APPLERA CORP
Form 10-Q
May 08, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2008

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number: **001-04389**

APPLERA CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

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

(203) 840-2000

(Registrant s Telephone Number, Including Area Code)

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

Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

As of the close of business on May 5, 2008, there were 168,663,895 shares of Applera Corporation-Applied Biosystems Group Common Stock and 79,980,240 shares of Applera Corporation-Celera Group Common Stock outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

APPLERA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollar amounts in thousands except per share amounts)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2008	2007	**2008**	2007
Products	**$460,283**	$442,476	**$ 1,342,425**	$ 1,284,326
Services	**91,721**	61,816	**248,129**	180,738
Other	**39,354**	34,760	**118,839**	101,246
Total Net Revenues	**591,358**	539,052	**1,709,393**	1,566,310
Products	**208,242**	205,352	**607,192**	612,069
Services	**39,635**	27,571	**105,397**	78,708
Other	**3,154**	3,217	**8,925**	8,843
Total Cost of Sales	**251,031**	236,140	**721,514**	699,620
Gross Margin	**340,327**	302,912	**987,879**	866,690
Selling, general and administrative	**180,848**	157,258	**512,413**	454,485
Research and development	**58,564**	67,268	**174,014**	187,330
Amortization of purchased intangible assets	**5,111**	2,841	**12,439**	8,420
Employee-related charges, asset impairments and other	**4,948**		**8,233**	6,013
Asset dispositions and legal settlements	**(1,100)**		**(8,656)**	(1,058)
Acquired research and development				114,251
Operating Income	**91,956**	75,545	**289,436**	97,249
Gain (loss) on investments, net	**(3,026)**		**(415)**	209
Interest expense	**(2,174)**	(456)	**(7,375)**	(760)
Interest income	**7,933**	11,070	**28,197**	30,932
Other income (expense), net	**404**	2,405	**2,596**	4,861
Income before Income Taxes	**95,093**	88,564	**312,439**	132,491
Provision for income taxes	**19,848**	17,666	**88,906**	53,116
Net Income	**$ 75,245**	$ 70,898	**$ 223,533**	$ 79,375
Applied Biosystems Group (see Note 4)				
Net Income per Share				
Basic	**$ 0.49**	$ 0.41	**$ 1.32**	$ 0.50
Diluted	**$ 0.48**	$ 0.39	**$ 1.28**	$ 0.48
Dividends Declared per Share	**$ 0.0425**	$ 0.0850	**$ 0.1275**	$ 0.1700

Celera Group (see Note 4)				
Net (Loss) per Share				
Basic and diluted	**$ (0.09)**	$ (0.06)	**$ (0.08)**	$ (0.15)

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

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APPLERA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited)

(Dollar amounts in thousands)

	At March 31, 2008	At June 30, 2007
Assets		
Current assets		
Cash and cash equivalents	**$ 426,328**	$ 323,203
Short-term investments	**276,634**	732,757
Accounts receivable (net of allowances for doubtful accounts of $16,211 and $7,422 respectively)	**491,191**	452,873
Inventories, net	**180,978**	140,349
Prepaid expenses and other current assets	**174,164**	179,445
Total current assets	**1,549,295**	1,828,627
Property, plant and equipment, net	**383,984**	390,810
Goodwill and intangible assets, net	**529,368**	297,962
Other long-term assets	**587,800**	635,141
Total Assets	**$ 3,050,447**	$3,152,540
Liabilities and Stockholders Equity		
Current liabilities		
Loans payable	**$ 125,123**	$ -
Accounts payable	**160,379**	162,665
Accrued salaries and wages	**94,386**	108,552
Current deferred tax liability	**15,952**	15,633
Accrued taxes on income	**11,242**	66,701
Other accrued expenses	**324,974**	269,623
Total current liabilities	**732,056**	623,174
Other long-term liabilities	**246,129**	213,312
Total Liabilities	**978,185**	836,486
Stockholders Equity		
Capital stock		
Applera Corporation Applied Biosystems Group	**2,134**	2,133
Applera Corporation Celera Group	**799**	790
Capital in excess of par value	**2,279,309**	2,248,372
Retained earnings	**1,094,817**	854,721
Accumulated other comprehensive income	**19,183**	11,363
Treasury stock, at cost	**(1,323,980)**	(801,325)
Total Stockholders Equity	**2,072,262**	2,316,054
Total Liabilities and Stockholders Equity	**$ 3,050,447**	$3,152,540

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

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APPLERA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollar amounts in thousands)

	Nine Months Ended March 31, 2008	2007
Operating Activities of Continuing Operations		
Net income	**$ 223,533**	$ 79,375
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**66,238**	64,361
Asset impairments	**3,080**	3,000
Employee-related charges and other	**6,610**	3,013
Share-based compensation and pension	**22,595**	14,361
Deferred income taxes	**61,386**	7,658
Sale of assets and legal settlements, net	**(2,611)**	(209)
Acquired research and development		114,251
Changes in operating assets and liabilities:		
Accounts receivable	**25,663**	(22,674)
Inventories	**(32,185)**	(11,565)
Prepaid expenses and other assets	**2,552**	(3,598)
Accounts payable and other liabilities	**(32,089)**	(36,300)
Net Cash Provided by Operating Activities of Continuing Operations	**344,772**	211,673
Net Cash Provided by Discontinued Operations	**12,900**	
Investing Activities of Continuing Operations		
Additions to property, plant and equipment, net	**(34,087)**	(45,477)
Proceeds from maturities of available-for-sale investments	**106,119**	205,952
Proceeds from sales of available-for-sale investments	**480,995**	339,832
Purchases of available-for-sale investments	**(132,549)**	(714,001)
Acquisitions and investments, net of cash acquired	**(214,750)**	(121,673)
Investment in alliance activity, net	**(27)**	(1,887)
Proceeds from the sale of assets, net	**3,725**	372
Net Cash Provided (Used) by Investing Activities of Continuing Operations	**209,426**	(336,882)
Financing Activities of Continuing Operations		
Net change in revolving credit line	**25,000**	
Proceeds from loan payable	**100,000**	
Payments on loans payable and debt	**(10,591)**	
Dividends	**(22,708)**	(23,241)
Purchases of common stock for treasury	**(601,505)**	(68,540)
Proceeds from stock issued for stock plans and other	**72,824**	111,135
Net Cash Provided (Used) by Financing Activities of Continuing Operations	**(436,980)**	19,354
Effect of Exchange Rate Changes on Cash	**(26,993)**	4,010
Net Change in Cash and Cash Equivalents	**103,125**	(101,845)
Cash and Cash Equivalents Beginning of Period	**323,203**	434,191
Cash and Cash Equivalents End of Period	**$ 426,328**	$ 332,346

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

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APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Interim Condensed Consolidated Financial Statements

Basis of Presentation

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

We consistently applied the accounting policies described in our 2007 Annual Report to Stockholders in preparing these unaudited interim financial statements, except for the adoption of FIN 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 and FIN 48-1, Definition of Settlement in FASB Interpretation No 48 as discussed below. We made all adjustments that are necessary, in our opinion, for a fair statement of the results for the interim periods. These adjustments are of a normal recurring nature. We condensed or omitted from these interim financial statements several notes and other information included in our 2007 Annual Report to Stockholders. You should read these unaudited interim condensed consolidated financial statements in conjunction with our consolidated financial statements presented in our 2007 Annual Report to Stockholders. We have reclassified some prior year amounts in the condensed consolidated financial statements and notes for comparative purposes.

Recently Issued Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 161, Disclosures about Derivative Instruments and Hedging Activities - an amendment to FASB Statement No. 133. SFAS No. 161 is intended to help investors better understand how derivative instruments and hedging activities affect an entity s financial position, financial performance and cash flows through enhanced disclosure requirements. The provisions of SFAS No. 161 are effective for our 2010 fiscal year, beginning July 1, 2009.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations, which replaces SFAS No. 141, Business Combinations. SFAS No. 141R establishes the principles and requirements for how an acquirer recognizes and measures the identifiable assets acquired, the liabilities assumed, the goodwill acquired and any noncontrolling interest in the acquiree. SFAS No. 141R also establishes the disclosure requirements for a business combination. The provisions of SFAS No. 141R are effective for our 2010 fiscal year, beginning July 1, 2009.

Also in December 2007, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) on Issue No. 07-1, Accounting for Collaborative Arrangements. EITF 07-1 defines collaborative arrangements and establishes reporting and disclosure requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. The provisions of EITF 07-1 are effective for our 2010 fiscal year, beginning July 1, 2009. We are currently evaluating the provisions of EITF 07-1 and the resulting impact of adoption on our financial statements.

In June 2007, the FASB ratified the consensus reached by the EITF on Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards. EITF 06-11 states that an entity should recognize a realized tax benefit associated with dividends or dividend equivalents on nonvested equity shares, nonvested equity share units, and outstanding equity share options charged to retained earnings as an increase in capital in excess of par value. The amount recognized in capital in excess of par value should be included in the pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards. EITF 06-11 should be applied prospectively to income tax benefits of dividends on equity-classified share-based payment awards that are declared in fiscal years beginning after December 15, 2007. The provisions of EITF 06-11 are effective for our 2009 fiscal year, beginning July 1, 2008. We are currently evaluating the provisions of EITF 06-11 and the resulting impact of adoption on our financial statements.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Adoption of FIN 48

We adopted the provisions of FASB Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 and FIN 48-1, Definition of Settlement in FASB Interpretation No. 48 on July 1, 2007. FIN 48 addresses the recognition and measurement of uncertain income tax positions using a more-likely-than-not threshold and also requires enhanced disclosures in the financial statements. FIN 48-1 amends FIN 48 to provide guidance on how companies should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits.

As a result of our adoption of FIN 48, we recognized a $36.7 million increase in our opening retained earnings relating to our uncertain tax positions. The total amount of unrecognized tax benefits at July 1, 2007 was $67.9 million, of which $33.3 million would affect the effective tax rate if recognized. We recognize interest and penalties related to uncertain tax positions in our provision for income taxes. Although our tax filings are under continual examination by the tax authorities and we regularly assess our tax uncertainties, tax examinations are inherently uncertain.

During the third quarter of fiscal 2008, the Internal Revenue Service (IRS) completed its audit of our fiscal years 2001 through 2005. The decrease in our unrecognized tax benefits of $41.0 million was primarily related to the completion of the IRS audit as well as foreign audits. As a result, at March 31, 2008, the total amount of unrecognized tax benefits that would affect the effective tax rate, if recognized, was $17.4 million. The impact to our cash flow was immaterial.

The U.S. statutes of limitation are open for the fiscal tax years 2004 forward. Our major foreign jurisdictions are subject to examination for the tax years 2002 forward. Due to the complex and uncertain examination process, the resolution of such examinations could have a material impact on our results of operations.

Revenues and Accounts Receivable

In conjunction with the acquisition of Berkeley HeartLab, Inc. (BHL), we have updated our revenue recognition policy as follows:

We record revenue on 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 on our receipt of the sales proceeds. Deferred revenues consist of prepayments for trade-ins and service contracts. 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 undelivered item, and delivery or performance of the undelivered item is probable and substantially in our control. For 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. Arrangements with multiple elements or deliverables must be segmented into individual units of accounting based on the separate deliverables only if there is objective and verifiable evidence of fair value to allocate the consideration received to the deliverables. Revenues from multiple-element arrangements involving license fees, up-front payments and milestone payments, which are received and/or billable in connection with other rights and services that represent our continuing obligations are deferred until all of the multiple elements have been delivered or until objective and verifiable evidence of the fair value of the undelivered elements has been established. On establishing objective and verifiable evidence of the fair value of the elements in multiple-element arrangements, the fair value is allocated to each element of

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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the arrangement, such as license fees or research collaboration projects, based on the relative fair values of the elements. We determine the fair value of each element in multiple-element arrangements based on objective and verifiable evidence of fair value, which is determined for each element based on the prices charged when the similar elements are sold separately to third parties. If objective and verifiable evidence of fair value of all undelivered elements exists but objective and verifiable evidence of fair value does not exist for one or more delivered elements, then revenue is recognized using the residual method. Under the residual method, the revenues from delivered elements are not recognized until the fair value of the undelivered element or elements has been determined. Contract interpretation is normally required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and if so, how the price should be allocated among the deliverable elements, when to begin to recognize revenue for each element, and the period over which revenue should be recognized.

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. For those arrangements where royalties cannot be reasonably estimated, we recognize revenue on 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. We have adopted the provisions of Statement of Position (SOP) 97-2, Software Revenue Recognition for license fees with extended terms. Specifically, if it cannot be concluded that a licensee fee is fixed or determinable at the outset of an arrangement, revenue is recognized as payments from third parties become due.

A portion of the Celera group s reported net product revenues include our product sales to Abbott Laboratories and equalization payments we receive from Abbott resulting from a profit and loss sharing arrangement between the Celera group and Abbott. Costs associated with our product sales to Abbott are included in cost of sales. End-user sales to third parties are recognized by Abbott. Research and development and administrative costs incurred by us in connection with the Abbott alliance are presented on a gross basis in our interim condensed consolidated statements of operations. All revenues, costs and expenses of the alliance are shared equally by both parties. At the end of each reporting period, the two companies compare a statement of revenues and expenses for alliance activities recorded by each party. A calculation is made to determine the amount that needs to be paid to evenly split both the revenue and expenses. This payment to the Celera group is referred to as the equalization payment and is recorded as revenue by the Celera group. 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.

Also, a portion of the Celera group s reported net revenues include patient test service revenues associated with BHL s operations. We recognize patient test service revenues on completion of the testing process and when the test results are sent to the ordering healthcare provider. Billings for services reimbursed by third-party payors, including Medicare, are recorded net of allowances for differences between amounts billed and the estimated receipts from these payors. These allowances are determined based on historical activity. Since the acquisition date through March 31, 2008, revenue from Medicare patients represented approximately 38% of the total BHL patient test service revenues. Payment arrangements with third parties, such as Medicare and some insurance companies, include predetermined reimbursement rates for patient tests. Adjustments to the estimated receipts, based on final settlement with the third-party payors, including Medicare, are recorded in revenue on settlement.

We have an established process to estimate and review the collectibility of our receivables. Bad debt expense is recorded in SG&A expenses as a percentage of aged accounts receivable considered necessary to maintain an appropriate level of allowance for doubtful accounts. Receivables are reserved based on their respective aging categories. Our process for determining the appropriate level of the allowance for doubtful accounts involves judgment, and considers the age of the underlying receivables, type of payor, historical and projected collection experience, current economic and business conditions, and other external factors that could affect the collectibility of its receivables. The allowance for doubtful accounts is reviewed for adequacy, at a minimum, on a quarterly basis. An account is written-off against the allowance

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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for doubtful accounts when all reasonable collection efforts have been unsuccessful and it is probable the receivable will not be recovered or the account has been transferred to a third party collection agency.

Note 2 Events Impacting Comparability

We are providing the following information on some actions taken by us or events that occurred in the periods indicated:

Income/(charge)	Three months ended March 31,		Nine months ended March 31,	
(Dollar amounts in millions)	**2008**	2007	**2008**	2007
Severance and benefit costs	**$(1.3)**	$ -	**$(5.0)**	$ -
Asset impairments				(3.0)
Excess lease space	**(0.9)**		**(0.9)**	
Other	**(2.8)**		**(2.4)**	(3.6)
Reduction of expected costs				0.6
Total employee-related charges, asset impairments and other	**$(5.0)**	$ -	**$(8.3)**	$ (6.0)
Other events impacting comparability:				
Revenue from sale of small molecule program	**$ -**	$ -	**$ -**	$ 2.5
Asset dispositions and legal settlements	**1.1**		**8.7**	1.1
Acquired research and development				(114.3)
Investment gains (losses)	**(3.1)**		**(0.5)**	
Tax items	**8.9**	8.4	**6.6**	18.2

Employee-Related Charges, Asset Impairments and Other

The following items have been recorded in the interim condensed consolidated statements of operations in employee-related charges, asset impairments and other, except as noted.

Applied Biosystems group

Fiscal 2008

During the third quarter of fiscal 2008, the Applied Biosystems group recorded a pre-tax charge of $1.1 million primarily for professional fees related to the Celera group s anticipated separation from Applera. The Applied Biosystems group and the Celera group have agreed to share equally the costs incurred for the separation.

During the second quarter of fiscal 2008, the Applied Biosystems group recorded a pre-tax charge of $2.9 million for severance costs for 41 employees. The charge resulted from the realignment of the Applied Biosystems group s organization to support market dynamics and it plans on redirecting the savings into other strategic initiatives. All of the affected employees were notified as of December 31, 2007, and are expected to be terminated by June 30, 2008. During the second and third quarters of fiscal 2008, we made cash payments of $1.7 million related to this charge. Cash expenditures were funded by cash provided by operating activities. The remaining cash expenditures of $1.2 million are expected to be paid by June 30, 2008.

