

APPLERA CORP
Form 10-Q
May 09, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2006

OR

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

Commission file number: 1-4389

APPLERA CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

06-1534213

(I.R.S. Employer Identification No.)

301 Merritt 7, Norwalk, Connecticut

(Address of Principal Executive Offices)

(203) 840-2000

(Registrant's Telephone Number, Including Area Code)

06851-1070

(Zip Code)

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

Edgar Filing: APPLERA CORP - Form 10-Q

Yes No

As of the close of business on May 2, 2006, there were 185,050,595 shares of Applera Corporation-Applied Biosystems Group Common Stock and 76,977,344 shares of Applera Corporation-Celera Genomics Group Common Stock outstanding.

APPLERA CORPORATION

INDEX

	<u>Page</u>
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended March 31, 2005 and 2006</u>	<u>1</u>
<u>Condensed Consolidated Statements of Financial Position at June 30, 2005 and March 31, 2006</u>	<u>2</u>
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended March 31, 2005 and 2006</u>	<u>3</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>4-34</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>Discussion of Applera Corporation</u>	<u>35-47</u>
<u>Discussion of Applied Biosystems Group</u>	<u>48-53</u>
<u>Discussion of Celera Genomics Group</u>	<u>54-57</u>
<u>Market Risks</u>	<u>57</u>
<u>Outlook</u>	<u>58-59</u>
<u>Forward-Looking Statements and Risk Factors</u>	<u>59-74</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>75</u>
<u>Item 4. Controls and Procedures</u>	<u>75</u>
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	<u>76-77</u>

[Back to Index](#)**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,	
	2005	2006	2005	2006
Products	\$376,866	\$399,197	\$1,084,166	\$1,140,835
Services	52,310	54,162	150,894	161,618
Other	40,254	44,402	119,067	107,223
Total Net Revenues	469,430	497,761	1,354,127	1,409,676
Products	180,841	191,493	536,393	555,132
Services	25,662	24,566	70,847	73,137
Other	4,419	3,720	15,270	10,779
Total Cost of Sales	210,922	219,779	622,510	639,048
Gross Margin	258,508	277,982	731,617	770,628
Selling, general and administrative	134,422	149,410	390,223	425,894
Research, development and engineering	86,844	67,359	248,191	210,198
Amortization of intangible assets	725		2,175	1,091
Employee-related charges, asset impairments and other	(951)	19,995	14,422	21,226
Asset dispositions and legal settlements		1,629	(38,172)	28,170
Acquired research and development		3,400		3,400
Operating Income	37,468	36,189	114,778	80,649
Gain on investments, net		3,125		7,628
Interest expense	(71)	(153)	(97)	(318)
Interest income	7,572	9,486	19,675	28,476
Other income (expense), net	743	845	3,910	3,553
Income before Income Taxes	45,712	49,492	138,266	119,988
Provision (benefit) for income taxes	11,038	(51,038)	32,626	(19,806)
Net Income	\$34,674	\$100,530	\$105,640	\$139,794

Edgar Filing: APPLERA CORP - Form 10-Q

Applied Biosystems Group (see Note 4)

Net Income per Share

Basic	\$0.28	\$0.67	\$0.85	\$1.05
Diluted	\$0.28	\$0.65	\$0.84	\$1.02

Dividends Declared per Share	\$0.0425	\$0.0425	\$0.1275	\$0.1275
-------------------------------------	----------	-----------------	----------	-----------------

Celera Genomics Group (see Note 4)

Net Loss per Share

Basic and diluted	\$(0.29) \$(0.31) \$(0.83) \$(0.77)
-------------------	---------	------------------	-----------	------------------	---

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

[Back to Index](#)

APPLERA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited)

(Dollar amounts in thousands)

