)	11,436
<b>Effect of Exchange Rate Changes on Cash</b>	(8,866 )				(8,866 )
<b>Net Change in Cash and Cash Equivalents</b>	299,914	(28,383 )			271,531
<b>Cash and Cash Equivalents Beginning of Year</b>	456,322	51,548			507,870
<b>Cash and Cash Equivalents End of Year</b>	\$ 756,236	\$23,165	\$ -	\$ -	\$779,401





**Consolidating Statement of Operations for the Year Ended June 30, 2004**

(Dollar amounts in thousands)	Applied	Celera		Eliminations	Consolidated
	Biosystems Group	Genomics Group	Celera Diagnostics		
Products	\$1,441,759	\$5,011	\$9,189	\$–	\$1,455,959
Services	178,239	4,201			182,440
Other	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 )	
<b>Total Net Revenues</b>	<b>1,741,098</b>	<b>60,126</b>	<b>36,702</b>	<b>(12,733 )</b>	<b>1,825,193</b>
Products	721,201	3,228	7,079	(3,873 )	727,635
Services	91,820	800		(704 )	91,916
Other	15,753	6,804	13,041	(3,233 )	32,365
<b>Total Cost of Sales</b>	<b>828,774</b>	<b>10,832</b>	<b>20,120</b>	<b>(7,810 )</b>	<b>851,916</b>
<b>Gross Margin</b>	<b>912,324</b>	<b>49,294</b>	<b>16,582</b>	<b>(4,923 )</b>	<b>973,277</b>
Selling, general and administrative	418,902	25,302	11,630	56,541	512,375
Corporate allocated expenses	46,339	7,100	3,102	(56,541 )	
Research, development and engineering	214,153	101,388	43,818	(5,194 )	354,165
Amortization of intangible assets		2,900			2,900
Employee-related charges, asset impairments and other	23,741	18,083			41,824
Asset dispositions and litigation settlements	(6,660 )				(6,660 )
<b>Operating Income (Loss)</b>	<b>215,849</b>	<b>(105,479)</b>	<b>(41,968)</b>	<b>271</b>	<b>68,673</b>
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	
<b>Income (Loss) before Income Taxes</b>	<b>239,744</b>	<b>(110,528)</b>	<b>(41,968)</b>	<b>42,239</b>	<b>129,487</b>
Provision (benefit) for income taxes	67,491	(53,052 )		95	14,534
<b>Income (Loss) from Continuing Operations</b>	<b>172,253</b>	<b>(57,476 )</b>	<b>(41,968)</b>	<b>42,144</b>	<b>114,953</b>
Income from discontinued operations, net of income taxes	10,628				10,628
<b>Net Income (Loss)</b>	<b>\$182,881</b>	<b>\$(57,476 )</b>	<b>\$(41,968)</b>	<b>\$42,144</b>	<b>\$125,581</b>

**Consolidating Statement of Financial Position at June 30, 2004**

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Genomics Group	Celera Diagnostics	Eliminations	Consolidated
<b>Assets</b>					
Current assets					
Cash and cash equivalents	\$456,322	\$51,548	\$–	\$–	\$507,870
Short-term investments	48,625	694,246			742,871
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
<b>Total current assets</b>	<b>1,109,706</b>	<b>799,146</b>	<b>20,824</b>	<b>(6,268 )</b>	<b>1,923,408</b>
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
<b>Total Assets</b>	<b>\$1,947,760</b>	<b>\$1,017,714</b>	<b>\$36,903</b>	<b>\$(29,526 )</b>	<b>\$2,972,851</b>
<b>Liabilities and Stockholders' Equity</b>					
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
<b>Total current liabilities</b>	<b>517,686</b>	<b>72,384</b>	<b>12,966</b>	<b>(6,268 )</b>	<b>596,768</b>
Other long-term liabilities	186,516	7,901	617		195,034
<b>Total Liabilities</b>	<b>704,202</b>	<b>80,285</b>	<b>13,583</b>	<b>(6,268 )</b>	<b>791,802</b>
<b>Total Stockholders' Equity</b>	<b>1,243,558</b>	<b>937,429</b>	<b>23,320</b>	<b>(23,258 )</b>	<b>2,181,049</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$1,947,760</b>	<b>\$1,017,714</b>	<b>\$36,903</b>	<b>\$(29,526 )</b>	<b>\$2,972,851</b>



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**Consolidating Statement of Cash Flows for the Year Ended June 30, 2004**