Charges prior to fiscal 2007

During the first nine months of fiscal 2008, the Applied Biosystems group made cash payments of approximately $0.9 million related to excess facility lease space charges recorded in fiscal 2005. The remaining cash payments of $0.8 million as of March 31, 2008 are expected to be disbursed by fiscal 2011. In accordance with SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities , the excess facility lease space charge included a reduction for future estimated sublease rentals for the property. A sublease rental was not obtained for the property and over the course of the lease, additional charges of $0.6 million were recorded in operating expenses. Additionally, in the second quarter of fiscal 2007, a charge of $0.5 million was recorded in operating expenses to reserve for additional estimated costs under the lease.

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APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Celera group

Fiscal 2008

During the third quarter of fiscal 2008, the Celera group recorded a pre-tax charge of $1.3 million for severance costs for approximately 30 employees. All of the affected employees were notified by March 31, 2008, and are expected to be terminated by the end of the first quarter of fiscal 2009. During the third quarter of fiscal 2008, we made net cash payments of $0.7 million related to this charge. Cash expenditures were funded by available cash. The remaining cash expenditures of $0.6 million are expected to be paid by the third quarter of fiscal 2009. This charge resulted from the realigning of its R&D resources and other activities in line with its current business activities.

Also during the third quarter of fiscal 2008, the Celera group recorded a pre-tax charge of $1.1 million primarily for professional fees related to the Celera group s anticipated separation from Applera. The Celera group and the Applied Biosystems group have agreed to share equally the costs incurred for the separation.

During the second and third quarters of fiscal 2008, the Celera group recorded pre-tax charges totaling $1.3 million related to a reduction in the Celera group s proteomic-based activities. These charges were in addition to a charge recorded in the fourth quarter of fiscal 2007, as described below. These charges were primarily comprised of a $0.8 million charge in the second quarter of fiscal 2008 for severance costs for approximately 20 employees and an excess lease space charge of $0.9 million in the third quarter of fiscal 2008, partially offset by a gain of $0.4 million in the second quarter of fiscal 2008 from the disposal of equipment related to proteomic-based activities. All of the affected employees were notified by October 31, 2007, and are expected to be terminated by the end of the fourth quarter of fiscal 2008. During the second and third quarters of fiscal 2008, we made net cash payments of $0.7 million related to the severance charge. Cash expenditures were funded by available cash. The remaining cash expenditures of $0.1 million for the severance charge are expected to be paid by the end of the second quarter of fiscal 2009. The excess lease space charge represented the estimated cost of excess lease space less estimated future sublease income for a lease on a facility in Rockville, Maryland, which extends through April 2010. These charges resulted from the Celera group s desire to improve its financial results, in part by lowering operating expenses.

Fiscal 2007

During the fourth quarter of fiscal 2007, the Celera group recorded a pre-tax charge of $0.5 million for severance costs for approximately 20 employees. The charge resulted from a reduction in the Celera group s proteomics-based activities. All of the affected employees were notified as of June 30, 2007, and were terminated by October 31, 2007. During the first nine months of fiscal 2008, we made cash payments of $0.5 million, which represented the remaining payments related to this charge. Cash expenditures were funded by available cash.

During the second quarter of fiscal 2007, the Celera group recorded a pre-tax charge of $2.5 million, which was primarily comprised of a $3.0 million pre-tax charge for the write-down of the carrying amount of an owned facility that was impaired initially in fiscal 2006, partially offset by a pre-tax benefit of $0.6 million for a reduction in anticipated employee-related costs associated with severance and benefit charges recorded in the third and fourth quarters of fiscal 2006.

During the first quarter of fiscal 2007, the Celera group recorded a pre-tax charge of $3.5 million for its estimated share of a damage award in continuing litigation between Abbott Laboratories, our alliance partner, and Innogenetics N.V. In September 2006, a jury found that the sale of hepatitis C virus (HCV) genotyping analyte specific reagents (ASRs) products by Abbott willfully infringed a U.S. patent owned by Innogenetics and awarded Innogenetics $7.0 million in damages. In January 2007, the U.S. District Court for the Western District of Wisconsin ruled in favor of Innogenetics request for a permanent injunction, and as such, ordered Abbott to withdraw its products from the market. The Court also reversed the jury verdict of willful infringement and ruled that Abbott did not willfully infringe Innogenetics patent and denied Innogenetics request for enhanced damages and attorneys fees. Innogenetics did not name the Celera group as a party in this lawsuit, but the Celera group has an interest in these products and in the outcome of the litigation because the enjoined products are manufactured by the Celera group and sold through its alliance with Abbott. Also, as these products are part of its alliance with Abbott, the Celera group agreed to share equally the cost of this litigation, including the damage award described above. Abbott appealed the judgment. On January 17, 2008, the United States

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Court of Appeals for the Federal Circuit vacated the permanent injunction granted by the lower court for Innogenetics against Abbott in selling HCV genotyping products. Since the jury s damage award included an upfront entry fee, the Court remanded to the lower court to determine the terms of a compulsory license for Abbott s future sales. In addition, the Court remanded for a new trial on the validity of the Innogenetics patent in view of a prior-issued patent. The Court also affirmed the judgment of infringement and the judgment of no willful infringement. In April 2008, Abbott and Innogenetics settled the patent infringement suit and the Celera group recorded an additional pre-tax charge of $0.6 million in the third quarter of fiscal 2008. The costs to the Celera group, including the initial pre-tax charge of $3.5 million recorded in fiscal 2007, were $4.1 million. In addition, through March 31, 2008, the Celera group recorded in operating expenses approximately $2.9 million in legal fees associated with this litigation.

Charges prior to fiscal 2007

During fiscal 2006, the Celera group recorded pre-tax charges of $26.4 million related to its decision to exit its small molecule drug discovery and development programs and the integration of Celera Diagnostics into the Celera group. These charges consisted of $12.8 million of employee-related charges, $9.8 million of asset impairments, $1.2 million of excess lease space, and $2.6 million of other disposal costs. The remaining required cash expenditures of $0.8 million as of March 31, 2008, the majority of which related to the asset impairment of an owned facility, are expected to be disbursed by December 31, 2008.

During the first nine months of fiscal 2008, the Celera group made net cash payments of approximately $0.5 million related to an excess facility lease space charge that was recorded in fiscal 2005. As of March 31, 2008, the remaining net cash expenditures of approximately $2.2 million related to this charge are expected to be disbursed by fiscal 2011.

Other Events Impacting Comparability

Revenue from sale of small molecule program

In the second quarter of fiscal 2007, the Celera group recorded $2.5 million in net revenues from the sale of a small molecule drug discovery and development program to Schering AG. The Celera group had recorded an initial $2.5 million in the fourth quarter of fiscal 2006 when the agreement for the sale of the program was executed.

Asset dispositions and legal settlements

The following items have been recorded in the interim condensed consolidated statements of operations in asset dispositions and legal settlements.

Fiscal 2008

In the third quarter of fiscal 2008, the Celera group recorded a $1.1 million pre-tax gain related to the settlement of a litigation matter associated with its former Online/Information Business, an information products and service business.

In the first quarter of fiscal 2008, the Applied Biosystems group recorded a $7.6 million pre-tax gain primarily related to a settlement and licensing agreement entered into with Stratagene Corporation and Agilent Technologies, Inc. (which acquired Stratagene), which resolved outstanding legal disputes with Stratagene.

Fiscal 2007

In the second quarter of fiscal 2007, the Applied Biosystems group recorded a $4.8 million pre-tax benefit related to the settlement of a patent infringement claim and a $3.0 million pre-tax benefit related to our collection from a third party of a portion of its liability relative to the settlement of a prior legal dispute. Additionally in the second quarter of fiscal 2007, the Celera group recorded a $2.4 million pre-tax benefit related to the settlement of a litigation matter associated with the former Online/Information Business.

In the first quarter of fiscal 2007, the Applied Biosystems group recorded a $9.1 million pre-tax charge related to a settlement agreement entered into with another company which resolved outstanding legal disputes with that company.

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Acquired research and development

In the first quarter of fiscal 2007, the Applied Biosystems group recorded a $114.3 million charge to write off the value of acquired in-process research and development (IPR&D) in connection with the acquisition of Agencourt Personal Genomics, Inc. (APG). As of the acquisition date, the technological feasibility of the acquired project had not been established, and it was determined that the acquired project had no future alternative use. The determination of the amount attributed to acquired IPR&D took into consideration an independent appraisal performed by an outside consultant.

Investments

The Celera group recorded a pre-tax charge of $3.1 million in gain (loss) on investments in the third quarter of fiscal 2008 for an other-than-temporary impairment of a publicly traded non-strategic minority equity investment. The impairment charge resulted from a number of factors that were assessed, including the duration of the decline in market value, the financial condition, and future prospects for the investee. The Applied Biosystems group recorded a pre-tax gain of $2.6 million in gain (loss) on investments in the second quarter of fiscal 2008 from the sale of a non-strategic minority equity investment.

Tax items

Fiscal 2008

In the third quarter of fiscal 2008, we recorded net tax benefits of $8.9 million, primarily resulting from net benefits related to completed IRS and foreign audits. $9.6 million of tax benefits were recorded at the Applied Biosystems group, slightly offset by a tax charge of $0.7 million recorded at the Celera group.

In the second quarter of fiscal 2008, the Applied Biosystems group recorded tax charges of $0.5 million primarily related to foreign tax settlements. In the first quarter of fiscal 2008, the Applied Biosystems group recorded tax charges of $1.8 million primarily related to the recalculation of deferred tax assets as a result of a decrease in the statutory tax rate in Germany.

Fiscal 2007

In the third quarter of fiscal 2007, we recorded a tax benefit of $8.4 million, primarily resulting from a $6.1 million valuation allowance release. The valuation allowance release was due to management s reassessment of the future realization of foreign tax credits. Tax benefits identified during the tax return preparation accounted for the remaining tax benefits of $2.3 million. $8.0 million of the tax benefit was recorded at the Applied Biosystems group and $0.4 million was recorded at the Celera group.

The Tax Relief and Health Care Act of 2006, enacted in December 2006, extended the R&D tax credit from January 1, 2006 through December 31, 2007. The Celera group included the estimated benefit of the current year R&D tax credit in the second quarter of fiscal 2007 estimated annual effective tax rate. In addition, the Celera group recorded a tax benefit of $1.0 million in the second quarter of fiscal 2007 related to the R&D tax credit generated between January 1 and June 30, 2006.

In the first quarter of fiscal 2007, the Applied Biosystems group recorded a tax benefit of $8.8 million related to a reduction in the valuation allowance for German net operating loss carryforwards.

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Note 3 Acquisitions

Berkeley HeartLab, Inc.

In October 2007, we acquired BHL for $193.2 million in cash, including transaction costs. BHL is a cardiovascular healthcare company with a Clinical Laboratory Improvement Amendments of 1988 (CLIA)-certified laboratory that provides a broad portfolio of clinical laboratory tests and disease management services focused on individuals who have cardiovascular disease or lipid or metabolic disorders. We believe that the acquisition provides the Celera group with a commercial infrastructure to bring its new genetic tests to the U.S. cardiovascular market. Additionally, BHL is expected to provide opportunities for the Celera group to commercialize new tests and technologies and to gain economies of scale and improve its margins as a consequence of the vertical integration with BHL s clinical laboratory service business. The cash expenditure for this acquisition was funded by available cash. The net assets and results of operations of BHL will be allocated to the Celera group.

We allocated the purchase price of $193.2 million to tangible net assets and intangible assets as follows:

(Dollar amounts in millions)	
Current assets, including deferred tax asset of $5.2	**$ 43.5**
Long-term assets	**6.2**
Current liabilities	**(19.1)**
Long-term liabilities, including deferred tax liability of ($42.4)	**(47.0)**
Tangible net liabilities assumed, at approximate fair value	**(16.4)**
Goodwill	**104.7**
Customer relationships	**67.4**
Trademark and trade name	**21.8**
Existing technology	**14.9**
Internally developed software	**0.8**
Total intangible assets	**209.6**
Total purchase price	**$ 193.2**

We are amortizing the recorded values of the intangible assets, other than the trademark and trade name, over their expected period of benefit, which on a weighted-average basis is approximately 12 years. An established client list, a recognized company name and a broad portfolio of clinical laboratory tests and disease management services focused on the secondary prevention market were among the factors that resulted in the recognition of goodwill. The goodwill, trademark and trade name are reviewed for impairment as part of our annual impairment tests. In the second quarter of fiscal 2008, we recorded a $5.2 million deferred tax asset, included in current assets, and a $42.4 million deferred tax liability, included in long-term liabilities, for net operating loss carryforwards and other temporary differences of BHL. The goodwill recognized is not deductible for federal income tax purposes. The net assets and results of operations of BHL have been included in our consolidated financial statements since the date of the acquisition.

In connection with the acquisition, we assumed $10.8 million of floating and fixed rate debt (see Note 9). As of March 31, 2008, $0.2 million of this debt remained outstanding.

Atria Genetics Inc.

In late October 2007, we acquired substantially all of the assets of Atria Genetics Inc. (Atria) for $33.3 million in cash, including transaction costs. Atria has a line of human leukocyte antigen (HLA) testing products that are used for identifying potential donors in the matching process for bone marrow transplantation. The acquisition provides the Celera group direct access to tissue typing products in the transplantation and bone marrow registry market. The cash expenditure for this acquisition was funded by available cash. The net assets and results of operations of Atria will be allocated to the Celera group.

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We allocated the purchase price of $33.3 million to tangible net assets and intangible assets as follows:

(Dollar amounts in millions)	
Current assets	**$ 0.6**
Long-term assets	**0.2**
Current liabilities	**(0.5)**
Long-term liabilities	**(0.2)**
Tangible net assets acquired, at approximate fair value	**0.1**
Goodwill	**10.6**
Customer relationships	**17.8**
Trademark and trade name	**2.0**
Existing technology	**2.7**
Internally developed software	**0.1**
Total intangible assets	**33.2**
Total purchase price	**$ 33.3**

We are amortizing the recorded values of the intangible assets, other than the trademark and trade name, over their expected period of benefit, which on a weighted-average basis is approximately 12 years. The relationship with end user customers, line of HLA testing products, core technology and an established name were among the factors that resulted in the recognition of goodwill. The goodwill, trademark and trade name are reviewed for impairment as part of our annual impairment tests. The entire amount of goodwill is deductible for federal income tax purposes. The net assets and results of operations of Atria have been included in our consolidated financial statements since the date of the acquisition.

Pro Forma Financial Information

The following selected pro forma financial information, which includes the combined results of operations of BHL and Atria, has been prepared assuming the acquisitions had occurred at the beginning of fiscal 2007 and gives effect to purchase accounting adjustments:

	Three months ended March 31,		Nine months ended March 31,	
(Dollar amounts in millions except per share amounts)	**2008**	2007	**2008**	2007
Applera Corporation				
Net revenues	**$591.4**	$564.8	**$1,730.4**	$1,636.3
Net income	**75.2**	71.3	**218.2**	79.2
Celera Group				
Net revenues	**$ 39.5**	$ 35.6	**$ 116.9**	$ 103.2
Net loss, as allocated	**(7.4)**	(4.1)	**(11.7)**	(12.2)
Basic and diluted loss per share	**$ (0.09)**	$ (0.05)	**$ (0.15)**	$ (0.16)

There was no financial impact to the Applied Biosystems group related to these acquisitions.

We recorded $2.5 million in the third quarter and $4.6 million in the first nine months of fiscal 2008 of amortization of intangible assets related to these acquisitions.

This pro forma data is for informational purposes only and may not be indicative of the actual results that would have occurred had the acquisitions been consummated at the beginning of fiscal 2007 or of the future operations of the combined companies.

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Note 4 Earnings (Loss) per Share

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

	Applied Biosystems Group		Celera Group	
(Dollar amounts in millions, except per share amounts)	**2008**	2007	**2008**	2007
Net income (loss)	**$82.9**	$75.5	**$ (7.4)**	$ (4.5)
Allocated intercompany sale of assets		0.1		
Allocated interperiod taxes	**(0.3)**	(0.2)		
Total net income (loss) allocated	**82.6**	75.4	**(7.4)**	(4.5)
Less dividends declared on common stock	**7.1**	15.7		
Undistributed earnings (loss)	**$75.5**	$59.7	**$ (7.4)**	$ (4.5)
Allocation of basic earnings (loss) per share				
Basic distributed earnings per share[1]	**$0.04**	$0.09	**$ -**	$ -
Basic undistributed earnings (loss) per share	**0.45**	0.32	**(0.09)**	(0.06)
Total basic earnings (loss) per share	**$0.49**	$0.41	**$ (0.09)**	$ (0.06)
Allocation of diluted earnings (loss) per share				
Diluted distributed earnings per share[1]	**$0.04**	$0.08	**$ -**	$ -
Diluted undistributed earnings (loss) per share	**0.44**	0.31	**(0.09)**	(0.06)
Total diluted earnings (loss) per share	**$0.48**	$0.39	**$ (0.09)**	$ (0.06)
Weighted average number of common shares				
Basic	**168.1**	183.8	**79.6**	78.5
Common stock equivalents	**4.9**	7.4		
Diluted	**173.0**	191.2	**79.6**	78.5

(1) Amounts represent actual dividends per share distributed.