	At June 30, 2005	At March 31, 2006
Assets		
Current assets		
Cash and cash equivalents	\$779,401	\$402,843
Short-term investments	645,084	535,359
Accounts receivable, net	383,938	365,726
Inventories, net	126,541	149,550
Prepaid expenses and other current assets	152,645	184,683
	<hr/>	<hr/>
Total current assets	2,087,609	1,638,161
Property, plant and equipment, net	438,398	404,419
Goodwill and intangible assets, net	63,076	327,256
Other long-term assets	575,102	611,986
	<hr/>	<hr/>
Total Assets	\$3,164,185	\$2,981,822
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$174,022	\$186,527
Accrued salaries and wages	91,188	81,530
Accrued taxes on income	77,327	41,557
Other accrued expenses	250,134	292,056
	<hr/>	<hr/>
Total current liabilities	592,671	601,670
Other long-term liabilities	227,431	242,643
	<hr/>	<hr/>
Total Liabilities	820,102	844,313
Stockholders' Equity		
Capital stock		
Applera Corporation - Applied Biosystems Group	2,130	2,131
Applera Corporation - Celera Genomics Group	743	768
Capital in excess of par value	2,132,364	2,176,427

Edgar Filing: APPLERA CORP - Form 10-Q

Retained earnings	558,065	653,832
Accumulated other comprehensive loss	(41,787)	(54,064)
Treasury stock, at cost	(307,432)	(641,585)
	<hr/>	<hr/>
Total Stockholders Equity	2,344,083	2,137,509
	<hr/>	<hr/>
Total Liabilities and Stockholders Equity	\$3,164,185	\$2,981,822
	<hr/>	<hr/>

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

2

[Back to Index](#)**APPLERA CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)****(Dollar amounts in thousands)**

	Nine months ended	
	March 31,	
	2005	2006
Operating Activities of Continuing Operations		
Net income	\$ 105,640	\$ 139,794
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	76,882	68,051
Asset impairments	4,200	8,366
Employee-related charges and other	6,945	5,066
Share-based compensation programs	6,342	8,623
Sale of assets and legal settlements, net	(29,662)	51,885
Deferred income taxes	(8,413)	(44,895)
Acquired research and development		3,400
Changes in operating assets and liabilities:		
Accounts receivable	22,441	23,658
Inventories	(151)	(9,387)
Prepaid expenses and other assets	(3,374)	(4,877)
Accounts payable and other liabilities	(54,412)	(71,136)
Net Cash Provided by Operating Activities of Continuing Operations	126,438	178,548
Net Cash Provided (Used) by Operating Activities of Discontinued Operations	488	(65)
Investing Activities of Continuing Operations		
Additions to property, plant and equipment, net	(69,990)	(36,058)
Proceeds from maturities of available-for-sale investments	1,722,460	139,373
Proceeds from sales of available-for-sale investments	563,348	326,066
Purchases of available-for-sale investments	(2,130,228)	(356,746)
Acquisitions and investments, net of cash acquired	(231)	(278,881)
Proceeds from the sale of assets, net	7,085	7,910
Net Cash Provided (Used) by Investing Activities of Continuing Operations	92,444	(198,336)
Financing Activities		
Net change in loans payable		(49)
Principal payments on debt	(6,000)	
Dividends	(25,019)	(16,128)
Purchases of common stock for treasury		(457,120)

Edgar Filing: APPLERA CORP - Form 10-Q

Proceeds from stock issued for stock plans and other	25,676	124,571
	<hr/>	<hr/>
Net Cash Used by Financing Activities	(5,343)	(348,726)
	<hr/>	<hr/>
Effect of Exchange Rate Changes on Cash	17,131	(7,979)
	<hr/>	<hr/>
Net Change in Cash and Cash Equivalents	231,158	(376,558)
Cash and Cash Equivalents Beginning of Period	507,870	779,401
	<hr/>	<hr/>
Cash and Cash Equivalents End of Period	\$ 739,028	\$ 402,843
	<hr/>	<hr/>

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

[Back to Index](#)

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 have reclassified some prior year amounts in the condensed consolidated financial statements and notes for comparative purposes.