(Dollar amounts in thousands)	Applied	Celera		Consolidated	
	Biosystems Group	Genomics Group	Celera Diagnostics Eliminations		
<b>Operating Activities of Continuing Operations</b>					
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 (used) 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
Share-based 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)
<b>Net Cash Provided (Used) by Operating Activities of Continuing Operations</b>	<b>289,258</b>	<b>(53,859)</b>	<b>(40,964)</b>	<b>–</b>	<b>194,435</b>
<b>Investing Activities of Continuing Operations</b>					
Additions to property, plant and equipment	(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	345,464	674,852			1,020,316
Purchases of available-for-sale investments	(360,325)	(2,836,234)			(3,196,559)
Investments in joint venture and other	(4,840)	(38,732)		43,284	(288)
Proceeds from the sale of assets, net	3,241	32,296		(316)	35,221
<b>Net Cash Provided (Used) by Investing Activities of Continuing Operations</b>	<b>(76,870)</b>	<b>57,051</b>	<b>(2,320)</b>	<b>43,284</b>	<b>21,145</b>
<b>Net Cash Used by Operating Activities of Discontinued Operations</b>	<b>(17,738)</b>				<b>(17,738)</b>
<b>Financing Activities</b>					
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

<b>Net Cash Provided (Used) by Financing Activities</b>	(345,465 )	(4,261 )	43,284	(43,284 )	(349,726 )
<b>Effect of Exchange Rate Changes on Cash</b>	12,871				12,871
<b>Net Change in Cash and Cash Equivalents</b>	(137,944 )	(1,069 )			(139,013 )
<b>Cash and Cash Equivalents Beginning of Year</b>	594,266	52,617			646,883
<b>Cash and Cash Equivalents End of Year</b>	\$456,322	\$ 51,548	\$-	\$-	\$ 507,870

**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	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)	
<b>Total Net Revenues</b>	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	20,067	9,245	8,108	(1,694 )	35,726
<b>Total Cost of Sales</b>	833,522	14,076	11,300	(9,242 )	849,656
<b>Gross Margin</b>	849,421	74,188	9,463	(5,496 )	927,576
Selling, general and administrative	369,276	26,614	9,229	50,113	455,232
Corporate allocated expenses	41,016	6,634	2,463	(50,113)	
Research, development and engineering	221,204	117,828	49,008	(6,715 )	381,325
Amortization of intangible assets		5,873			5,873
Employee-related charges, asset impairments and other	20,041				20,041
Asset dispositions and litigation settlements	(25,776 )				(25,776 )
<b>Operating Income (Loss)</b>	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	
<b>Income (Loss) before Income Taxes</b>	238,667	(134,309)	(51,237)	52,456	105,577
Provision (benefit) for income taxes	39,050	(52,380 )		427	(12,903 )
<b>Income (Loss) from Continuing Operations</b>	199,617	(81,929 )	(51,237)	52,029	118,480
Loss from discontinued operations, net of income taxes	(16,400 )				(16,400 )
<b>Net Income (Loss)</b>	\$183,217	\$ (81,929 )	\$ (51,237)	\$ 52,029	\$102,080





**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
<b>Operating Activities of Continuing Operations</b>					
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 (used) 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
Share-based 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 )
<b>Net Cash Provided (Used) by Operating Activities of Continuing Operations</b>	<b>279,441</b>	<b>(31,916 )</b>	<b>(51,667)</b>	<b>–</b>	<b>195,858</b>
<b>Investing Activities of Continuing Operations</b>					
Additions to property, plant and equipment	(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	146,675	520,349			667,024
Purchases of available-for-sale investments	(154,075)	(4,271,258)			(4,425,333)
Purchases of long-term investments		(16,834 )			(16,834 )
Investments in joint venture and other	(7,396 )	(52,339 )		59,411	(324 )
Proceeds from the sale of assets, net	5,463	2,425		(1,280 )	6,608
<b>Net Cash Provided (Used) by Investing Activities of Continuing Operations</b>	<b>(111,627)</b>	<b>37,910</b>	<b>(7,743 )</b>	<b>59,410</b>	<b>(22,050 )</b>
<b>Net Cash Used by Operating Activities of Discontinued Operations</b>	<b>(3,677 )</b>				<b>(3,677 )</b>
<b>Financing Activities</b>					
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

<b>Net Cash Provided (Used) by Financing Activities</b>	(40,322 )	17,733	59,410	(59,410)	(22,589 )
<b>Effect of Exchange Rate Changes on Cash</b>	29,123				29,123
<b>Net Change in Cash and Cash Equivalents</b>	152,938	23,727			176,665
<b>Cash and Cash Equivalents Beginning of Year</b>	441,328	28,890			470,218
<b>Cash and Cash Equivalents End of Year</b>	\$ 594,266	\$ 52,617	\$ -	\$ -	\$ 646,883

## To the Stockholders of Applera Corporation

### Management Responsibility for Financial Statements

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. 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 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 internal 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 controls, we recognize judgments are required to assess and balance the costs and expected benefits of a system of internal controls. Adherence to these controls is reviewed through a coordinated audit effort of our internal audit staff and independent registered public accounting firm.