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The following table presents a reconciliation of basic and diluted earnings (loss) per share for the nine months ended March 31:

	Applied Biosystems Group		Celera Group	
(Dollar amounts in millions, except per share amounts)	**2008**	2007	**2008**	2007
Net income (loss)	**$230.2**	$91.6	**$ (6.4)**	$ (12.0)
Allocated intercompany sale of assets	**(0.2)**	(0.2)		
Allocated interperiod taxes	**(0.1)**			
Total net income (loss) allocated	**229.9**	91.4	**(6.4)**	(12.0)
Less dividends declared on common stock	**22.1**	31.3		
Undistributed earnings (loss)	**$207.8**	$60.1	**$ (6.4)**	$ (12.0)
Allocation of basic earnings (loss) per share				
Basic distributed earnings per share[1]	**$ 0.13**	$0.17	**$ -**	$ -
Basic undistributed earnings (loss) per share	**1.19**	0.33	**(0.08)**	(0.15)
Total basic earnings (loss) per share	**$ 1.32**	$0.50	**$ (0.08)**	$ (0.15)
Allocation of diluted earnings (loss) per share				
Diluted distributed earnings per share[1]	**$ 0.12**	$0.16	**$ -**	$ -
Diluted undistributed earnings (loss) per share	**1.16**	0.32	**(0.08)**	(0.15)
Total diluted earnings (loss) per share	**$ 1.28**	$0.48	**$ (0.08)**	$ (0.15)
Weighted average number of common shares				
Basic	**174.2**	183.1	**79.4**	78.2
Common stock equivalents	**5.4**	7.5		
Diluted	**179.6**	190.6	**79.4**	78.2

[1] Amounts represent actual dividends per share distributed.

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

	Three months ended March 31,		Nine months ended March 31,	
(Shares in millions)	**2008**	2007	**2008**	2007
Applera Corporation-Applied Biosystems Group Common Stock	**5.8**	5.9	**5.9**	6.1
Applera-Celera stock	**2.6**	2.7	**2.6**	2.6

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Note 5 Comprehensive Gain

The components of comprehensive gain are reflected net of tax, except for foreign currency translation adjustments, which are generally not adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries. Comprehensive gain was as follows:

	Three months ended March 31,		Nine months ended March 31,	
(Dollar amounts in millions)	**2008**	2007	**2008**	2007
Net income	**$ 75.2**	$70.9	**$223.5**	$79.4
Other comprehensive gain (loss):				
Net unrealized gains (losses) on investments	**(1.5)**	(0.7)	**1.2**	2.5
Net unrealized (gains) losses on investments reclassified into earnings	**1.9**		**2.0**	(0.3)
Net unrealized losses on hedge contracts	**(16.5)**	(0.5)	**(31.0)**	
Net unrealized gains on hedge contracts reclassified into earnings	**4.3**	0.5	**8.4**	1.0
Foreign currency translation adjustments	**10.1**	0.9	**25.6**	7.3
Pension and postretirement benefits	**0.6**		**1.7**	
Total other comprehensive gain (loss)	**(1.1)**	0.2	**7.9**	10.5
Total comprehensive gain	**$ 74.1**	$71.1	**$231.4**	$89.9

Note 6 Inventories

Inventories included the following components:

(Dollar amounts in millions)	**March 31, 2008**	June 30, 2007
Raw materials and supplies	**$ 61.7**	$ 49.0
Work-in-process	**14.4**	7.2
Finished products	**104.9**	84.1
Total inventories, net	**$181.0**	$140.3

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Note 7 Additional Information

Selected Accounts

The following table provides the major components of selected accounts of the interim condensed consolidated statements of financial position:

(Dollar amounts in millions)	**March 31, 2008**	June 30, 2007
Other Current Assets		
Current deferred tax asset	**$ 47.3**	$ 26.0
Other	**126.9**	153.4
Total other current assets	**$174.2**	$179.4
Other Long-Term Assets		
Noncurrent deferred tax asset	**$414.6**	$499.1
Prepaid pension benefit cost	**45.4**	38.6
Other	**127.8**	97.4
Total other long-term assets	**$587.8**	$635.1
Other Accrued Expenses		
Deferred revenue	**$124.2**	$107.9
Other	**200.8**	161.7
Total other accrued expenses	**$325.0**	$269.6
Other Long-Term Liabilities		
Accrued postretirement benefits	**$ 56.1**	$ 56.3
Accrued pension benefits	**67.0**	59.4
Noncurrent deferred tax liability	**0.8**	0.8
Other	**122.2**	96.8
Total other long-term liabilities	**$246.1**	$213.3

Assets Held for Sale

In connection with the Celera group s decision to exit its small molecule drug discovery and development programs during fiscal 2006, the Celera group decided to pursue the sale of its South San Francisco, California facility. As a result of this decision, in fiscal 2006, we reclassified $11.5 million of property, plant and equipment into assets held for sale, which is classified in other current assets in our interim condensed consolidated statements of financial position, and recorded a $5.8 million pre-tax charge that represented the write-down of the carrying amount of this facility to its then estimated market value less estimated selling costs. In fiscal 2007, we recorded an additional $6.8 million pre-tax charge for the facility. The sale of this facility is expected to occur by December 31, 2008.

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Note 8 Goodwill and Intangible Assets

We amortize intangible assets using the straight-line method over their expected useful lives, except for customer relationship intangibles. We amortize customer relationship intangibles on a proportionate basis as the economic benefits of the intangible assets are consumed. In determining the useful life of the customer relationship intangibles, we assumed a number of factors including the customer base, attrition rates including our ability to renew or extend our relationships with existing customers, as well as any legal, regulatory or contractual provisions that may limit the useful life. The carrying amounts of our intangible assets were as follows:

	March 31, 2008		June 30, 2007	
(Dollar amounts in millions)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Acquired technology	**$ 52.5**	**$19.4**	$32.8	$13.3
Patents	**30.2**	**26.1**	29.9	25.1
Customer relationships	**112.3**	**11.6**	27.1	5.2
Other	**2.7**	**1.1**	1.7	0.7
Total amortized intangible assets	**$197.7**	**$58.2**	$91.5	$44.3
Unamortized intangible assets				
Trade name	**28.7**		4.9	
Total	**$226.4**	**$58.2**	$96.4	$44.3

Aggregate amortization expense was as follows:

	Three months ended March 31,		Nine months ended March 31,	
(Dollar amounts in millions)	**2008**	2007	**2008**	2007
Applied Biosystems group	**$3.1**	$3.3	**$ 9.2**	$9.8
Celera group	**2.6**		**4.7**	
Consolidated	**$5.7**	$3.3	**$13.9**	$9.8

We record amortization expense in cost of sales, except for amortization of acquisition-related intangible assets which is recorded in the amortization of purchased intangible assets in the interim condensed consolidated statements of operations. At March 31, 2008, we estimated annual amortization expense of our intangible assets for each of the next five fiscal years as shown in the following table. Future acquisitions or impairment events could cause these amounts to change.

(Dollar amounts in millions)	Applied Biosystems Group	Celera Group	Consolidated
Remainder of fiscal 2008	**$ 3.1**	**$ 2.6**	**$ 5.7**
2009	**12.0**	**10.2**	**22.2**
2010	**9.5**	**10.3**	**19.8**
2011	**6.2**	**10.2**	**16.4**
2012	**5.0**	**10.1**	**15.1**

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The carrying amount of goodwill was as follows:

(Dollar amounts in millions)	Applied Biosystems Group	Celera Group	Consolidated
Balance as of June 30, 2007	$243.2	$ 2.7	$245.9
Goodwill acquired		**115.3**	**115.3**
Balance as of March 31, 2008	**$243.2**	**$ 118.0**	**$361.2**

Refer to Note 3 for information on the goodwill we acquired in connection with the BHL and Atria Genetics Inc. acquisitions.

Note 9 Debt and Lines of Credit

We maintain a $250 million unsecured revolving credit agreement with four banks that matures on May 25, 2012. This amount was increased from $200 million effective August 27, 2007, at our request in accordance with the terms of the agreement. Borrowings under this agreement may be made in U.S. dollars and other currencies, and bear interest at a fluctuating rate generally equal to Citibank, N.A. s base rate or at a periodic fixed rate equal to LIBOR plus a margin of between 15 and 32.5 basis points based on our long-term senior unsecured non-credit enhanced debt ratings. Commitment and facility fees are also based on our long-term senior unsecured non-credit enhanced debt ratings. As of March 31, 2008, there was $25 million outstanding under this agreement, classified as loans payable in the interim condensed consolidated statement of financial position. There were no borrowings outstanding under this agreement at June 30, 2007.

On August 27, 2007, we entered into a $100 million unsecured term loan agreement with Bank of America, N.A. that matures on September 4, 2008. Upon the satisfaction of various conditions, we have the option to extend the maturity date on this agreement to September 4, 2010. If we exercise this option, we would then be required to make partial repayments each quarter, commencing after the original maturity date, equal to 3 percent of the original principal amount of the loan. Borrowings under this agreement bear interest at a fluctuating rate generally equal to Bank of America, N.A. s base rate or at a periodic fixed rate equal to LIBOR plus a margin of between 20 and 40 basis points based on our long-term senior unsecured non-credit enhanced debt ratings. As of March 31, 2008, there was $100 million outstanding under this agreement, classified as loans payable in the interim condensed consolidated statement of financial position.

Both the revolving credit agreement and the term loan agreement require that we maintain a debt to total capital ratio, as defined in each agreement, of not more than 0.50:1:00.

The amounts borrowed under these agreements were used to fund the repurchase of shares of Applera Corporation-Applied Biosystems Common Stock (Applera-Applied Biosystems stock) and were allocated entirely to the Applied Biosystems group. In August 2007, we entered into an agreement with Morgan Stanley & Co. Incorporated for the accelerated repurchase of $600 million of Applera-Applied Biosystems stock. During the first quarter of fiscal 2008, we paid Morgan Stanley approximately $602 million for this transaction, of which $275 million was funded by loans payable and the balance with cash. In October 2007, 16 million shares were delivered to us under this agreement. In January 2008, Morgan Stanley exercised its option to settle the accelerated share repurchase transaction and delivered to us an additional 1.9 million shares of Applera-Applied Biosystems stock, which supplements the shares that were received in October 2007.

The weighted average interest rate on all amounts outstanding under these agreements at March 31, 2008 was 4.20%.

In connection with the acquisition of BHL, we assumed approximately $10.8 million of floating and fixed rate debt, mostly secured by BHL's accounts receivable and other certain fixed assets. As of March 31, 2008, approximately $0.2 million in unsecured debt remains. See Note 3 for additional information on the BHL acquisition.

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Note 10 Supplemental Cash Flow Information

Significant non-cash financing activity for the nine months ended March 31 was as follows:

(Dollar amounts in millions)	**2008**	2007
Dividends declared but not paid	**$ 7.1**	$ 15.7
Tax benefit related to employee stock options	**14.8**	21.8
Issuances of restricted stock	**2.5**	2.8

Note 11 Guarantees

Leases

We provide lease-financing options to our customers through third party financing companies. For some leases, the financing companies have recourse to us for any unpaid principal balance on 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 on the completion of installation and 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 March 31, 2008, the financing companies outstanding balance of lease receivables with recourse to us was $6.1 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 payment obligations were not transferable to the buyer under German law. The guaranteed payment obligation, which approximated $68 million at March 31, 2008, is not expected to have a material adverse effect on our interim condensed consolidated statement 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.

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 product warranty accrual covers parts and labor for repairs and replacements covered by our product warranties. 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 an analysis of the warranty reserve for the nine months ended March 31:

(Dollar amounts in millions)	**2008**	2007
Balance beginning of period	**$ 12.1**	$ 10.6
Accruals for warranties	**12.8**	9.8
Usage of reserve	**(12.8)**	(10.0)
Other*	**0.1**	0.1
Balance at March 31	**$ 12.2**	$ 10.5

* Other consists of accrual adjustments to reflect actual experience and currency translation.

Note 12 Pension and Other Postretirement Benefits

The components of net pension and postretirement benefit expenses for the three and nine month periods ended March 31 were as follows:

	Three months ended March 31,		Nine months ended March 31,	
(Dollar amounts in millions)	**2008**	2007	**2008**	2007
Pension				
Service cost	**$ 0.9**	$ 0.8	**$ 2.7**	$ 2.5
Interest cost	**11.5**	11.1	**34.0**	32.9
Expected return on plan assets	**(12.2)**	(11.8)	**(36.7)**	(35.0)
Amortization of prior service cost	**0.2**	0.2	**0.7**	0.6
Amortization of losses	**0.6**	1.4	**2.0**	4.0
Net periodic expense	**$ 1.0**	$ 1.7	**$ 2.7**	$ 5.0
Postretirement Benefit				
Service cost	**$ 0.1**	$ -	**$ 0.2**	$ 0.1
Interest cost	**0.7**	0.9	**2.1**	2.7
Amortization of gains	**(0.1)**	(0.1)	**(0.1)**	(0.3)
Net periodic expense	**$ 0.7**	$ 0.8	**$ 2.2**	$ 2.5

We contributed approximately $2 million to our foreign and non-qualified domestic plans during the nine months ended March 31, 2008, and expect to contribute an additional $1 million during the remainder of fiscal 2008. Based on the level of our contributions to the qualified U.S. pension plan during previous years, combined with the performance of the assets invested in the plan, we do not expect to have to fund our qualified U.S. pension plan in fiscal 2008 in order to meet minimum statutory funding requirements. We made benefit payments of approximately $4 million under the postretirement plan during the nine months ended March 31, 2008, and we expect to make approximately $2 million of additional benefit payments during the remainder of fiscal 2008.

Note 13 Contingencies

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 others. We believe that we have meritorious defenses against the claims currently asserted against us, including those described below, and intend to defend them vigorously.

The Company and some of its officers are defendants in a lawsuit brought on behalf of purchasers of Applera-Celera stock in our follow-on public offering of Applera-Celera stock completed on March 6, 2000. In the offering, we sold an aggregate of approximately 4.4 million shares of Applera-Celera stock at a public offering price of $225 per share. The

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lawsuit, which was commenced with the filing of several complaints in April and May 2000, is pending in the U.S. District Court for the District of Connecticut, and an amended consolidated complaint was filed on August 21, 2001. The consolidated complaint generally alleges that the prospectus used in connection with the offering was inaccurate or misleading because it failed to adequately disclose the alleged opposition of the Human Genome Project and two of its supporters, the governments of the U.S. and the U.K., to providing patent protection to our genomic-based products. Although the Celera 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 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.

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. These four patents have since expired. The other two patents are assigned to Enzo Life Sciences, i.e., U.S. Patent No. 5,082,830 entitled End Labeled Nucleotide Probe and U.S. Patent No. 4,994,373 entitled Methods and Structures Employing Compoundly Labeled Polynucleotide Probes. The allegedly infringing products include the Applied Biosystems group s sequencing reagent kits, its TaqMan® genotyping and gene expression assays, and the gene expression microarrays used with its Expression Array System. Enzo Biochem, Enzo Life Sciences, and Yale University are seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper. In August and September, 2007, the court issued a series of orders favorable to Applera and dismissing all of these claims, but Enzo may seek to appeal those orders to the United States Court of Appeals for the Federal Circuit.

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, and filed an amended complaint on July 5, 2006. The amended complaint alleges anticompetitive conduct in connection with the sale of Taq DNA polymerase. 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. On July 5, 2006, the court certified the case as a class action.

We are involved in several legal actions with Thermo Electron Corporation and its subsidiary Thermo Finnigan LLC. These legal actions commenced when we, together with MDS, Inc. and our Applied Biosystems/MDS SCIEX Instruments joint venture with MDS, filed a patent infringement action against Thermo Electron in the U.S. District Court for the District of Delaware on September 3, 2004. The complaint alleges infringement by Thermo Electron of U.S. Patent No. 4,963,736, and seeks monetary damages, costs, expenses, and other relief as the court deems proper. Thermo Electron has answered the complaint and counterclaimed for declaratory relief that the 736 patent is invalid, not infringed, and unenforceable, and is seeking dismissal of our complaint, a judgment that the 736 patent is invalid, not infringed, and unenforceable, costs and expenses, and other relief as the court deems proper. After the filing of the action against Thermo Electron, on December 8, 2004, Thermo Finnigan filed a patent infringement action against us in the U.S. District Court for the District of Delaware. 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. We have answered the complaint and counterclaimed for declaratory relief that the 654 patent is invalid, not infringed, and unenforceable, and are seeking dismissal of Thermo Finnigan s complaint, a judgment that the 654 patent is invalid, not infringed, and unenforceable, costs and expenses, and other relief as the court deems proper. Thermo Finnigan subsequently filed a second patent infringement action against us, MDS, and the Applied Biosystems/MDS SCIEX Instruments joint venture, in the U.S. District Court for the

District of Delaware on February 23, 2005. The complaint alleges that we and the other defendants have infringed U.S. Patent No. 6,528,784 as a result of, for example, our commercialization of the API 5000 LC/MS/MS system. Thermo Finnigan is seeking monetary damages, costs,

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expenses, and other relief as the court deems proper. We have answered the complaint and counterclaimed for declaratory relief that the 784 patent is invalid and not infringed, and are seeking dismissal of Thermo Finnigan s complaint, a judgment that the 784 patent is invalid and not infringed, costs and expenses, and other relief as the court deems proper.