We consistently applied the accounting policies described in our 2005 Annual Report to Stockholders in preparing these unaudited interim financial statements. In addition, we adopted Statement of Financial Accounting Standards (SFAS) No. 123, Share-Based Payment (revised 2004) in July 2005, as discussed in Note 5. 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 2005 Annual Report to Stockholders. You should read these unaudited interim condensed consolidated financial statements in conjunction with our consolidated financial statements presented in our 2005 Annual Report to Stockholders.

Note 2 Events Impacting Comparability

We are providing the following information on some actions taken by us or events that occurred in the three and nine-months ended March 31:

Income/(charge) (Dollar amounts in millions)	Three months ended March 31,		Nine months ended March 31,	
	2005	2006	2005	2006
Severance and benefit costs	\$	\$(10.7)	\$(11.3)	\$(12.2)
Excess lease space		(0.8)	(3.8)	(0.8)
Asset impairments		(8.0)	(0.2)	(9.1)
Other		(1.4)		(1.4)
Reduction of expected costs	0.9	0.9	0.9	2.3
Total employee-related charges, asset impairments and other	\$0.9	\$(20.0)	\$(14.4)	\$(21.2)
Other events impacting comparability:				
Impairment of inventory recorded in cost of sales	\$	\$	\$(1.7)	\$
Asset dispositions and legal settlements		(1.6)	38.2	(28.2)
Acquired research and development		(3.4)		(3.4)
Investment gains		3.1		7.6
Tax items		63.3		48.8

Employee-Related Charges, Asset Impairments and Other

Edgar Filing: APPLERA CORP - Form 10-Q

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

4

[Back to Index](#)

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

Applied Biosystems group

Fiscal 2005

During the first nine months of fiscal 2005, the Applied Biosystems group recorded pre-tax charges of \$12.5 million, of which \$10.2 million was for employee terminations and \$2.3 million related to the cost of excess lease space at a facility in Massachusetts. Of the \$12.5 million in charges, \$5.2 million was recorded in the second quarter of fiscal 2005, consisting of \$2.9 million for employee terminations and \$2.3 million related to the cost of excess lease space. The remaining balance was recorded in the first quarter of fiscal 2005. The charge for the excess lease space represented the estimated cost of excess facility space less estimated future sublease income for a lease that extends through fiscal 2011. In the third quarter of fiscal 2005, the Applied Biosystems group recorded a pre-tax benefit of \$0.2 million for reductions in anticipated employee-related costs associated with severance and benefit charges recorded in fiscal 2003 through fiscal 2005. Additionally, in the third quarter of fiscal 2005, the Applied Biosystems group recorded a pre-tax benefit of \$0.7 million as a result of the repayment of a loan by HTS Biosystems, Inc. that was previously written off in the fourth quarter of fiscal 2004.

The severance charges for the first nine months of fiscal 2005 related primarily to staff reductions intended to better align the Applied Biosystems group's resources with anticipated business opportunities and to integrate the Applied Biosystems MALDI Time-of-Flight (TOF) product line into Applied Biosystems/MDS Sciex Instruments business, a 50/50 joint venture between the Applied Biosystems group and MDS Inc. The positions eliminated were primarily in the areas of research, manufacturing, sales and administration.

As of June 30, 2005, all of the affected employees had been terminated and substantially all cash payments related to the terminations had been made. In regards to the excess lease space charge, through the nine months ended March 31, 2006, we had made cash payments of \$0.3 million. The cash expenditures were funded by cash provided by operating activities.

Fiscal 2006

In the second quarter of fiscal 2006, the Applied Biosystems group recorded pre-tax charges of \$1.5 million for employee terminations related to the Applied Biosystems/MDS Sciex Instruments joint venture. MDS recorded a restructuring charge for a reduction in workforce as part of its strategy to focus on the life sciences market. The \$1.5 million represents the Applied Biosystems group's share of the restructuring charge.

The Applied Biosystems group recorded pre-tax benefits of \$1.4 million in the first nine months of fiscal 2006 for reductions in anticipated employee-related costs associated with the severance and benefit charges recorded in fiscal 2005.