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 registered public accounting firm 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.

### Management Report on Internal Control over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, we conclude that, as of June 30, 2005, our internal control over financial reporting was effective.

Our assessment of the effectiveness of our internal control over financial reporting as of June 30, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

A handwritten signature in black ink, appearing to be "S. Stimpert", written in a cursive style.

Dennis L. Winger  
Senior Vice President and  
Chief Financial Officer

A handwritten signature in black ink, appearing to read "Dennis L. Winger". The signature is stylized and cursive.

Tony L. White  
Chairman, President, and  
Chief Executive Officer



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## To the Board of Directors and Stockholders of Applera Corporation

We have completed an integrated audit of Applera Corporation's 2005 consolidated financial statements and of its internal control over financial reporting as of June 30, 2005 and audits of its 2004 and 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

### Consolidated Financial Statements

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Applera Corporation and its subsidiaries at June 30, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2005 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 of financial statements 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.

### Internal Control over Financial Reporting

Also, in our opinion, management's assessment, included in the accompanying Management Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of June 30, 2005 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2005, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting 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 effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally

accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company' s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Stamford, Connecticut

August 31, 2005

Directors and Officers

Board of Directors

Tony L. White  
Chairman, President, and  
Chief Executive Officer  
Director since 1995<sup>(1)</sup>

Richard H. Ayers  
Retired Chairman and  
Chief Executive Officer  
The Stanley Works  
Director since 1988<sup>(1,2)</sup>

Jean-Luc B&eacutelingard  
President and Chief Executive  
Officer  
Ipsen Group  
Director since 1993<sup>(3,4,5)</sup>

Robert H. Hayes, Ph.D.  
Phillip Caldwell Professor,  
Emeritus  
Harvard Business School  
Director since 1985 <sup>(1,2,5)</sup>

Arnold J. Levine, Ph.D.  
Professor, Institute for  
Advanced Study  
Director since 1999<sup>(3,4,5)</sup>

William H. Longfield  
Retired Chairman and  
Chief Executive Officer  
C.R. Bard, Inc.  
Director since 2003<sup>(3,4)</sup>

Theodore E. Martin  
Retired President and  
Chief Executive Officer  
Barnes Group Inc.  
Director since 1999<sup>(2)</sup>

Carolyn W. Slayman, Ph.D.  
Sterling Professor and  
Deputy Dean  
Yale University School  
of Medicine  
Director since 1994 <sup>(1,3,4,5)</sup>

Orin R. Smith  
Retired Chairman and  
Chief Executive Officer  
Engelhard Corporation  
Director since 1995 <sup>(3,4)</sup>

James R. Tobin  
President and Chief  
Executive Officer  
Boston Scientific  
Corporation  
Director since 1999 <sup>(2)</sup>

Committee Memberships:  
1 Executive Committee  
2 Audit/Finance Committee  
3 Management Resources  
Committee  
4 Nominating/Corporate  
Governance Committee  
5 Technology Advisory  
Committee

Applera Corporation

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

Dennis A. Gilbert  
Vice President  
Applied Biosystems

Paul D. Grossman, Ph.D.  
Vice President  
Applied Biosystems

Barbara J. Kerr\*  
Vice President  
Human Resources

Laura C. Lauman  
Vice President  
Applied Biosystems

Victor K. Lee, Ph.D.  
Intellectual Property  
Celera Diagnostics

Thomas P. Livingston  
Vice President and  
Secretary

Wayne W. Montgomery  
Intellectual Property  
Celera Genomics

William V. Murray  
Vice President  
Applied Biosystems

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

William B. Sawch\*  
Senior Vice President and  
General Counsel

Michael G. Schneider  
Vice President  
Applied Biosystems

Mark P. 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



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## Principal Offices

Aplera Corporation  
301 Merritt 7  
Norwalk, CT 06851-1070  
Tel 203.840.2000  
Toll Free 800.761.5381  
www.aplera.com  
Mailing address:  
Aplera 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

Computershare (formerly Equiserve), our 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.  
c/o Computershare Investor Services

## Stockholder Publications

Aplera Corporation information, including quarterly earnings 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

Aplera-Applied Biosystems stock and Aplera-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 our Annual Report on Form 10-K for our 2005 fiscal year may be obtained without charge by writing to our Corporate Secretary at the 301 Merritt 7 corporate address.