We filed a complaint for patent infringement against Michigan Diagnostics LLC on March 26, 2007, in the U.S. District Court for the District of Massachusetts. We amended the complaint on April 5, 2007. The amended complaint alleges infringement by Michigan Diagnostics of U.S. Patent Nos. 6,514,717, 6,322,727 and 6,107,024, which are related to chemiluminescent products and methods, and seeks monetary damages, costs, expenses, injunctive, and other relief as the court deems proper. Michigan Diagnostics filed an answer and counterclaims to our complaint on January 7, 2008, seeking a declaratory judgment of non-infringement, invalidity, and unenforceability of approximately 60 patents related to chemiluminescent products and methods, and including antitrust claims based on our alleged misconduct in our alleged enforcement of those patents. Previously, on May 14, 2007, Michigan Diagnostics filed a separate complaint against Applera in the U.S. District Court for the Eastern District of Michigan, which was transferred to U.S. District Court for the District of Massachusetts in November 2007. This transferred complaint made substantially the same allegations as in the answer and counterclaims described above and sought substantially the same relief. However, on January 29, 2008, the court terminated this transferred case.

We filed a complaint on May 31, 2007, in the U.S. District Court for the Northern District of California against Illumina, Inc., Solexa Inc., and a former chief patent counsel to our company, seeking an injunction restoring to us patents and patent applications that were filed by the former chief patent counsel but are on their face assigned to Solexa, which was acquired by Illumina in January 2007. The complaint also seeks a declaration of our rights and duties regarding infringement of these patents, in addition to monetary damages, costs, expenses, and other relief as the court deems proper. We previously filed a related complaint, on December 26, 2006, in the Superior Court of the State of California (Santa Clara County), also seeking restoration of these patents and patent applications to us. Pursuant to a joint stipulation of the parties, the California state court action was dismissed on August 7, 2007. On August 13, 2007, Solexa filed its answer to the federal complaint and counterclaimed that we make, use, sell, and offer for sale DNA sequencing products that infringe the patents, U.S. Patent Nos. 5,750,341, 5,969,119, 6,306,597. Solexa is seeking monetary damages, costs, expenses, injunctive relief, and other relief as the court deems proper.

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 14 Discontinued Operations

During fiscal year 2008, in the first quarter, we received $12.9 million in cash related to the settlement of German tax audits related to one of our former German affiliates.

Note 15 Segment and Consolidating Information

Business Segments

We are organized based on the products and services that we offer. We operate in the life science and healthcare industries through two reportable segments: the Applied Biosystems group and the Celera group. We collectively refer to the Applied Biosystems group and the Celera 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. Its customers use these tools to analyze nucleic acids (DNA and RNA), small molecules, and proteins to make scientific discoveries and develop new pharmaceuticals. 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: human identity testing (forensic and paternity testing); biosecurity, which refers to products needed in

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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response to the threat of biological terrorism and other malicious, accidental, and natural biological dangers; and quality and safety testing, such as testing required for food and pharmaceutical manufacturing. The Celera group is a diagnostics business that delivers personalized disease management through a combination of products and services incorporating proprietary discoveries. BHL, a subsidiary of the Celera group, offers clinical laboratory testing services to characterize cardiovascular disease risk and optimize patient management. The Celera group also commercializes a wide range of molecular diagnostic products through its strategic alliance with Abbott Laboratories, which began in June 2002, and has licensed its diagnostic technologies to clinical laboratories to provide personalized disease management in cancer and liver diseases. The term of the strategic alliance agreement runs until June 2017.

Presented below is our segment and 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. 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.

See Note 16 to our consolidated financial statements included in our 2007 Annual Report to Stockholders for the management and allocation policies applicable to the attribution of assets, liabilities, revenues and expenses to the segments (which information is incorporated in this quarterly report by reference).

Transactions between Segments

The following table presents net revenue recorded by the Applied Biosystems group from leased instruments and sales of consumables and project materials to the Celera group:

	Three months ended March 31,		Nine months ended March 31,	
(Dollar amounts in millions)	**2008**	2007	**2008**	2007
Applied Biosystems Group				
Sales to the Celera group	**$0.7**	$0.7	**$2.2**	$3.1

Additionally, in accordance with our tax allocation policy, the Applied Biosystems group received, without reimbursement to the Celera group, $19.3 million in the first nine months of fiscal 2008 and $0.5 million in the first nine months of fiscal 2007, some of the tax benefits generated by the Celera group.

In the following consolidating financial information, the Eliminations column represents the elimination of intersegment activity.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Condensed Consolidating Statement of Operations for the Three Months Ended March 31, 2008

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Group	Eliminations	Consolidated
Products	$451,164	$ 9,119	$ -	$460,283
Services	69,165	22,556		91,721
Other	31,575	7,779		39,354
Net revenues from external customers	551,904	39,454	-	591,358
Intersegment revenues	680		(680)	
Total Net Revenues	552,584	39,454	(680)	591,358
Products	203,519	4,989	(266)	208,242
Services	31,562	8,170	(97)	39,635
Other	3,154			3,154
Cost of Sales	238,235	13,159	(363)	251,031
Gross Margin	314,349	26,295	(317)	340,327
Selling, general and administrative	147,646	19,281	13,921	180,848
Corporate allocated expenses	11,874	2,053	(13,927)	
Research and development	48,607	10,192	(235)	58,564
Amortization of purchased intangible assets	2,612	2,499		5,111
Employee-related charges, asset impairments and other	1,075	3,873		4,948
Asset dispositions and legal settlements		(1,100)		(1,100)
Operating Income (Loss)	102,535	(10,503)	(76)	91,956
Gain (loss) on investments, net	54	(3,080)		(3,026)
Interest income (expense), net	2,238	3,521		5,759
Other income (expense), net	299	105		404
Income (Loss) before Income Taxes	105,126	(9,957)	(76)	95,093
Provision (benefit) for income taxes	22,231	(2,596)	213	19,848
Net Income (Loss)	$ 82,895	$ (7,361)	$ (289)	$ 75,245

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Condensed Consolidating Statement of Operations for the Nine Months Ended March 31, 2008

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Group	Eliminations	Consolidated
Products	$1,319,364	$ 23,061	$ -	$1,342,425
Services	203,299	44,830		248,129
Other	90,790	28,049		118,839
Net revenues from external customers	1,613,453	95,940	-	1,709,393
Intersegment revenues	2,217		(2,217)	
Total Net Revenues	1,615,670	95,940	(2,217)	1,709,393
Products	595,403	12,453	(664)	607,192
Services	90,424	15,165	(192)	105,397
Other	8,925			8,925
Cost of Sales	694,752	27,618	(856)	721,514
Gross Margin	920,918	68,322	(1,361)	987,879
Selling, general and administrative	427,031	43,780	41,602	512,413
Corporate allocated expenses	35,877	5,744	(41,621)	
Research and development	143,598	31,488	(1,072)	174,014
Amortization of purchased intangible assets	7,835	4,604		12,439
Employee-related charges, asset impairments, and other	3,953	4,280		8,233
Asset dispositions and legal settlements	(7,556)	(1,100)		(8,656)
Operating Income (Loss)	310,180	(20,474)	(270)	289,436
Gain (loss) on investments, net	2,665	(3,080)		(415)
Interest income (expense), net	5,691	15,131		20,822
Other income (expense), net	2,609	(13)		2,596
Income (Loss) before Income Taxes	321,145	(8,436)	(270)	312,439
Provision (benefit) for income taxes	90,993	(2,048)	(39)	88,906
Net Income (Loss)	$ 230,152	$ (6,388)	$ (231)	$ 223,533

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APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

Condensed Consolidating Statement of Financial Position at March 31, 2008

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Group	Eliminations	Consolidated
Assets				
Current assets				
Cash and cash equivalents	$ 364,689	$ 61,639	$ -	$ 426,328
Short-term investments		276,634		276,634
Accounts receivable, net	458,872	32,610	(291)	491,191
Inventories, net	172,220	9,607	(849)	180,978
Prepaid expenses and other current assets	139,970	34,613	(419)	174,164
Total current assets	1,135,751	415,103	(1,559)	1,549,295
Property, plant and equipment, net	372,216	11,836	(68)	383,984
Goodwill and intangible assets, net	288,188	241,180		529,368
Other long-term assets	467,472	119,998	330	587,800
Total Assets	$2,263,627	$ 788,117	$(1,297)	$3,050,447
Liabilities and Stockholders Equity				
Current liabilities				
Loans payable	$ 125,000	$ 123	$ -	$ 125,123
Accounts payable	155,069	5,753	(443)	160,379
Accrued salaries and wages	86,467	7,919		94,386
Current deferred tax liability	15,952			15,952
Accrued taxes on income	10,021	1,221		11,242
Other accrued expenses	308,645	16,663	(334)	324,974
Total current liabilities	701,154	31,679	(777)	732,056
Other long-term liabilities	239,789	6,453	(113)	246,129
Total Liabilities	940,943	38,132	(890)	978,185
Total Stockholders Equity	1,322,684	749,985	(407)	2,072,262
Total Liabilities and Stockholders Equity	$2,263,627	$ 788,117	$(1,297)	$3,050,447

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Condensed Consolidating Statement of Cash Flows for the Nine Months Ended March 31, 2008

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Group	Eliminations	Consolidated
Operating Activities of Continuing Operations				
Net income (loss)	$ 230,152	$ (6,388)	$ (231)	$ 223,533
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	57,081	9,347	(190)	66,238
Asset impairments		3,080		3,080
Employee-related charges and other	4,649	1,961		6,610
Share-based compensation and pension	17,737	4,858		22,595
Deferred income taxes	49,707	12,983	(1,304)	61,386
Sale of assets and legal settlements, net	(2,611)	(91)	91	(2,611)
Nonreimbursable utilization of intergroup tax benefits	19,326	(19,326)		
Changes in operating assets and liabilities:				
Accounts receivable	30,716	(5,126)	73	25,663
Inventories	(33,183)	720	278	(32,185)
Prepaid expenses and other assets	8,353	3,840	(9,641)	2,552
Accounts payable and other liabilities	(37,121)	(5,895)	10,927	(32,089)
Net Cash Provided (Used) by Operating Activities of Continuing Operations	344,806	(37)	3	344,772
Net Cash Provided by Discontinued Operations	12,900			12,900
Investing Activities of Continuing Operations				
Additions to property, plant and equipment, net	(30,966)	(3,209)	88	(34,087)
Proceeds from maturities of available-for-sale investments		106,119		106,119
Proceeds from sales of available-for-sale investments	213,850	267,145		480,995
Purchases of available-for-sale investments	(12,553)	(119,996)		(132,549)
Acquisitions and investments, net of cash acquired	(313)	(214,437)		(214,750)
Investment in alliance activity, net		(27)		(27)
Proceeds from the sale of assets, net	3,331	485	(91)	3,725
Net Cash Provided by Investing Activities of Continuing Operations	173,349	36,080	(3)	209,426
Financing Activities of Continuing Operations				
Net change in revolving credit line	25,000			25,000
Proceeds from loan payable	100,000			100,000
Payments on loans payable and debt		(10,591)		(10,591)
Dividends	(22,708)			(22,708)
Purchases of common stock for treasury	(601,505)			(601,505)
Proceeds from stock issued for stock plans and other	66,673	6,151		72,824
Net Cash Provided (Used) by Financing Activities of Continuing Operations	(432,540)	(4,440)		(436,980)
Effect of Exchange Rate Changes on Cash	(26,993)			(26,993)
Net Change in Cash and Cash Equivalents	71,522	31,603		103,125
Cash and Cash Equivalents Beginning of Period	293,167	30,036		323,203
Cash and Cash Equivalents End of Period	$ 364,689	$ 61,639	$ -	$ 426,328

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Condensed Consolidating Statement of Operations for the Three Months Ended March 31, 2007

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Group	Eliminations	Consolidated
Products	$436,209	$ 6,267	$ -	$442,476
Services	61,806	10		61,816
Other	31,276	3,484		34,760
Net revenues from external customers	529,291	9,761	-	539,052
Intersegment revenues	682		(682)	
Total Net Revenues	529,973	9,761	(682)	539,052
Products	200,494	5,352	(494)	205,352
Services	27,648		(77)	27,571
Other	3,217			3,217
Total Cost of Sales	231,359	5,352	(571)	236,140
Gross Margin	298,614	4,409	(111)	302,912
Selling, general and administrative	137,082	5,351	14,825	157,258
Corporate allocated expenses	13,111	1,720	(14,831)	
Research and development	54,378	13,041	(151)	67,268
Amortization of purchased intangible assets	2,841			2,841
Operating Income (Loss)	91,202	(15,703)	46	75,545
Interest income (expense), net	3,263	7,351		10,614
Other income (expense), net	2,277	128		2,405
Income (Loss) before Income Taxes	96,742	(8,224)	46	88,564
Provision (benefit) for income taxes	21,210	(3,772)	228	17,666
Net Income (Loss)	$ 75,532	$ (4,452)	$ (182)	$ 70,898

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Condensed Consolidating Statement of Operations for the Nine Months Ended March 31, 2007

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Group	Eliminations	Consolidated
Products	$1,264,893	$ 19,433	$ -	$1,284,326
Services	180,728	10		180,738
Other	87,481	13,765		101,246
Net revenues from external customers	1,533,102	33,208	-	1,566,310
Intersegment revenues	3,124		(3,124)	
Total Net Revenues	1,536,226	33,208	(3,124)	1,566,310
Products	599,775	13,649	(1,355)	612,069
Services	78,939		(231)	78,708
Other	8,843			8,843
Total Cost of Sales	687,557	13,649	(1,586)	699,620
Gross Margin	848,669	19,559	(1,538)	866,690
Selling, general and administrative	394,856	16,555	43,074	454,485
Corporate allocated expenses	38,011	5,082	(43,093)	
Research and development	150,369	38,197	(1,236)	187,330
Amortization of purchased intangible assets	8,420			8,420
Employee-related charges, asset impairments and other		6,013		6,013
Asset dispositions and legal settlements	1,299	(2,357)		(1,058)
Acquired research and development	114,251			114,251
Operating Income (Loss)	141,463	(43,931)	(283)	97,249
Gain on investments, net	209			209
Interest income (expense), net	9,284	20,888		30,172
Other income (expense), net	4,518	343		4,861
Income (Loss) before Income Taxes	155,474	(22,700)	(283)	132,491
Provision (benefit) for income taxes	63,882	(10,711)	(55)	53,116
Net Income (Loss)	$ 91,592	$(11,989)	$ (228)	$ 79,375

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Condensed Consolidating Statement of Financial Position at June 30, 2007

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Group	Eliminations	Consolidated
Assets				
Current assets				
Cash and cash equivalents	$ 293,167	$ 30,036	$ -	$ 323,203
Short-term investments	201,297	531,460		732,757
Accounts receivable, net	446,833	6,258	(218)	452,873
Inventories, net	132,094	8,826	(571)	140,349
Prepaid expenses and other current assets	161,040	20,400	(1,995)	179,445
Total current assets	1,234,431	596,980	(2,784)	1,828,627
Property, plant and equipment, net	383,594	7,386	(170)	390,810
Goodwill and intangible assets, net	295,299	2,663		297,962
Other long-term assets	473,280	161,654	207	635,141
Total Assets	$2,386,604	$768,683	$(2,747)	$3,152,540
Liabilities and Stockholders Equity				
Current liabilities				
Accounts payable	$161,440	$ 3,016	$(1,791)	$ 162,665
Accrued salaries and wages	99,694	8,858		108,552
Current deferred tax liability	15,633			15,633
Accrued taxes on income	51,212	15,489		66,701
Other accrued expenses	259,743	10,463	(583)	269,623
Total current liabilities	587,722	37,826	(2,374)	623,174
Other long-term liabilities	208,550	4,959	(197)	213,312
Total Liabilities	796,272	42,785	(2,571)	836,486
Total Stockholders Equity	1,590,332	725,898	(176)	2,316,054
Total Liabilities and Stockholders Equity	$2,386,604	$768,683	$(2,747)	$3,152,540

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continued

Condensed Consolidating Statement of Cash Flows for the Nine Months Ended March 31, 2007