In the fourth quarter of fiscal 2005, the Applied Biosystems group decided to pursue the sale of its San Jose, California facility and recorded a pre-tax impairment charge of \$1.7 million related to that decision. In the first quarter of fiscal 2006, the Applied Biosystems group recorded an additional \$1.1 million pre-tax impairment charge to write-down the carrying amount of the facility to its current estimated market value less estimated selling costs. In the third quarter of fiscal 2006, the Applied Biosystems group entered into an agreement to sell the facility and recognized a \$0.9 million pre-tax favorable adjustment to the charges previously recorded based on the sales price per the agreement. The sale is expected to be completed in the fourth quarter of fiscal 2006. Please see Note 8 for additional information.

Other

During the first nine months of fiscal 2006, the Applied Biosystems group made cash payments of \$10.6 million for severance and employee benefits and office closures related to charges recorded prior to fiscal 2006. The following table summarizes the remaining cash payments by event and the expected payment dates as of March 31, 2006.

[Back to Index](#)

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

(Dollar amounts in millions)	Remaining cash payments	Expected payment dates	
Fiscal 2003 employee-related charge	\$0.5	Fiscal 2006	Fiscal 2007
Fiscal 2005 employee-related charge	0.2	Fiscal 2006	Fiscal 2007
Fiscal 2005 excess lease space and other charges	2.2	Fiscal 2006	Fiscal 2011
	\$2.9		

Celera Genomics group

Fiscal 2005

During the first quarter of fiscal 2005, the Celera Genomics group recorded pre-tax charges totaling \$4.5 million related to our decision to discontinue promotion of products and most operations of Paracel, Inc., a business we acquired in fiscal 2000. Paracel developed high-performance genomic data and text analysis systems for the pharmaceutical, biotechnology, information services, and government markets. Due to a shift in focus, Paracel was no longer deemed strategic to the overall business. The \$4.5 million charge consisted of \$2.8 million in employee-related charges, asset impairments and other, of which \$1.1 million was for severance and benefit costs and \$1.7 million was for excess facility lease expenses and asset impairments. The Celera Genomics group recorded the remaining \$1.7 million in cost of sales for the impairment of Paracel inventory. The charge for excess facility lease expenses and asset impairments was primarily for a revision to an accrual initially recorded in fiscal 2002 for the estimated cost of excess facility space for a lease that extends through fiscal 2011 and to write off related fixed assets.

As of March 31, 2005, the majority of the affected Paracel employees had been terminated. Substantially all cash payments related to these terminations were made as of June 30, 2005. During the first nine months of fiscal 2006, we made cash payments of \$1.5 million related to the excess lease space charge. The cash expenditures were funded by available cash. The remaining cash expenditures of approximately \$3.6 million related to excess lease space are expected to be disbursed by fiscal 2011.

Fiscal 2006

In the third quarter of fiscal 2006, the Celera Genomics group recorded pre-tax charges of \$20.9 million related to its decision to partner or sell its small molecule drug discovery and development programs and the integration of Celera Diagnostics into the Celera Genomics group. The charge consisted of \$10.7 million for severance and benefit costs, \$8.0 million for asset impairments, \$0.8 million for excess lease space, and \$1.4 million for other disposal costs. The severance charges related primarily to staff reductions in small molecule drug discovery and development. The asset impairment charges primarily related to a write-down of the carrying amount of an owned facility to its current estimated market value less estimated selling costs, as well as write-offs of leasehold improvements. As of March 31, 2006, all of the affected employees had been notified and the majority of them had been terminated. We anticipate that all affected employees will be terminated by June 30, 2006. Through March 31, 2006, we made cash payments of \$4.9 million related to the employee terminations and \$0.6 million related to other disposal costs.

Other

In the fourth quarter of fiscal 2005, the Celera Genomics group recorded a pre-tax charge of \$3.4 million related to the discontinuation of the Online/Information Business, an information products and service business. This charge consisted of \$1.8 million for severance and benefit costs and \$1.6 million for asset impairments, primarily related to information-technology leases. During the first nine months of fiscal 2006, the Celera Genomics group made cash payments of \$1.5 million for severance and employee benefits and \$1.5 million primarily for information technology leases related to this charge. The cash expenditures were funded by available cash. As of September 30, 2005, all affected employees had been terminated. The remaining cash expenditures related to this action of approximately \$0.2 million are expected to be disbursed by the end of fiscal 2006.