## Information Via Internet

Internet users can access information about us, including press releases, quarterly conference calls, information about our products and services, and other items of interest, at the following addresses:

www.aplera.com  
www.appliedbiosystems.com  
www.celera.com

## Annual Meeting

Our 2005 Annual Meeting of Stockholders will be held on Thursday, October 20, 2005, at 9:30 a.m. at 301 Merritt 7, Norwalk, CT 06851.

## Certifications

The certifications of our Chief Executive Officer and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002 regarding, among other things, the quality of our public disclosure, have been signed by those officers and filed by us with the Securities and Exchange Commission as exhibits 31.1 and 31.2 to our Annual Report on Form 10-K for our 2005 fiscal year.

On October 28, 2004, our Chief Executive Officer submitted to the New York Stock Exchange an annual certification stating that as of the date thereof he was not aware of any violation by us of the New York Stock Exchange corporate governance listing standards.

## Investor Relations & Corporate Communications

Peter Dworkin, Vice President

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

Aplera 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 Aplera Corporation by programs directed toward responsible community involvement.

Applied Biosystems and MicroSeq are registered trademarks and AB (Design), API 4000, Aplera, Celera, Celera Diagnostics, Celera Genomics, and ViroSeq are trademarks of Aplera Corporation or its subsidiaries in the US and/or certain other countries.

Q TRAP is a registered trademark of Applied Biosystems/MDS SCIEX, a joint venture between Aplera Corporation and MDS Inc. TaqMan is a registered trademark of Roche Molecular Systems, Inc. The Abbott *m2000*<sup>TM</sup> is a registered trademark of Abbott Laboratories.

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P.O. Box 43010  
Providence, RI 02940-3010  
[www.computershare.com/  
equiserve](http://www.computershare.com/equiserve)

**Dividend Reinvestment**

[www.celeradiagnostics.com](http://www.celeradiagnostics.com)

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 Computershare at the address above.

Alternatively, you may request this information by writing to:

Applera Corporation  
Corporate Communications  
850 Lincoln Centre Drive  
Foster City, CA 94404





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## SUBSIDIARIES OF APPLERA CORPORATION

<u>Name</u>	<u>State or Jurisdiction of Incorporation or Organization</u>
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
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 Republica 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
BSW Wohnstatten GmbH	Germany
Applied Biosystems Manufacturing GmbH	Germany
Applera Austria Handels GmbH	Austria
Applied Biosystems Hong Kong, Limited	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.  
Applera Deutschland GmbH  
Applied Biosystems Japan, Ltd.  
PerSeptive Biosystems (Canada) Ltd.

Delaware, USA  
Germany  
Japan  
Canada

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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 and 10.0% by Applera Finance BV (indirectly, in the aggregate, wholly owned by Applera Corporation).
- (3) 51.0% owned by Applera Overseas Corporation and 49.0% by Applera Europe BV (indirectly, in the aggregate, wholly owned by Applera Corporation).
- (4) 3.9% owned by PE (Sweden) AB, 23.5% by Applera Holding BV, 71.9% by Spartan Limited, and 0.7% by Applera Overseas Corporation (indirectly, in the aggregate, wholly owned by Applera Corporation).
- (5) 98.8% owned by Applera Holding GmbH, 0.5% by Applera Overseas Corporation, and 0.7% by Listronagh Company (indirectly, in the aggregate, wholly owned by Applera Corporation).
- (6) 0.1% owned by Applera Corporation and 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% by Rockville Holdings, LLC (indirectly, in the aggregate, 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.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-92225) 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, 333-102063, 333-120084, 333-120085, and 333-120087) of Applera Corporation of our report dated August 31, 2005 relating to the consolidated financial statements, management' s assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Stockholders, which is incorporated by reference in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated August 31, 2005 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Stamford, Connecticut

September 6, 2005

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**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;

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

2. 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;

- The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as
4. defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) 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

(d) 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

- The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial
5. 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 8, 2005

/s/ Tony L. White  
Chief Executive Officer

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**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;

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

2. 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;

- The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as
4. defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) 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

(d) 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

- The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial
5. 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 8, 2005

/s/ Dennis L. Winger  
Chief Financial Officer

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**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, 2005, 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 8, 2005

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**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, 2005, 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 8, 2005

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