(Dollar amounts in thousands)	Applied Biosystems Group	Celera Group	Eliminations	Consolidated
Operating Activities				
Net income (loss)	$ 91,592	$ (11,989)	$ (228)	$ 79,375
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	59,294	5,302	(235)	64,361
Asset impairments		3,000		3,000
Employee-related charges and other		3,013		3,013
Share-based compensation and pension	12,042	2,319		14,361
Deferred income taxes	20,507	(10,850)	(1,999)	7,658
Sale of assets and legal settlements, net	(209)			(209)
Acquired research and development	114,251			114,251
Nonreimbursable utilization of intergroup tax benefits	481	(481)		
Changes in operating assets and liabilities:				
Accounts receivable	(26,139)	3,852	(387)	(22,674)
Inventories	(12,604)	720	319	(11,565)
Prepaid expenses and other assets	2,584	(2,737)	(3,445)	(3,598)
Accounts payable and other liabilities	(30,960)	(11,188)	5,848	(36,300)
Net Cash Provided (Used) by Operating Activities	230,839	(19,039)	(127)	211,673
Investing Activities				
Additions to property, plant and equipment, net	(43,808)	(1,796)	127	(45,477)
Proceeds from maturities of available-for-sale investments		205,952		205,952
Proceeds from sales of available-for-sale investments	55,672	284,160		339,832
Purchases of available-for-sale investments	(198,368)	(515,633)		(714,001)
Acquisitions and investments, net of cash acquired	(121,673)			(121,673)
Investment in alliance activity, net		(1,887)		(1,887)
Proceeds from the sale of assets, net	372			372
Net Cash Used by Investing Activities	(307,805)	(29,204)	127	(336,882)
Financing Activities				
Dividends	(23,241)			(23,241)
Purchases of common stock for treasury	(68,540)			(68,540)
Proceeds from stock issued for stock plans and other	96,637	14,498		111,135
Net Cash Provided by Financing Activities	4,856	14,498		19,354
Effect of Exchange Rate Changes on Cash	4,010			4,010
Net Change in Cash and Cash Equivalents	(68,100)	(33,745)		(101,845)
Cash and Cash Equivalents Beginning of Period	373,921	60,270		434,191
Cash and Cash Equivalents End of Period	$ 305,821	$ 26,525	$ -	$ 332,346

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

APPLERA CORPORATION

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

The purpose of the following management s discussion and analysis is to provide an overview of the business of Applera Corporation to help facilitate an understanding of significant factors influencing our historical operating results, financial condition, and cash flows and also to convey our expectations of the potential impact of known trends, events, or uncertainties that may impact our future results. You should read this discussion in conjunction with our consolidated financial statements and related notes included in this report and in our 2007 Annual Report to Stockholders. 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 year amounts for comparative purposes.

Overview

We conduct business through two business segments: the Applied Biosystems group and the Celera group.

The Applied Biosystems group serves the life science industry and research community by developing and marketing instrument-based systems, consumables, software, and services. Its customers use these tools to analyze nucleic acids (DNA and RNA), small molecules, and proteins to make scientific discoveries and develop new pharmaceuticals. 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: human identity testing (forensic and paternity testing); biosecurity, which refers to products needed in response to the threat of biological terrorism and other malicious, accidental, and natural biological dangers; and quality and safety testing, such as testing required for food and pharmaceutical manufacturing.

The Celera group is a diagnostics business that delivers personalized disease management through a combination of products and services incorporating proprietary discoveries. Berkeley HeartLab, Inc. (BHL), a subsidiary of the Celera group, offers clinical laboratory testing services to characterize cardiovascular disease risk and optimize patient management. The Celera group also commercializes a wide range of molecular diagnostic products through its strategic alliance with Abbott Laboratories, which began in June 2002, and has licensed its diagnostic technologies to clinical laboratories to provide personalized disease management in cancer and liver diseases. The term of the strategic alliance agreement runs until June 2017.

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 Group Common Stock (Applera-Celera stock) is listed on the New York Stock Exchange under the ticker symbol CRA and is intended to reflect the relative performance of the Celera group. There is no single security that represents the performance of Applera as a whole.

Holders of Applera-Applied Biosystems stock and holders of Applera-Celera stock are stockholders of Applera. The Applied Biosystems group and the Celera 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 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.

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APPLERA CORPORATION

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

On August 8, 2007, we announced that our board of directors has retained Morgan Stanley & Co. Incorporated to explore alternatives to our current tracking stock structure, including the possibility of creating independent publicly-traded companies in place of our two business groups, the Applied Biosystems group and the Celera group. In January 2008, we reiterated a preference of our board of directors to dissolve the current tracking stock structure and create separate, publicly traded companies for the Applied Biosystems group and the Celera group. Although no final decision has been reached, we filed a registration statement with the Securities and Exchange Commission (SEC) in February 2008 in an effort to finalize a separation by June 30, 2008, the end of our 2008 fiscal year. We intend to update shareholders as the analysis is completed and the decision is finalized. No assurances can be given that the board will ultimately authorize such a transaction or that, if authorized, such a transaction will be consummated.

More information about the risks relating to our capital structure, particularly our two classes of capital stock, is contained in our Annual Report on Form 10-K for fiscal 2007 filed with the Securities and Exchange Commission.

Our fiscal year ends on June 30. The financial information for both segments is presented in Note 15 to our interim condensed consolidated financial statements, Segment and Consolidating Information. Management s discussion and analysis addresses the consolidated financial results followed by the discussions of our two segments.

Business Developments:

Listed below are significant business developments since the filing of our last Quarterly Report on Form 10-Q on February 8, 2008.

Applied Biosystems Group

- In April 2008, the Applied Biosystems group announced that Baylor University had selected the SOLiD system, its next-generation sequencing platform, to help support their participation in the 1000 Genomes Project, a global international consortium aimed at providing a comprehensive map of genetic and structural variation to help understand the causes of disease. Also in April, the Beijing Genomics Institute (BGI) announced that it, too, plans to use the SOLiD System to support its participation in the project.

- During the third quarter of fiscal 2008, the Applied Biosystems group made a number of announcements related to the ongoing commercialization of the SOLiD System, which began shipping in October 2007. New chemistry, fine-tuned software, and an improved workflow, part of a significant upgrade that will be provided to current customers starting in May 2008, is enabling customers to more than double throughput while reducing run times. The Applied Biosystems group also introduced a powerful new SOLiD-optimized microRNA (miRNA) solution that gives customers the ability to perform digital gene expression experiments to help understand the role these small, regulatory molecules play in cancer and other diseases and pathways. Finally, the Applied Biosystems group named two new software community members who plan to add value to the SOLiD System by aligning next-generation sequence data with previous-generation sequencing data and by significantly improving data workflows.

- Also in April, the Applied Biosystems group announced the development of a set of tools to help researchers profile expression levels of miRNAs from trace amounts of sample, potentially advancing the study of cancer, in which miRNAs are believed to play a critical regulatory role.

- In March 2008, the Applied Biosystems group announced that it was expanding its presence in the fast-growing food safety and testing market and planning to provide pathogen detection kits directly to food companies. The first such kit will test for salmonella; additional pathogen test kits are under development.

- Also in March, the Applied Biosystems group announced that it had sequenced the Yoruban genome for under $60,000 in reagent costs, setting a new standard for experimental value and further setting the stage for consumer genomics and personalized medicine. The experimental data was posted on an NIH website so that researchers around the world could enjoy free and unfettered access to the sequence information.

- In February 2008, the Applied Biosystems group introduced new iTRAQ labeling chemistry for mass spectrometry-based proteomics research. The new, high-throughput chemistry lets researchers process up to eight samples in parallel, running them through a mass spectrometer to identify the proteins and then comparing the expression levels of thousands of proteins in diseased samples against control samples.

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APPLERA CORPORATION

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

- Also in February, the Applied Biosystems group introduced a new forensics kit that can quickly identify low amounts of male DNA present in samples containing high quantities of female DNA, speeding up sample analysis in sexual assault cases. The Applied Biosystems group worked directly with the San Diego, California Police Department to develop and validate the new DNA analysis kit. In a related March 2008 development, a localized, Mandarin-language version of the Applied Biosystems GeneMapper Software for Identifiler and the Chinese Sinofiler kit was introduced for the Chinese human identification market.

Celera Group

- Following the publication of three papers in the Journal of the American College of Cardiology in January 2008 describing the identification of a gene variant called kinesin-like protein 6 (*KIF6*) that conveys up to a 55 percent increased risk for coronary heart disease, which is virtually eliminated by statin therapy, BHL completed the development and validation of a laboratory service assay for *KIF6* genotypes in March 2008 and began offering the test to a select group of physicians participating in a trial market. Uptake of the *KIF6* assay to date has been strong and thus far appears to be outperforming previously successful trial markets conducted by BHL, such as Apo E, NT-proBNP, and Lp-PLA2 tests at the same stage of trial marketing. The test market is expected to refine pricing, positioning and reimbursement for the *KIF6* test and is targeted to be completed by the end of the fourth quarter of fiscal 2008, in anticipation of a full scale launch of *KIF6* testing service at BHL over the summer of 2008.

- In April 2008, the Celera group and Abbott were awarded a bone marrow registry tender by the French National Blood Service, or Etablissement Français du Sang, for high resolution human leukocyte antigen (HLA) typing using the Celera group s HLA sequenced-based testing products. The term of the award is for three years and was effective immediately. It is anticipated that approximately 45,000 individuals will be tested over the coming three years, with each one tested over multiple loci for registry requirements, representing approximately 200,000 HLA tests performed on these repository samples. HLA sequenced-based testing is part of the Atria Genetics Inc. (Atria) product portfolio that was acquired by the Celera group in October 2007, and now is a part of the Celera group s *in vitro* diagnostic product business.

- In April 2008, Abbott and Innogenetics N.V., Ghent, Belgium, settled a patent infringement suit covering the U.S. sale of hepatitis C virus (HCV) genotyping products. Innogenetics did not name the Celera group as a party in this lawsuit, but the Celera group has an interest in these products and had an interest in the outcome of the litigation because the products are manufactured by the Celera group and sold through its alliance with Abbott. The Celera group agreed to share equally the cost of this litigation, including damages, with Abbott.

- Also in April, the Celera group granted a two year exclusive license agreement to Merck & Co., Inc. providing Merck with access to up to ten cancer targets for the development of RNA interference-based therapeutics.

- In March 2008, the Celera group and researchers at the Leiden University Medical Center in the Netherlands published a paper in the Journal of the American Medical Association describing the identification of several novel gene variants; each variant is associated with approximately 50 percent increased risk of deep vein thrombosis.

- In February 2008, the Celera group and Geisinger Health System entered into a research collaboration with the aim of developing a diagnostic assay for increased risk of non-alcoholic steatohepatitis by evaluating the Celera group s numerous genetic findings in liver diseases, including the Cirrhosis Risk Score panel, in the Geisinger bank of more than 600 liver tissue and blood case-control samples.

- Within the alliance with Abbott, the Chlamydia and Gonorrhea assays that run on the *m*2000 system were submitted during the third quarter of fiscal 2008 to the U.S. Food and Drug Administration for 510(k) review. Also within the alliance, Abbott completed the optimization of an assay for human papillomavirus (HPV) in Europe. Field trials are being developed as early access partners are identified, and it is anticipated that this assay will be approved for launch in Europe in the first half of calendar 2009.

APPLERA CORPORATION

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

Critical Accounting Estimates

There were no material changes to our critical accounting estimates during the first nine months of fiscal 2008, except for our revenue recognition policy, as described below, due to the acquisition of BHL in October 2007. For further information on our critical accounting estimates, refer to the discussion contained in the management s discussion and analysis section of our 2007 Annual Report to Stockholders (which discussion is incorporated in this quarterly report by reference).

Revenue Recognition and Accounts Receivable

The following describes only the areas that are most subject to our judgment. Refer to Note 1, Accounting Policies and Practices, to our interim condensed 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 in accordance with Staff Accounting Bulletin No. 104, Revenue Recognition and Emerging Issues Task Force Consensus Issue 00-21, Revenue Arrangements with Multiple Deliverables, and related pronouncements. 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 undelivered item, and delivery or performance of the undelivered item is probable and substantially in our control. For instruments where installation is determined to be a separate earnings process, the portion of the sales price allocable to the fair value of the installation is deferred and recognized when installation is complete. We determine the fair value of the installation process based on technician labor billing rates, the expected number of hours to install the instrument based on historical experience, and amounts charged by third parties. We continually monitor the level of effort required for the installation of our instruments to ensure that appropriate fair values have been determined. Revenues from multiple-element arrangements involving license fees, up-front payments and milestone payments, which are received and/or billable in connection with other rights and services that represent our continuing obligations, are deferred until all of the multiple elements have been delivered or until objective and verifiable evidence of the fair value of the undelivered elements has been established. We determine the fair value of each element in multiple-element arrangements based on the prices charged when the similar elements are sold separately to third parties. If objective and verifiable evidence of fair value of all undelivered elements exists but objective and verifiable evidence of fair value does not exist for one or more delivered elements, then revenue is recognized using the residual method. Under the residual method, the revenues from delivered elements are not recognized until the fair value of the undelivered element or elements has been determined. Contract interpretation is normally required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and if so, how the price should be allocated among the deliverable elements, when to begin to recognize revenue for each element, and the period over which revenue should be recognized.

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 on the receipt of cash or royalty statements from our licensees.

A portion of the Celera group s reported net revenues include patient test service revenues associated with BHL s operations. We recognize patient test service revenues on completion of the testing process and when the test results are sent to the ordering healthcare provider. Billings for services reimbursed by third-party payors, including Medicare, are recorded net of allowances for differences between amounts billed and the estimated receipts from such payors. These allowances are determined based on historical activity. Since the acquisition date through March 31, 2008, revenue from Medicare patients represented approximately 38% of the total BHL patient test service revenues. Payment arrangements with third parties, such as Medicare and some insurance companies, include predetermined reimbursement rates for patient tests. Adjustments to the estimated receipts, based on final settlement with the third-party payors, including Medicare, are recorded in revenue upon settlement. Historically, adjustments for Medicare have not exceeded $^{1}/4$%, and adjustments for non-Medicare payors have not exceeded $^{1}/2$%, of total BHL patient test service revenues as compared to our prior quarter estimates. As such, the Celera group estimates the potential impact of subsequent revisions to its reimbursement rates to be in the range of $150,000 to $200,000 as of March 31, 2008.

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We have an established process to estimate and review the collectibility of our receivables. Bad debt expense is recorded in SG&A expenses as a percentage of aged accounts receivable considered necessary to maintain an appropriate level of allowance for doubtful accounts. Receivables are reserved based on their respective aging categories. Our process for determining the appropriate level of the allowance for doubtful accounts involves judgment, and considers the age of the underlying receivables, type of payor, historical and projected collection experience, current economic and business conditions, and other external factors that could affect the collectibility of its receivables. The allowance for doubtful accounts is reviewed for adequacy, at a minimum, on a quarterly basis. An account is written-off against the allowance for doubtful accounts when all reasonable collection efforts have been unsuccessful and it is probable the receivable will not be recovered or the account has been transferred to a third party collection agency.

Events Impacting Comparability

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

Income/(charge)	Three months ended March 31,		Nine months ended March 31,	
(Dollar amounts in millions)	**2008**	2007	**2008**	2007
Severance and benefit costs	**$(1.3)**	$ -	**$(5.0)**	$ -
Asset impairments				(3.0)
Excess lease space	**(0.9)**		**(0.9)**	
Other	**(2.8)**		**(2.4)**	(3.6)
Reduction of expected costs				0.6
Total employee-related charges, asset impairments and other	**$(5.0)**	$ -	**$(8.3)**	$ (6.0)
Other events impacting comparability:				
Revenue from sale of small molecule program	**$ -**	$ -	**$ -**	$ 2.5
Asset dispositions and legal settlements	**1.1**		**8.7**	1.1
Acquired research and development				(114.3)
Investment gains (losses)	**(3.1)**		**(0.5)**	
Tax items	**8.9**	8.4	**6.6**	18.2

Acquisitions

In October 2007, we acquired BHL for $193.2 million in cash, including transaction costs. BHL is a cardiovascular healthcare company with a Clinical Laboratory Improvement Amendments of 1988 (CLIA)-certified laboratory that provides a broad portfolio of clinical laboratory tests and disease management services focused on individuals who have cardiovascular disease or lipid or metabolic disorders. We believe that the acquisition provides the Celera group with a commercial infrastructure to bring its new genetic tests to the U.S. cardiovascular market. Additionally, BHL is expected to provide opportunities for the Celera group to commercialize new tests and technologies and to gain economies of scale and improve its margins as a consequence of the vertical integration with BHL s clinical laboratory service business. The cash expenditure for this acquisition was funded by available cash.