[Back to Index](#)

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

Other Events Impacting Comparability

Asset dispositions and legal settlements

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

In the first quarter of fiscal 2005, the Applied Biosystems group received a payment of \$8.5 million from Illumina, Inc. in connection with the termination of a joint development agreement and settlement of patent infringement and breach of contract claims.

In the second quarter of fiscal 2005, the Applied Biosystems group recorded a net pre-tax gain of \$29.7 million for the sale of intellectual property, manufacturing inventory, and research and development assets related to the expansion of the scope of the Applied Biosystems/MDS Sciex Instruments joint venture with MDS Inc. Under the terms of the transaction, we received \$8 million in cash and a \$30 million note receivable for a 50 percent interest in intellectual property assets related to current Applied Biosystems MALDI TOF mass spectrometry systems and next-generation product-related manufacturing and research and development assets. The note receivable is due in 5 years, of which \$6 million is payable in October 2006 and \$8 million in October 2007, 2008, and 2009.

In the first quarter of fiscal 2006, we recorded a \$23.5 million pre-tax charge related to an outstanding litigation matter and an award in an arbitration proceeding with Amersham Biosciences, now GE Healthcare. We recorded the pre-tax charge as follows: \$22.8 million at the Applied Biosystems group and \$0.7 million at the Celera Genomics group. The charge included an estimate of the liability that would be incurred by us to resolve the litigation matter and the arbitration award described below. In the second quarter of fiscal 2006, we recorded an additional pre-tax charge of \$3.1 million as a result of the final determination of interest related to the arbitration award. We paid all amounts related to this arbitration matter in January 2006. The arbitration matter involved the interpretation of a license agreement relating to DNA sequencing reagents and kits. Amersham had alleged, among other things, that the Applied Biosystems group had underpaid royalties under the license agreement. The arbitrator awarded Amersham past damages based on an increase in royalty rates for some of its DNA sequencing enzymes and kits that contain those enzymes, plus interest, fees, and other costs. As a result of this decision, the Applied Biosystems group recorded a pre-tax charge of \$20.4 million in the first quarter of fiscal 2006, \$19.5 million of which was recorded in asset dispositions and legal settlements. As mentioned above, the Applied Biosystems group recorded an additional charge of \$3.1 million in the second quarter of fiscal 2006 related to the award.

On April 26, 2006, we joined with Beckman Coulter, Inc. in announcing the establishment of terms of a settlement to resolve all outstanding legal disputes between us regarding claims to some patented capillary electrophoresis technology and PCR instrumentation technology. As part of the settlement, the parties agreed to grant royalty-bearing licenses to each other. Additionally, the Applied Biosystems group will make a special payment to Beckman Coulter for rights to some Beckman Coulter technology and for the release of any and all claims of infringement relating to DNA sequencer and thermal cycler products. Beckman Coulter will make quarterly payments to the Celera Genomics group for diagnostic rights to some Applera technology. The U.S. District Court for the Central District of California has stayed its proceedings for 90 days pending completion of definitive agreements based on these terms.

In the third quarter of fiscal 2006, we recorded a net pre-tax charge of \$1.6 million, primarily comprised of a charge of \$35.0 million related to the settlement with Beckman Coulter described above and a benefit of \$33.4 million related to a settlement agreement involving patent infringement claims brought by us against Bio-Rad Laboratories, Inc. and MJ Research, Inc. The Bio-Rad Laboratories settlement resolves litigation brought by Bio-Rad against us for patent and trademark infringement, and counterclaims by us against Bio-Rad. By March 31, 2006, we had received all amounts related to the Bio-Rad settlement. See Note 13 for further information on these settlements.