In late October 2007, we acquired substantially all of the assets of Atria for $33.3 million in cash, including transaction costs. Atria has a line of HLA testing products that are used for identifying potential donors in the matching process for bone marrow transplantation. The acquisition provides the Celera group with direct access to tissue typing in the transplantation and bone marrow registry market. The cash expenditure for this acquisition was funded by available cash.

The net assets and results of operations of BHL and Atria have been included in our condensed consolidated financial statements since their respective acquisition dates, and have been allocated to the Celera group. For further information on these acquisitions, see Note 3 to our interim condensed consolidated financial statements.

APPLERA CORPORATION

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

Acquired Research and Development

In the first quarter of fiscal 2007, the Applied Biosystems group recorded a $114.3 million charge to write-off the value of acquired in-process research and development (IPR&D) in connection with the acquisition of Agencourt Personal Genomics, Inc. (APG). As of the acquisition date, in July 2006, the technological feasibility of the acquired IPR&D project had not been established, and it was determined that the project had no future alternative use. The project being developed, which consists of both an instrument and reagents, is intended for very high throughput genetic analysis applications, including DNA sequencing and expression profiling.

At the date of acquisition, the project was in the development stage and approximately 30% complete. The work on this project was completed in September 2007. The following table briefly describes the APG project.

	At Acquisition Date		
(Dollar amounts in millions)	Fair Value	Estimated Costs to Complete	Approximate Percentage Completed
Instruments	$ 66.6	$10.0	35%
Reagents	47.7	6.0	25%
Total	$114.3	$16.0	

In June 2007, we made our first placements of this next generation instrument system to early access customers. The initial instrument and reagents began generating revenue in the third quarter of fiscal 2008. The total project costs were approximately $29 million, an increase of $13 million from the estimate as of the acquisition date. These additional R&D expenditures were for labor and materials required to accelerate the commercial launch of the platform and optimize features to better compete with other already commercialized next generation technologies. This increase in costs was offset by reductions in other planned R&D projects. Based on the performance of the system, the level of interest shown by our potential customers, and the progress in our manufacturing scale up, we accelerated the commercial release of the system to October 2007.

Employee-Related Charges, Asset Impairments and Other

The following items have been recorded in the interim condensed consolidated statements of operations in employee-related charges, asset impairments and other, except as noted.

Applied Biosystems group

Fiscal 2008

During the third quarter of fiscal 2008, the Applied Biosystems group recorded a pre-tax charge of $1.1 million primarily for professional fees related to the Celera group s anticipated separation from Applera. The Applied Biosystems group and the Celera group have agreed to share equally the costs incurred for the separation.

During the second quarter of fiscal 2008, the Applied Biosystems group recorded a pre-tax charge of $2.9 million for severance costs for 41 employees. The charge resulted from the realignment of the Applied Biosystems group s organization to support market dynamics and it plans on redirecting the savings into other strategic initiatives. All of the affected employees were notified as of December 31, 2007, and are expected to be terminated by June 30, 2008. During the second and third quarters of fiscal 2008, we made cash payments of $1.7 million related to this charge. Cash expenditures were funded by cash provided by operating activities. The remaining cash expenditures of $1.2 million are expected to be paid by June 30, 2008.

APPLERA CORPORATION

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

Charges prior to fiscal 2007

During the first nine months of fiscal 2008, the Applied Biosystems group made cash payments of approximately $0.9 million related to excess facility lease space charges recorded in fiscal 2005. The remaining cash payments of $0.8 million as of March 31, 2008 are expected to be disbursed by fiscal 2011. In accordance with Statement of Financial Accounting Standards (SFAS) 146, Accounting for Costs Associated with Exit or Disposal Activities , the excess facility lease space charge included a reduction for future estimated sublease rentals for the property. A sublease rental was not obtained for the property and over the course of the lease, additional charges of $0.6 million were recorded in operating expenses. Additionally, in the second quarter of fiscal 2007, a charge of $0.5 million was recorded in operating expenses to reserve for additional estimated costs under the lease.

Celera group

Fiscal 2008

During the third quarter of fiscal 2008, the Celera group recorded a pre-tax charge of $1.3 million for severance costs for approximately 30 employees. All of the affected employees were notified by March 31, 2008, and are expected to be terminated by the end of the first quarter of fiscal 2009. During the third quarter of fiscal 2008, we made net cash payments of $0.7 million related to this charge. Cash expenditures were funded by available cash. The remaining cash expenditures of $0.6 million are expected to be paid by the third quarter of fiscal 2009. This charge resulted from the realigning of its R&D resources and other activities in line with its current business activities.

Also during the third quarter of fiscal 2008, the Celera group recorded a pre-tax charge of $1.1 million primarily for professional fees related to its anticipated separation from Applera. The Celera group and the Applied Biosystems group have agreed to share equally the costs incurred for the separation.

During the second and third quarters of fiscal 2008, the Celera group recorded pre-tax charges totaling $1.3 million related to a reduction in the Celera group s proteomic-based activities. These charges were in addition to a charge recorded in the fourth quarter of fiscal 2007, as described below. These charges were primarily comprised of a $0.8 million charge in the second quarter of fiscal 2008 for severance costs for approximately 20 employees and an excess lease space charge of $0.9 million in the third quarter of fiscal 2008, partially offset by a gain of $0.4 million in the second quarter of fiscal 2008 from the disposal of equipment related to proteomic-based activities. All of the affected employees were notified by October 31, 2007, and are expected to be terminated by the end of the fourth quarter of fiscal 2008. During the second and third quarters of fiscal 2008, we made net cash payments of $0.7 million related to the severance charge. Cash expenditures were funded by available cash. The remaining cash expenditures of $0.1 million for the severance charge are expected to be paid by the end of the second quarter of fiscal 2009. The excess lease space charge represented the estimated cost of excess lease space less estimated future sublease income on a facility in Rockville, Maryland, which extends through April 2010. These charges resulted from the Celera group s desire to improve its financial results, in part by lowering operating expenses.

Fiscal 2007

During the fourth quarter of fiscal 2007, the Celera group recorded a pre-tax charge of $0.5 million for severance costs for approximately 20 employees. The charge resulted from a reduction in the Celera group s proteomics-based activities. All of the affected employees were notified as of June 30, 2007, and were terminated by October 31, 2007. During the first nine months of fiscal 2008, we made cash payments of $0.5 million, which represented the remaining payments related to this charge. Cash expenditures were funded by available cash. This action was intended to continue to improve the Celera group s financial results, in part due to lower operating expenses.

During the second quarter of fiscal 2007, the Celera group recorded a pre-tax charge of $2.5 million, which was primarily comprised of a $3.0 million pre-tax charge for the write-down of the carrying amount of an owned facility that was impaired initially in fiscal 2006, partially offset by a pre-tax benefit of $0.6 million for a reduction in anticipated employee-related costs associated with severance and benefit charges recorded in the third and fourth quarters of fiscal 2006.

During the first quarter of fiscal 2007, the Celera group recorded a pre-tax charge of $3.5 million for its estimated share of a damage award in continuing litigation between Abbott Laboratories, our alliance partner, and Innogenetics N.V. In September 2006, a jury found that the sale of HCV genotyping analyte specific reagents (ASRs) products by Abbott willfully infringed a U.S. patent owned by Innogenetics and awarded Innogenetics $7.0 million in damages. In January 2007, the U.S. District Court for the Western District of Wisconsin ruled in

APPLERA CORPORATION

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

favor of Innogenetics request for a permanent injunction, and as such, ordered Abbott to withdraw its products from the market. The Court also reversed the jury verdict of willful infringement and ruled that Abbott did not willfully infringe Innogenetics patent and denied Innogenetics request for enhanced damages and attorneys fees. Innogenetics did not name the Celera group as a party in this lawsuit, but the Celera group has an interest in these products and in the outcome of the litigation because the enjoined products are manufactured by the Celera group and sold through its alliance with Abbott. Also, as these products are part of its alliance with Abbott, the Celera group agreed to share equally the cost of this litigation, including the damage award described above. Abbott appealed the judgment. On January 17, 2008, the United States Court of Appeals for the Federal Circuit vacated the permanent injunction granted by the lower court for Innogenetics against Abbott in selling HCV genotyping products. Since the jury s damage award included an upfront entry fee, the Court remanded to the lower court to determine the terms of a compulsory license for Abbott s future sales. In addition, the Court remanded for a new trial on the validity of the Innogenetics patent in view of a prior-issued patent. The Court also affirmed the judgment of infringement and the judgment of no willful infringement. In April 2008, Abbott and Innogenetics settled the patent infringement suit and the Celera group recorded an additional pre-tax charge of $0.6 million in the third quarter of fiscal 2008. The costs to the Celera group, including the initial pre-tax charge of $3.5 million recorded in fiscal 2007, were $4.1 million. In addition, through March 31, 2008, the Celera group recorded in operating expenses approximately $2.9 million in legal fees associated with this litigation.

Charges prior to fiscal 2007

During fiscal 2006, the Celera group recorded pre-tax charges of $26.4 million related to its decision to exit its small molecule drug discovery and development programs and the integration of Celera Diagnostics into the Celera group. These charges consisted of $12.8 million of employee-related charges, $9.8 million of asset impairments, $1.2 million of excess lease space, and $2.6 million of other disposal costs. The remaining required cash expenditures of $0.8 million as of March 31, 2008, the majority of which related to the asset impairment of an owned facility, are expected to be disbursed by December 31, 2008.

During the first nine months of fiscal 2008, the Celera group made net cash payments of approximately $0.5 million related to an excess facility lease space charge that was recorded in fiscal 2005. As of March 31, 2008, the remaining net cash expenditures of approximately $2.2 million related to this charge are expected to be disbursed by fiscal 2011.

Other Events Impacting Comparability

Revenue from sale of small molecule program

In the second quarter of fiscal 2007, the Celera group recorded $2.5 million in net revenues from the sale of a small molecule drug discovery and development program to Schering AG. The Celera group had recorded an initial $2.5 million in the fourth quarter of fiscal 2006 when the agreement for the sale of the program was executed.

Asset dispositions and legal settlements

The following items have been recorded in the interim condensed consolidated statements of operations in asset dispositions and legal settlements.

Fiscal 2008

In the third quarter of fiscal 2008, the Celera group recorded a $1.1 million pre-tax gain related to the settlement of a litigation matter associated with its former Online/Information Business, an information products and service business.

In the first quarter of fiscal 2008, the Applied Biosystems group recorded a $7.6 million pre-tax gain primarily related to a settlement and licensing agreement entered into with Stratagene Corporation and Agilent Technologies, Inc. (which acquired Stratagene), which resolved outstanding legal disputes with Stratagene.

Fiscal 2007

In the second quarter of fiscal 2007, the Applied Biosystems group recorded a $4.8 million pre-tax benefit related to the settlement of a patent infringement claim and a $3.0 million pre-tax benefit related to our collection from a third party of a portion of its liability relative to the settlement of a prior legal dispute. Additionally in the second quarter of fiscal 2007, the Celera group recorded a $2.4 million pre-tax benefit related to the settlement of a litigation matter associated with the former Online/Information Business.

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

In the first quarter of fiscal 2007, the Applied Biosystems group recorded a $9.1 million pre-tax charge related to a settlement agreement entered into with another company which resolved outstanding legal disputes with that company.

Investments

The Celera group recorded a pre-tax charge of $3.1 million in gain (loss) on investments in the third quarter of fiscal 2008 for an other-than-temporary impairment of a publicly traded non-strategic minority equity investment. The impairment charge resulted from a number of factors that were assessed, including the duration of the decline in market value, the financial condition, and future prospects for the investee. The Applied Biosystems group recorded a pre-tax gain of $2.6 million in gain (loss) on investments in the second quarter of fiscal 2008 from the sale of a non-strategic minority equity investment.

Tax items

Fiscal 2008

In the third quarter of fiscal 2008, we recorded net tax benefits of $8.9 million, primarily resulting from net benefits related to completed Internal Revenue Service (IRS) and foreign audits. $9.6 million of tax benefits were recorded at the Applied Biosystems group, slightly offset by a tax charge of $0.7 million recorded at the Celera group.

In the second quarter of fiscal 2008, the Applied Biosystems group recorded tax charges of $0.5 million primarily related to foreign tax settlements. In the first quarter of fiscal 2008, the Applied Biosystems group recorded tax charges of $1.8 million primarily related to the recalculation of deferred tax assets as a result of a decrease in the statutory tax rate in Germany.

Fiscal 2007

In the third quarter of fiscal 2007, we recorded a tax benefit of $8.4 million, primarily resulting from a $6.1 million valuation allowance release. The valuation allowance release was due to management s reassessment of the future realization of foreign tax credits. Tax benefits identified during the tax return preparation accounted for the remaining tax benefits of $2.3 million. $8.0 million of the tax benefit was recorded at the Applied Biosystems group and $0.4 million was recorded at the Celera group.

The Tax Relief and Health Care Act of 2006, enacted in December 2006, extended the R&D tax credit from January 1, 2006 through December 31, 2007. The Celera group included the estimated benefit of the current year R&D tax credit in the second quarter of fiscal 2007 estimated annual effective tax rate. In addition, the Celera group recorded a tax benefit of $1.0 million in the second quarter of fiscal 2007 related to the R&D tax credit generated between January 1 and June 30, 2006.

In the first quarter of fiscal 2007, the Applied Biosystems group recorded a tax benefit of $8.8 million related to a reduction in the valuation allowance for German net operating loss carryforwards.

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Discussion of Applera Corporation s Consolidated Operations

(Dollar amounts in millions)	Three Months Ended March 31, 2008	2007	% Increase/ (Decrease)	Nine Months Ended March 31, 2008	2007	% Increase/ (Decrease)
Net revenues	**$591.4**	$539.0	**9.7%**	**$1,709.4**	$1,566.3	**9.1%**
Cost of sales	**251.1**	236.1	**6.4%**	**721.5**	699.6	**3.1%**
Gross margin	**340.3**	302.9	**12.3%**	**987.9**	866.7	**14.0%**
SG&A expenses	**180.8**	157.3	**14.9%**	**512.5**	454.5	**12.8%**
R&D	**58.6**	67.2	**(12.8%)**	**174.0**	187.3	**(7.1%)**
Amortization of purchased intangible assets	**5.1**	2.8	**82.1%**	**12.4**	8.4	**47.6%**
Employee-related charges, asset impairments and other	**5.0**			**8.3**	6.0	**38.3%**
Asset dispositions and legal settlements	**(1.1)**			**(8.7)**	(1.1)	**690.9%**
Acquired research and development					114.3	**(100.0%)**
Operating income	**91.9**	75.6	**21.6%**	**289.4**	97.3	**197.4%**
Gain (loss) on investments, net	**(3.0)**			**(0.4)**	0.2	**(300.0%)**
Interest income (expense), net	**5.8**	10.6	**(45.3%)**	**20.8**	30.2	**(31.1%)**
Other income (expense), net	**0.4**	2.4	**(83.3%)**	**2.6**	4.8	**(45.8%)**
Income before income taxes	**95.1**	88.6	**7.3%**	**312.4**	132.5	**135.8%**
Provision for income taxes	**19.9**	17.7	**12.4%**	**88.9**	53.1	**67.4%**
Net income	**$ 75.2**	$ 70.9	**6.1%**	**$ 223.5**	$ 79.4	**181.5%**
Percentage of net revenues:						
Gross margin	**57.5%**	56.2%		**57.8%**	55.3%	
SG&A expenses	**30.6%**	29.2%		**30.0%**	29.0%	
R&D	**9.9%**	12.5%		**10.2%**	12.0%	
Operating income	**15.5%**	14.0%		**16.9%**	6.2%	
Effective income tax rate	**20.9%**	20.0%		**28.5%**	40.0%	

The following table summarizes the impact of the previously described events impacting comparability included in the financial results for fiscal 2008 and 2007:

(Dollar amounts in millions)	Three Months Ended March 31, 2008	2007	Nine Months Ended March 31, 2008	2007

Income (charge) included in income before income taxes	**$ (7.0)**	$ -	**$(0.1)**	$(116.7)
Benefit for income taxes	**(11.3)**	(8.5)	**(6.8)**	(19.1)

Net income increased in the third quarter and first nine months of fiscal 2008 compared to the prior year periods primarily due to the previously described events impacting comparability, higher net revenues and gross margin, and lower R&D expenses, partially offset by higher SG&A expenses. The net effect of foreign currency on our net income was a benefit of approximately $7 million during the third quarter of fiscal 2008 and approximately $22 million during the first nine months of fiscal 2008 as compared to the prior year periods. Read our discussion of segments for information on their financial results.

Net revenues, which include the favorable effects of foreign currency, increased in the third quarter and first nine months of fiscal 2008 compared with the prior year periods. The effect of foreign currency increased net revenues by approximately 4% in the third quarter and first nine months of fiscal 2008 as compared to the prior year periods. Net revenues increased in both the third quarter and first nine months of fiscal 2008 primarily due to the favorable effect of foreign currency, the acquisitions of BHL and Atria, and higher diagnostic-related licensing and royalty revenues at the Celera group.