[Back to Index](#)

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

Acquired research and development

In the third quarter of fiscal 2006, the Applied Biosystems group recorded a \$3.4 million charge to write-off the value of acquired in-process research and development (IPR&D) in connection with the acquisition of the Research Products Division of Ambion, Inc. As of the acquisition date, the technological feasibility of the related projects had not been established, and it was determined that the acquired projects had no future alternative uses. The amount attributed to acquired IPR&D was based on an independent appraisal. See Note 3 for more information on this acquisition.

Investments

The Celera Genomics group recorded pre-tax gains of \$4.5 million in the first quarter and \$3.1 million in the third quarter of fiscal 2006 in the condensed consolidated statements of operations in gain on investments, net from the sale of non-strategic minority equity investments.

Tax items

In the first quarter of fiscal 2006, the Applied Biosystems group recorded a tax benefit of \$13.5 million related to the resolution of transfer pricing matters in Japan. In the second quarter of fiscal 2006, the Applied Biosystems group recorded tax charges of \$28.0 million related to repatriation of cash balances held outside the U.S. This charge included the estimated tax on a \$500 million repatriation of cash as well as anticipated taxes on additional overseas dividends. Additionally, in the third quarter of fiscal 2006, the Applied Biosystems group recorded tax benefits of \$63.3 million related to a completed Internal Revenue Services (IRS) exam, state valuation allowance reversal, and R&D credits. The IRS completed the audit of Applera for the fiscal years 1996 through 2003 and as a result, the Applied Biosystems group recorded favorable adjustments of \$32.2 million to existing tax liabilities. A net of federal tax \$24.8 million increase in the net state deferred tax assets primarily related to a reduction in valuation allowance and the write-off of some state deferred tax assets. The reduction in the valuation allowance was due to management's reassessment of the future realization of deferred tax assets based on revised forecasted taxable income which includes the impacts of a change in the apportionment of income to California, a reduction in R&D spending, and increased revenues and profits from our worldwide operations. Also, Applera completed its assessment of fiscal years 2001 through 2004 R&D activities and as a result, the Applied Biosystems group recorded a net benefit of \$6.3 million for additional R&D credits.

Note 3 Acquisition

Effective March 1, 2006, we acquired the Research Products Division of Ambion, Inc. for approximately \$279 million in cash, including closing transaction costs. Ambion, which is based in Austin, Texas, is a leading supplier of ribonucleic acid (RNA) based reagents for life science research and drug development. Ambion develops and supplies innovative consumable products for stabilizing, synthesizing, handling, isolating, storing, detecting, and quantifying RNA. We believe that the acquisition will drive growth by delivering more complete customer workflow solutions and by expanding the Applied Biosystems group's consumables product offering. We expect that Ambion's RNA R&D expertise, consumables manufacturing capabilities, and culture of scientific innovation will complement our existing strengths. Ambion will continue to be based in Austin, Texas.

[Back to Index](#)

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

We allocated the purchase price of \$279.3 million to tangible net assets and intangible assets as follows:

(Dollar amounts in millions)

Current assets	\$28.2
Long-term assets	16.0
Current liabilities	(8.5)
Long-term liabilities	(23.4)
Tangible net assets acquired, at approximate fair value	12.3
Goodwill	206.5
Customer relationships	27.1
Existing technology	24.8
Trade name	4.9
Acquired IPR&D	3.4
Purchase order backlog	0.3
Total intangible assets	267.0
Total purchase price	\$279.3

We are amortizing the recorded values of the intangible assets, other than the acquired IPR&D and the trade name, over their expected period of benefit, which on a weighted average basis is 5.5 years. An established client list, a recognized company name in the RNA field, a strong scientific employee base, and operations in a complementary consumables business were among the factors that contributed to a purchase price resulting in the recognition of goodwill. The goodwill and the trade name will be tested for impairment as part of our annual impairment test at the reporting unit level. In the third quarter of fiscal 2006, the Applied Biosystems group recorded approximately \$1 million of amortization of intangible assets and a \$3.4 million charge to write-off the value of acquired IPR&D (see Note 2) from this acquisition. We recorded a \$7.9 million deferred tax asset, included in current assets, for net operating loss carryforwards and other temporary differences of Ambion that we expect to use. The goodwill recognized will not be deductible for federal income tax purposes.