APPLERA CORPORATION

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

In Europe, revenues increased approximately 7% during the third quarter of fiscal 2008 as compared to the prior year quarter, including the favorable effect of foreign currency of approximately 6%. Revenues increased in Europe primarily as a result of sales of TaqMan Gene Expression Assay products, API triple quad systems, Q TRAP systems, sequence detection consumables, and SOLiD Systems. This growth was partially offset by lower sales of genetic analyzers. The Europe category includes revenues from India and other countries in West Asia, which had previously been grouped into our Asia Pacific category. Revenues by geographic area for the third quarter of fiscal 2007 have been reclassified to reflect this change. Revenues in Asia Pacific, other than Japan, increased by approximately 24% as compared to the prior year quarter, including a favorable impact from foreign currency of approximately 4%. This growth was led by China, in part due to spending in applied markets. From a product perspective, revenue in Asia Pacific, other than Japan, increased due to higher sales of API triple quad systems and human identification consumables, partially offset by a decline in sales of MALDI TOF/TOF systems. Revenues in Japan during the third quarter of fiscal 2008 increased by approximately 7% relative to the prior year quarter, including a favorable impact from foreign currency of approximately 10%. Revenues decreased due to continued constrained academic and pharmaceutical spending and competition. From a product perspective, the decrease was primarily due to lower sales of API triple quad and Q TRAP systems, offset by sales of SOLiD Systems and genetic analyzers in the region. Sales in the U.S. in the third quarter of fiscal 2008 decreased compared to the prior year quarter due to lower sales of genetic analyzers, Real-Time PCR instruments, Q TRAP systems, revenues from a U.S. Department of Defense contract awarded to the Applied Biosystems group in August 2006, which were included in the third quarter of fiscal 2007, and MALDI TOF/TOF systems, partially offset by sales of SOLiD Systems and TaqMan Gene Expression Assay products.

During the first nine months of fiscal 2008, revenues in Europe increased approximately 10% as compared to the prior year period, including the favorable effect of foreign currency of approximately 7%. Revenues increased in Europe primarily as a result of higher sales of TaqMan Gene Expression Assay products, DNA sequencing consumables, Q TRAP systems, sequence detection consumables and human identification consumables. This growth was partially offset by lower sales of genetic analyzers, primarily low to medium throughput, and MALDI TOF/TOF and Q STAR systems. The Europe category includes revenues from India and other countries in West Asia, which had previously been grouped into our Asia Pacific category. Revenues by geographic area for the first nine months of fiscal 2007 have been reclassified to reflect this change. Revenues in Asia Pacific, other than Japan, increased by approximately 16% during the first nine months of fiscal 2008 as compared to the prior year period, including a favorable impact from foreign currency of approximately 3%. This growth was led by China and Australia. From a product perspective, revenue in Asia Pacific, other than Japan, increased due to higher sales of API triple quad systems, low to medium throughput genetic analyzers, human identification consumables, and RNA kits and reagents. These increases were partially offset by a decline in sales of MALDI TOF/TOF systems. Revenues in Japan during the first nine months of fiscal 2008 were relatively flat compared to the prior year period, including a favorable impact from foreign currency of approximately 6%. A decline in sales of API triple quad and Q TRAP systems was offset by the introduction of the SOLiD System and increases in sales of genetic analyzers, MALDI TOF/TOF systems and human identification consumables in the region. Sales in the U.S. decreased in the first nine months of fiscal 2008 primarily due to lower sales of genetic analyzers, Real-Time PCR instruments, revenues from a U.S. Department of Defense contract, which were included in the first nine months of fiscal 2007, chromatography media consumables, and DNA sequencing consumables. These decreases were partially offset by higher sales of API triple quad systems, TaqMan Gene Expression Assay products, Real-Time PCR consumables, and sales of SOLiD Systems.

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

The higher gross margin percentage for the third quarter of fiscal 2008 as compared to the prior year quarter was primarily due to lower costs for enzymes from a new supply agreement and the favorable impact of foreign currency, all at the Applied Biosystems group, and higher margin services and products due to the acquisitions of BHL and Atria and higher licensing and royalty revenues at the Celera group. Partially offsetting this increase was competitive pricing in the Mass Spectrometry product category at the Applied Biosystems group. Gross margin, as a percentage of net revenues, increased for the first nine months of fiscal 2008 compared to the prior year period primarily from lower costs for enzymes due to the new supply agreement and other improved vendor pricing and lower manufacturing costs, and the favorable impact of foreign currency, all at the Applied Biosystems group, and higher margin services and products due to the acquisitions of BHL and Atria and higher licensing and royalty revenues at the Celera group. Partially offsetting these benefits was competitive pricing in the Mass Spectrometry product category at the Applied Biosystems group.

SG&A expenses for the third quarter of fiscal 2008 increased compared to the prior year quarter primarily due to the inclusion of BHL expenses of approximately $13 million at the Celera group, higher employee-related costs of approximately $6 million at the Applied Biosystems group, the unfavorable impact of foreign currency of approximately $6 million, and regional investments, including additional headcount, of approximately $3 million to support growth primarily in Europe and China at the Applied Biosystems group. This increase was partially offset by lower legal expenses of approximately $2 million and lower marketing and travel expenses of approximately $1 million at the Applied Biosystems group.

SG&A expenses for the first nine months of fiscal 2008 increased compared to the prior year period primarily due to: the inclusion of BHL expenses of approximately $25 million at the Celera group; the unfavorable impact of foreign currency of approximately $14 million; higher employee-related costs of approximately $14 million; regional investments, including additional headcount, of approximately $9 million in fiscal 2008 to support growth primarily in Europe and China; and the reversal in the first quarter of fiscal 2007 of a $5 million accrual related to settled litigation, all at the Applied Biosystems group. This increase was partially offset by lower marketing and travel expenses of approximately $3 million at the Applied Biosystems group. The first nine months of fiscal 2007 included approximately $3 million of integration costs related to Ambion, a company the Applied Biosystems group acquired in March 2006.

R&D expenses decreased for the third quarter and first nine months of fiscal 2008 compared to the prior year periods primarily as a result of lower employee-related costs at the Applied Biosystems group, the termination in June 2007 of a U.S. Department of Defense contract awarded to the Applied Biosystems group, the timing of expenses at the Applied Biosystems group, and reduced proteomic-based target discovery and validation related activities at the Celera group, partially offset by investments in the SOLiD System program, the next-generation DNA sequencing system, at the Applied Biosystems group.

Interest income, net decreased during the third quarter of fiscal 2008 compared to the same quarter in the prior year primarily due to interest expense incurred on our loans payable and lower average cash and cash equivalents and short-term investments combined with lower average interest rates. Interest income, net decreased during the first nine months of fiscal 2008 compared to the same period in the prior year primarily due to interest expense incurred on our loans payable and lower average cash and cash equivalents and short-term investments in fiscal 2008, partially offset by higher average interest rates in fiscal 2008. The loans, which originated in fiscal 2008, were used to fund the accelerated repurchase of shares of Applera-Applied Biosystems stock, as described below.

Other income (expense), net decreased in the third quarter and first nine months of fiscal 2008 compared to the same periods in fiscal 2007 due primarily to lower income from the Applied Biosystems group s foreign currency risk management program.

The increase in the effective tax rate for the third quarter of fiscal 2008 compared to the third quarter of fiscal 2007 was primarily due to an increase in earnings. The decrease in the effective tax rate for the first nine months of fiscal 2008 compared to the prior period was primarily due to the previously described events impacting comparability, including the events described under tax items.

APPLERA CORPORATION

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

Applera Corporation

Discussion of Condensed Consolidated Financial Resources and Liquidity

We had cash and cash equivalents and short-term investments of $703.0 million at March 31, 2008, and $1,056.0 million at June 30, 2007. We maintain a $250 million unsecured revolving credit agreement with four banks that matures on May 25, 2012. This amount was increased from $200 million effective August 27, 2007, at our request in accordance with the terms of the agreement. There was $25 million outstanding under this agreement at March 31, 2008. On August 27, 2007, we entered into a $100 million unsecured term loan agreement with Bank of America, N.A. that matures on September 4, 2008. Upon the satisfaction of various conditions, we have the option to extend the maturity date on this agreement to September 4, 2010. There was $100 million outstanding under this agreement at March 31, 2008. Both the revolving credit agreement and the term loan agreement require that we maintain a debt to total capital ratio, as defined in each agreement, of not more than 0.50:1:00. See Note 9 to our interim condensed consolidated financial statements for more information on our loans payable. The amounts borrowed under these agreements were used to fund the repurchase of shares of Applera-Applied Biosystems group stock and were allocated entirely to the Applied Biosystems group. Cash provided by operating activities and our debt borrowings have been our primary source of funds over the last fiscal year.

In April 2007, we announced that our board of directors authorized the repurchase of up to 10% of the outstanding shares of Applera-Applied Biosystems stock. This authorization has no time restrictions and delegates to management the discretion to purchase shares at times and prices it deems appropriate through open market purchases, privately negotiated transactions, tender offers, exchange offers, or otherwise. We repurchased 3.4 million shares of Applera-Applied Biosystems stock for approximately $100 million during the fourth quarter of fiscal 2007 under this authorization. Subsequently, on August 8, 2007, we announced that our board of directors increased this authorization to $1.2 billion in the aggregate, including the $100 million discussed above, which at market prices on that date represented approximately 20% of the outstanding shares of Applera-Applied Biosystems stock. Pursuant to this authorization, we entered into an agreement with Morgan Stanley in August 2007 for the accelerated repurchase of $600 million of Applera-Applied Biosystems stock. During the first quarter of fiscal 2008, we paid Morgan Stanley approximately $602 million for this transaction, of which $327 million was funded by cash and $275 million was funded by bank loans. In October 2007, 16 million shares of Applera-Applied Biosystems stock were delivered to us under this agreement. In January 2008, Morgan Stanley exercised its option to settle the accelerated share repurchase transaction and delivered to us an additional 1.9 million shares of Applera-Applied Biosystems stock. See Note 9 to our interim condensed consolidated financial statements for more information on the accelerated share repurchase. These authorizations supplement the board s standing authorization to replenish shares of Applera-Applied Biosystems stock issued under our employee stock benefit plans.

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, acquisitions, authorized share repurchases, and dividends for the next twelve months and for the foreseeable future.

(Dollar amounts in millions)	**March 31, 2008**	June 30, 2007
Cash and cash equivalents	**$426.3**	$ 323.2
Short-term investments	**276.7**	732.8

Total cash and cash equivalents and short-term investments	**$703.0**	$ 1,056.0
Total debt	**125.2**	
Working capital	**817.2**	1,205.5
Debt to total capitalization	**5.7%**	

The overall decrease of cash and cash equivalents and short-term investments for the first nine months of fiscal 2008 from June 30, 2007 resulted from cash expenditures for the accelerated share repurchase transaction and the acquisitions of BHL and Atria, partially offset by cash generated from operating activities. Cash and cash equivalents increased for the first nine months of fiscal 2008 from June 30, 2007, as cash generated from operating activities, proceeds from bank loans, net of repayments, sales and maturities of investments, net of purchases, and stock issuances exceeded the payment to Morgan Stanley for the accelerated share repurchase transaction, cash expenditures for the acquisitions of BHL and Atria, capital spending and dividends paid.

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APPLERA CORPORATION

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

Net cash flows of continuing operations for the nine months ended March 31 were as follows:

(Dollar amounts in millions)	**2008**	2007
Net cash from operating activities	**$ 344.8**	$ 211.7
Net cash from investing activities	**209.4**	(336.9)
Net cash from financing activities	**(437.0)**	19.4
Effect of exchange rate changes on cash	**(27.0)**	4.0

Operating activities:

The increase in net cash provided from operating activities for the first nine months of fiscal 2008 compared to the first nine months of fiscal 2007 resulted primarily from higher income-related cash flows and a higher source of cash in accounts receivable, partially offset by a higher increase in inventories. The higher source of cash in accounts receivable was primarily due to higher sales volume, partially offset by an increase in the days sales outstanding at the Applied Biosystems group, as described below, and the timing of the collection of licensing and milestone payments at the Celera group recorded in the first nine months of fiscal 2007, as well as an increase in receivables related to both royalty revenues and the sale of BHL services and Atria products. Within prepaid expenses and other assets, the higher source of cash primarily resulted from the timing of royalty receipts, as well as dividends and distributions related to our joint venture activities. Partially offsetting these sources of cash were higher payments by the Applied Biosystems group in the first nine months of fiscal 2008 under license and collaboration agreements, including approximately $37 million made in the second quarter of fiscal 2008. The higher use of cash in accounts payable and other liabilities resulted primarily from the timing of royalty payments, partially offset by tax refunds received in the first nine months of fiscal 2008 primarily due to the completion of the IRS and foreign tax audits, the timing of vendor payments at the Applied Biosystems group, and lower severance and other restructuring-related payments at the Celera group in the first nine months of fiscal 2008. The Applied Biosystems group s days sales outstanding was 62 days at March 31, 2008, compared to 58 days at June 30, 2007 and 57 days at March 31, 2007. The increase resulted primarily from the timing of cash collections from governmental agencies, primarily in Europe, Japan and North America. Inventory on hand was 3.9 months at March 31, 2008, compared to 2.7 months at June 30, 2007. The increase was primarily related to the build up of both instruments and consumables for the SOLiD System.

Investing activities:

Capital expenditures, net of disposals, for the first nine months of fiscal 2008 were $11.4 million lower than in the prior year period primarily due to lower building and leasehold improvements, primarily at the Applied Biosystems group s facilities in California, made in the first nine months of fiscal 2008. Additionally, higher expenditures for the Applied Biosystems Portal in the first nine months of fiscal 2007 also contributed to the decrease. The first nine months of fiscal 2008 included higher proceeds from sales and maturities of available for sale investments and lower purchases of available for sale investments. In October 2007, we acquired BHL and Atria for $214.4 million, including transaction costs and net of cash acquired. In July 2006, we acquired APG for approximately $121 million, including transaction costs.

Financing activities:

During the first nine months of fiscal 2008, we paid Morgan Stanley approximately $602 million for the accelerated share repurchase transaction, of which $275 million was funded by bank loans and the balance with cash. In October 2007, 16 million shares of Applera-Applied Biosystems stock were delivered to us under this transaction. In January 2008, Morgan Stanley exercised its option to settle the accelerated share repurchase transaction and delivered to us an additional 1.9 million shares of Applera-Applied Biosystems stock. During the first quarter of fiscal 2008, we borrowed $175 million under our $250 million unsecured revolving credit agreement and $100 million under our unsecured term loan agreement. During the second and third quarters of fiscal 2008, we repaid $150 million of these borrowings. In connection with the acquisition of BHL, we assumed approximately $10.8 million of floating and fixed rate debt, of which $10.6 million was repaid in the second quarter of fiscal 2008. During the first nine months of fiscal 2007, we repurchased approximately 1.8 million shares of Applera-Applied Biosystems stock for $68.5 million. See Note 9 to our interim condensed consolidated financial statements for more information on our debt.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF

OPERATIONS continued

Contractual Obligations

Our significant contractual obligations at March 31, 2008, and the anticipated payments under these obligations were as follows:

		Payments by Period			
(Dollar amounts in millions)	Total	2008 [(a)]	2009 - 2010	2011 - 2012	Thereafter
Minimum operating lease payments [(b)]	**$139.7**	**$ 11.5**	**$ 68.7**	**$30.6**	**$28.9**
Purchase obligations [(c)]	**135.9**	**86.8**	**36.5**	**9.4**	**3.2**
Other long-term liabilities [(d)]	**37.8**	**1.8**	**3.5**	**2.1**	**30.4**
Total	**$313.4**	**$100.1**	**$108.7**	**$42.1**	**$62.5**

(a) Represents cash obligations for the remainder of fiscal 2008.
(b) Refer to Note 10 to our consolidated financial statements in our 2007 Annual Report to Stockholders for further information.
(c) Purchase obligations are entered into with various vendors in the normal course of business, and include commitments related to inventory, capital expenditures, R&D arrangements and collaborations, license agreements, and other services.
(d) We have excluded deferred revenues as they have no impact on our future liquidity. We have also excluded deferred tax liabilities and obligations connected with our pension and postretirement plans and other foreign employee-related plans as they are not contractually fixed as to timing and amount. See Note 12 to our interim condensed consolidated financial statements contained in this report and Note 5 to our consolidated financial statements in our 2007 Annual Report to Stockholders for more information on these plans.

We adopted Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 on July 1, 2007. The amount of unrecognized tax benefits at July 1, 2007 was $67.9 million. This amount has been excluded from the contractual obligations table because we are unable to reasonably predict the ultimate amount or timing of future tax payments. During the third quarter of fiscal 2008, the IRS completed its audit for our fiscal years 2001 through 2005. The completion of the IRS audit, as well as foreign audits, primarily resulted in a decrease in our unrecognized tax benefits of $41.0 million. The impact to our cash flow was immaterial.