The net assets and results of operations of Ambion have been included in our condensed consolidated financial statements since the date of the acquisition, and have been allocated to the Applied Biosystems group. The following selected pro forma financial information for Applera and the Applied Biosystems group has been prepared assuming the acquisition had occurred at the beginning of fiscal 2005 and gives effect to purchase accounting adjustments:

	Three months ended		Nine months ended	
	March 31,		March 31,	
(Dollar amounts in millions except per share amounts)	2005	2006	2005	2006
Applera Corporation				
Net revenues	\$482.0	\$507.9	\$1,388.1	\$1,446.8
Net income	33.7	86.4	101.1	123.8

Edgar Filing: APPLERA CORP - Form 10-Q

Applied Biosystems Group

Net revenues	\$467.4	\$500.8	\$1,342.5	\$1,425.2
Net income, as allocated	54.6	109.7	161.8	181.2
Basic per share	0.28	0.60	0.83	0.96
Diluted per share	0.27	0.58	0.81	0.94

There was no impact on the Celera Genomics group related to this acquisition.

On consummation of the acquisition, the Applied Biosystems group recorded a \$3.4 million non-cash charge to write-off the value of acquired IPR&D, which has been included in the pro forma results above. This unaudited pro forma data is for informational purposes only and may not be indicative of the actual results that would have occurred had the acquisition been consummated at the beginning of fiscal 2005 or of the future operations of the combined companies.

[Back to Index](#)

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

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:

(Dollar amounts in millions, except per share amounts)	Applied Biosystems Group		Celera Genomics Group	
	2005	2006	2005	2006
Net income (loss)	\$55.5	\$124.4	\$(21.0)	\$(23.3)
Allocated interperiod taxes	0.1	(0.6)		
Total net income (loss) allocated	55.6	123.8	(21.0)	(23.3)
Less dividends declared on common stock	8.4	7.9		
Undistributed earnings (loss)	\$47.2	\$115.9	\$(21.0)	\$(23.3)
Allocation of basic earnings (loss) per share				
Basic distributed earnings per share(1)	\$0.04	\$0.04	\$	\$
Basic undistributed earnings (loss) per share	0.24	0.63	(0.29)	(0.31)
Total basic earnings (loss) per share	\$0.28	\$0.67	\$(0.29)	\$(0.31)
Allocation of diluted earnings (loss) per share				
Diluted distributed earnings per share(1)	\$0.04	\$0.04	\$	\$
Diluted undistributed earnings (loss) per share	0.24	0.61	(0.29)	(0.31)
Total diluted earnings (loss) per share	\$0.28	\$0.65	\$(0.29)	\$(0.31)
Weighted average number of common shares				
Basic	196.4	183.5	73.4	75.8
Common stock equivalents	2.7	7.0		
Diluted	199.1	190.5	73.4	75.8

(1) Amounts represent actual dividends per share distributed.

[Back to Index](#)

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

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

(Dollar amounts in millions, except per share amounts)	Applied Biosystems Group		Celera Genomics Group	
	2005	2006	2005	2006
Net income (loss)	\$ 165.3	\$ 198.4	\$(60.8)	\$(57.4)
Allocated intercompany sales of assets		0.1		
Allocated interperiod taxes	1.1	(1.3)		
Total net income (loss) allocated	166.4	197.2	(60.8)	(57.4)
Less dividends declared on common stock	25.0	24.0		
Undistributed earnings (loss)	\$ 141.4	\$ 173.2	\$(60.8)	\$(57.4)
Allocation of basic earnings (loss) per share				
Basic distributed earnings per share(1)	\$0.13	\$0.13	\$	\$
Basic undistributed earnings (loss) per share	0.72	0.92	(0.83)	(0.77)
Total basic earnings (loss) per share	\$0.85	\$1.05	\$(0.83)	\$(0.77)
Allocation of diluted earnings (loss) per share				
Diluted distributed earnings per share(1)	\$0.13	\$0.13	\$	\$
Diluted undistributed earnings (loss) per share	0.71	0.89	(0.83)	(0.77)
Total diluted earnings (loss) per share	\$0.84	\$1.02	\$(0.83)	\$(0.77)
Weighted average number of common shares				
Basic	195.9	188.3	73.2	75.0
Common stock equivalents	2.7	4.7		
Diluted	198.6	193.0	73.2	75.0

(1) Amounts represent actual dividends per share distributed.