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APPLERA CORPORATION

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

Discussion of Segments Operations, Financial Resources and Liquidity

Applied Biosystems Group

	Three Months Ended March 31,		% Increase/	Nine Months Ended March 31,		% Increase/
(Dollar amounts in millions)	**2008**	2007	**(Decrease)**	**2008**	2007	**(Decrease)**
Net revenues	**$552.6**	$529.9	**4.3%**	**$1,615.7**	$1,536.2	**5.2%**
Cost of sales	**238.3**	231.3	**3.0%**	**694.8**	687.5	**1.1%**
Gross margin	**314.3**	298.6	**5.3%**	**920.9**	848.7	**8.5%**
SG&A expenses	**159.5**	150.2	**6.2%**	**462.9**	432.8	**7.0%**
R&D	**48.6**	54.4	**(10.7%)**	**143.6**	150.4	**(4.5%)**
Amortization of purchased intangible assets	**2.6**	2.8	**(7.1%)**	**7.8**	8.4	**(7.1%)**
Employee-related charges, asset impairments and other	**1.1**			**4.0**		
Asset dispositions and legal settlements				**(7.6)**	1.3	**(684.6%)**
Acquired research and development					114.3	**(100.0%)**
Operating income	**102.5**	91.2	**12.4%**	**310.2**	141.5	**119.2%**
Gain on investments, net	**0.1**			**2.7**	0.2	
Interest income (expense), net	**2.2**	3.2	**(31.3%)**	**5.6**	9.3	**(39.8%)**
Other income (expense), net	**0.3**	2.3	**(87.0%)**	**2.6**	4.5	**(42.2%)**
Income before income taxes	**105.1**	96.7	**8.7%**	**321.1**	155.5	**106.5%**
Provision for income taxes	**22.2**	21.2	**4.7%**	**90.9**	63.9	**42.3%**
Net income	**$ 82.9**	$ 75.5	**9.8%**	**$ 230.2**	$ 91.6	**151.3%**
Percentage of net revenues:						
Gross margin	**56.9%**	56.4%		**57.0%**	55.2%	
SG&A expenses	**28.9%**	28.3%		**28.7%**	28.2%	
R&D	**8.8%**	10.3%		**8.9%**	9.8%	
Operating income	**18.5%**	17.2%		**19.2%**	9.2%	
Effective income tax rate	**21.1%**	21.9%		**28.3%**	41.1%	

The following table summarizes the impact of the previously described events impacting comparability included in the financial results for fiscal 2008 and 2007:

(Dollar amounts in millions)	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007	Nine Months Ended March 31, 2008	Nine Months Ended March 31, 2007
Income (charge) included in income before income taxes	**$ (1.1)**	$ -	**$ 6.2**	$(115.6)
Benefit for income taxes	**(10.1)**	(8.1)	**(5.4)**	(17.3)

Net income increased at the Applied Biosystems group in the third quarter and first nine months of fiscal 2008 compared to the prior year periods due to the previously described events impacting comparability, higher net revenues and gross margin, and lower R&D expenses, partially offset by higher SG&A expenses. The net effect of foreign currency on our net income was a benefit of approximately $7 million during the third quarter of fiscal 2008 and approximately $22 million during the first nine months of fiscal 2008 as compared to prior year periods.

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APPLERA CORPORATION

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

Revenues overall summary

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

(Dollar amounts in millions)	Three Months Ended March 31, 2008	2007	% Increase/ (Decrease)	Nine Months Ended March 31, 2008	2007	% Increase/ (Decrease)
DNA Sequencing	**$146.4**	$140.7	**4%**	**$ 422.2**	$ 419.0	**1%**
% of total revenues	***27%***	*27%*		***26%***	*27%*	
Real-Time PCR/Applied Genomics	**200.9**	183.3	**10%**	**581.5**	512.0	**14%**
% of total revenues	***36%***	*34%*		***36%***	*33%*	
Mass Spectrometry	**128.5**	127.3	**1%**	**387.2**	379.2	**2%**
% of total revenues	***23%***	*24%*		***24%***	*25%*	
Core PCR & DNA Synthesis	**49.5**	46.9	**6%**	**146.3**	142.3	**3%**
% of total revenues	***9%***	*9%*		***9%***	*9%*	
Other Product Lines	**27.3**	31.7	**(14%)**	**78.5**	83.7	**(6%)**
% of total revenues	***5%***	*6%*		***5%***	*6%*	
Total	**$552.6**	$529.9	**4%**	**$1,615.7**	$1,536.2	**5%**

The effect of foreign currency increased net revenues by approximately 4% in the third quarter and first nine months of fiscal 2008 as compared to the prior year periods.

Real-Time PCR/Applied Genomics:

- Revenues in the Real-Time PCR/Applied Genomics product category increased in both the third quarter and nine month periods compared to the prior year periods primarily due to higher sales of consumable products, including TaqMan Gene Expression Assay products, human identification kits used in forensics, sequence detection consumables, and RNA kits and reagents.
- Revenue from other sources increased for the third quarter and first nine months of fiscal 2008 compared to the same periods last year primarily due to higher royalty and license revenues, including a real-time PCR instrument license granted in the first quarter of fiscal 2008 as part of a patent infringement settlement, and higher service contract revenues.

Mass Spectrometry:

- Instrument revenues in the Mass Spectrometry product category decreased in the third quarter of fiscal 2008 compared to the prior year quarter primarily due to lower sales of the MALDI TOF/TOF and Q TRAP systems, partially offset by higher sales of the API triple quad system. Instrument revenues also decreased for the first nine months of fiscal 2008 compared to the prior year period as lower sales of the MALDI TOF/TOF and QSTAR® systems, were partially offset by higher sales of the Q TRAP system.

- Revenue from other sources increased in both the third quarter and first nine months of fiscal 2008 compared to the prior year periods primarily due to higher instrument service contract revenues.
- The Mass Spectrometry product category is facing competition and a weakening economic and budgeting climate. The Applied Biosystems group is challenged by constrained capital spending in pharmaceutical markets, particularly in Europe and Japan but also in the United States. Pharmaceutical spending has been offset somewhat by the shift to contract research organizations (CROs) where the Applied Biosystems group has a strong market position. Our applied markets mass spectrometry showed continued strength in North America and Asia, particularly China. The high-end Q TRAP and triple quad products exhibited strong acceptance in applied markets for applications like quality and safety monitoring in food and beverage markets and environmental testing.

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DNA Sequencing:

- Revenues in the DNA Sequencing product category increased for the third quarter of fiscal 2008 compared to the same quarter last year primarily due to higher consumables sales, including CE, or capillary electrophoresis, consumables and higher instrument sales. During the third quarter of fiscal 2008, the Applied Biosystems group recognized its first revenues from sales of the SOLiD next-generation sequencing system. Sales of the SOLiD System were partially offset by lower sales of high throughput genetic analyzers.
- Revenues increased for the first nine months of fiscal 2008 compared to the same period last year primarily due to higher consumables sales, including CE and SOLiD consumables and higher instrument service contract revenues, partially offset by lower instrument sales. Decreased sales of low to medium throughput genetic analyzers were partially offset by sales of the SOLiD System.
- As expected, overall CE instrument placements are declining in the research market as instrument funding priorities shift toward next-generation sequencing platforms. Related CE consumables volume continues to grow during this transition period. CE instrument revenues in applied markets were also up during the third quarter of fiscal 2008 for both human identification and quality and safety testing.

Other:

Revenues in the Other Product Lines product category decreased primarily due to revenues from a U.S. Department of Defense contract, which were included in the third quarter and first nine months of fiscal 2007.

Revenues by sources

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

	Three Months Ended March 31,		% Increase/	Nine Months Ended March 31,		% Increase/
(Dollar amounts in millions)	**2008**	2007	**(Decrease)**	**2008**	2007	**(Decrease)**
Instruments	**$214.4**	$215.6	**(0.6%)**	**$ 637.1**	$ 646.8	**(1.5%)**
Consumables	**237.3**	221.0	**7.4%**	**684.1**	620.5	**10.2%**
Other sources	**100.9**	93.3	**8.1%**	**294.5**	268.9	**9.5%**
Total	**$552.6**	$529.9	**4.3%**	**$1,615.7**	$1,536.2	**5.2%**

Instruments

For the third quarter of fiscal 2008, instrument revenues slightly decreased from the prior year quarter primarily due to lower sales of the MALDI TOF/TOF and Q TRAP systems in the Mass Spectrometry product category and lower sales of genetic analyzers for high-throughput CE sequencing in the DNA Sequencing product category. These decreases were almost entirely offset by higher sales of the API triple quad system in the Mass Spectrometry product category, the SOLiD System in the DNA Sequencing product category, and the new Veriti thermal cycler in the Core PCR & DNA Synthesis product category. For the first nine months of fiscal 2008, instrument revenues decreased from the prior year period primarily due to lower sales of low to medium throughput genetic analyzers and MALDI TOF/TOF and QSTAR systems, partially offset by sales of the SOLiD System, low end Real-Time PCR instruments, and the Q TRAP system.

Consumables

The increase in consumables sales in the third quarter and first nine months of fiscal 2008 primarily reflected the strength of Real-Time PCR/Applied Genomics consumable sales. These sales increased primarily as a result of higher sales of TaqMan Gene Expression Assay products, human identification kits used in forensics, sequence detection consumables, and RNA kits and reagents. Also, favorably impacting consumables revenues were higher sales of consumables in the DNA Sequencing product category.

Other sources

Revenues from other sources, which included service and support, royalties, licenses, and contract research, increased in the third quarter and first nine months of fiscal 2008 primarily due to higher service contract revenues, particularly in the Mass Spectrometry and Real-Time PCR/Applied Genomics product categories, and higher royalty and license revenues, in part due to a patent infringement settlement related to a real-time instrument patent.

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Revenues by geographic area

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

	Three Months Ended March 31,		% Increase/	Nine Months Ended March 31,		% Increase/
(Dollar amounts in millions)	**2008**	2007	**(Decrease)**	**2008**	2007	**(Decrease)**
United States	**$217.2**	$227.4	**(4.5%)**	**$ 656.6**	$ 662.4	**(0.9%)**
Europe	**196.0**	182.8	**7.2%**	**581.0**	528.2	**10.0%**
Asia Pacific	**111.5**	97.6	**14.2%**	**300.6**	280.1	**7.3%**
Other markets	**27.9**	22.1	**26.2%**	**77.5**	65.5	**18.3%**
Total	**$552.6**	$529.9	**4.3%**	**$1,615.7**	$1,536.2	**5.2%**

In Europe, the effect of foreign currency increased revenues by approximately 6% during the third quarter of fiscal 2008 as compared to the prior year quarter. Revenues increased in Europe primarily as a result of sales of TaqMan Gene Expression Assay products, API triple quad systems, Q TRAP systems, sequence detection consumables, and SOLiD Systems. This growth was partially offset by lower sales of genetic analyzers. The Europe category includes revenues from India and other countries in West Asia, which had previously been grouped into our Asia Pacific category. Revenues by geographic area for the third quarter of fiscal 2007 have been reclassified to reflect this change. Revenues in Asia Pacific, other than Japan, increased by approximately 24% as compared to the prior year quarter, including a favorable impact from foreign currency of approximately 4%. This growth was led by China, in part due to spending in applied markets. From a product perspective, revenue in Asia Pacific, other than Japan, increased due to higher sales of API triple quad systems and human identification consumables, partially offset by a decline in sales of MALDI TOF/TOF systems. Revenues in Japan during the third quarter of fiscal 2008 increased by approximately 7% relative to the prior year quarter, including a favorable impact from foreign currency of approximately 10%. Revenues decreased due to continued constrained academic and pharmaceutical spending and competition. From a product perspective, the decrease was primarily due to lower sales of API triple quad and Q TRAP systems, offset by sales of SOLiD Systems and genetic analyzers in the region. Sales in the U.S. in the third quarter of fiscal 2008 decreased compared to the prior year quarter due to lower sales of genetic analyzers, Real-Time PCR instruments, Q TRAP systems, revenues from a U.S. Department of Defense contract, which were included in the third quarter of fiscal 2007, and MALDI TOF/TOF systems, partially offset by sales of SOLiD Systems and TaqMan Gene Expression Assay products.

During the first nine months of fiscal 2008, the effect of foreign currency in Europe increased revenues by approximately 7% as compared to the prior year period. Revenues increased in Europe primarily as a result of higher sales of TaqMan Gene Expression Assay products, DNA sequencing consumables, Q TRAP systems, sequence detection consumables and human identification consumables. This growth was partially offset by lower sales of genetic analyzers, primarily low to medium throughput, and MALDI TOF/TOF and Q STAR systems. The Europe category includes revenues from India and other countries in West Asia, which had previously been grouped into our Asia Pacific category. Revenues by geographic area for the first nine months of fiscal 2007 have been reclassified to reflect this change. Revenues in Asia Pacific, other than Japan, increased by approximately 16% during the first nine months of fiscal 2008 as compared to the prior year period, including a favorable impact from foreign currency of approximately 3%. This growth was led by China and Australia. From a product perspective, revenue in Asia Pacific, other than Japan, increased due to higher sales of API triple quad systems, low to medium throughput genetic analyzers, human identification consumables, and RNA kits and reagents. These increases were partially offset by a decline in sales of MALDI TOF/TOF systems. Revenues in Japan during the first nine months of fiscal 2008 were relatively flat compared to the prior year period, including a favorable impact from foreign currency of approximately 6%. A decline in sales of API triple quad and Q TRAP systems was offset by the introduction of the SOLiD System and increases in sales of genetic analyzers, MALDI TOF/TOF systems and human identification consumables in the region. Sales in the U.S. decreased in the first nine months of fiscal 2008 primarily due to lower sales of genetic analyzers, Real-Time PCR instruments, revenues from a U.S. Department of Defense contract, which were included in the first nine months of fiscal 2007, chromatography media consumables, and DNA sequencing consumables. These decreases were partially offset by higher sales of API triple quad systems, TaqMan Gene Expression Assay products, Real-Time PCR consumables, and sales of SOLiD Systems.

Gross margin, as a percentage of net revenues, increased for the third quarter of fiscal 2008 compared to the prior year quarter primarily due to lower costs for enzymes from a new supply agreement and the favorable impact of

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foreign currency, partially offset by competitive pricing in the Mass Spectrometry product category. Gross margin, as a percentage of net revenues, increased for the first nine months of fiscal 2008 compared to the prior year period primarily due to: lower costs for enzymes from the new supply agreement and other improved vendor pricing and lower manufacturing costs and the favorable impact of foreign currency. Partially offsetting these benefits was competitive pricing in the Mass Spectrometry product category. Service margin was lower in the third quarter of fiscal 2008 compared to the same quarter last year primarily due to product mix, selective parts price reductions, and timing of repair activity. Service margin was lower in the first nine months of fiscal 2008 compared to the prior year period due to product mix and timing of repair activities between contract and warranty customers.

SG&A expenses for the third quarter of fiscal 2008 increased compared to the prior year quarter primarily due to higher employee-related costs, of approximately $6 million, particularly in sales and marketing, the unfavorable impact of foreign currency of approximately $6 million and regional investments, including additional headcount, of approximately $3 million in fiscal 2008 to support growth primarily in Europe and China. This increase was partially offset by lower legal expenses of approximately $2 million and lower marketing and travel expenses of approximately $1 million.

SG&A expenses for the first nine months of fiscal 2008 increased compared to the prior year period primarily due to: the unfavorable impact of foreign currency of approximately $14 million; higher employee-related costs, of approximately $14 million, particularly in sales and marketing; regional investments, including additional headcount, of approximately $9 million in fiscal 2008 to support growth primarily in Europe and China; and the reversal in the first quarter of fiscal 2007 of a $5 million accrual related to settled litigation. This increase was partially offset by lower marketing and travel expenses of approximately $3 million. Additionally, the first nine months of fiscal 2007 included approximately $3 million of integration costs related to Ambion.

R&D expenses decreased in both the third quarter and first nine months of fiscal 2008 from the prior year periods primarily as a result of lower employee-related costs, the termination in June 2007 of a U.S. Department of Defense contract, and the timing of expenses, partially offset by investments in the SOLiD System program.

Interest income, net decreased during the third quarter of fiscal 2008 compared to the same quarter in the prior year primarily due to interest expense incurred on our loans payable and lower average cash and cash equivalents and short-term investments combined with lower average interest rates. Interest income, net decreased during the first nine months of fiscal 2008 compared to the same period in the prior year primarily due to interest expense incurred on our loans payable, partially offset by income from higher average cash and cash equivalents and short-term investments and higher average interest rates. The loans, which originated in fiscal 2008, were used to fund the accelerated repurchase of shares of Applera-Applied Biosystems stock, as described below.

Other income (expense), net decreased in the third quarter and first nine months of fiscal 2008 compared to the same periods in fiscal 2007 due primarily to lower income from our foreign currency risk management program.

The decrease in the effective t