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

(Shares in millions)	2005	2006
Applera Corporation-Applied Biosystems Group Common Stock	20.1	5.9
Applera-Celera Genomics stock	11.5	9.1

Note 5 Share-Based Compensation

SFAS No. 123R requires entities to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. We adopted SFAS No. 123R using the modified prospective method of transition. This method required us to apply the provisions of SFAS No. 123R to new awards and to any awards that were unvested as of our adoption date and did not require us to restate prior periods. For information on our share-based plans, refer to Note 6 to our consolidated financial statements included in our 2005 Annual Report to Stockholders and Note 4 to our condensed consolidated financial statements in our first quarter 2006 Quarterly Report on Form 10-Q (which information is incorporated in this quarterly report by reference).

[Back to Index](#)

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

We recognize share-based compensation costs on a straight-line basis over the requisite service period for the entire grant. For the three and nine months ended March 31, 2006, total share-based compensation expense and the earnings per share effects of adopting the provisions of SFAS No. 123R were as follows:

	Applera-Applied Biosystems Stock		Applera-Celera Genomics Stock	
	Three months ended March 31	Nine months ended March 31	Three months ended March 31	Nine months ended March 31
(Dollar amounts in millions, except per share amounts)				
Pre-tax share-based compensation expense	\$3.7	\$7.4	\$0.4	\$1.0
Tax benefit	1.1	2.2	0.1	0.2
Net expense	\$2.6	\$5.2	\$0.3	\$0.8
Basic earnings per share	\$0.01	\$0.03	\$	\$0.01
Diluted earnings per share	0.01	0.03		0.01

The amounts above include pre-tax charges of \$3.2 million for the third quarter and \$5.8 million for the first nine months for our restricted stock plans, primarily allocated to the Applied Biosystems group, which would have been recorded as compensation expense under Accounting Principles Board Opinion No. (APB Opinion No.) 25, Accounting for Stock Issued to Employees. Cash received from option exercises under these plans was \$124.6 million and the total intrinsic value of options exercised was \$38.4 million in the first nine months of fiscal 2006. In connection with these exercises, we realized a tax benefit of \$11.9 million in the first nine months of fiscal 2006.

We settle employee stock option exercises primarily with treasury shares, if available. As of March 31, 2006, we had 28.5 million treasury shares of Applera Corporation-Applied Biosystems Group Common Stock (Applera-Applied Biosystems stock), and 13,500 treasury shares of Applera-Celera Genomics stock, including the 1993 Director Stock Purchase and Deferred Compensation Plan shares described below. In January 2006, we announced that our board of directors authorized the repurchase of up to 5 million shares of Applera-Applied Biosystems stock. This authorization supplements our existing authority to repurchase shares of Applera-Applied Biosystems stock and Applera-Celera Genomics stock from time to time to replenish shares issued under our various employee stock benefit plans. This new authorization has no time restrictions and delegates to management discretion to purchase shares at times and prices it deems appropriate through open market purchases, privately negotiated transactions, tender offers, exchange offers, or otherwise.

The following table summarizes option activity under our stock option plans during the first nine months of fiscal 2006:

Applera-Applied Biosystems Stock			
Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining	Aggregate Intrinsic Value

Edgar Filing: APPLERA CORP - Form 10-Q

			Contractual Life (in years)	
Outstanding at June 30, 2005	35,348,668	\$ 30.91		
Granted	565,250	23.95		
Exercised	(5,386,542)	18.69		
Cancelled	(2,216,485)	47.87		
	28,310,891	32.04	5.75	\$ 149.4 million
Outstanding at March 31, 2006				
Exercisable at March 31, 2006	27,550,596	\$ 32.30	5.66	145.8 million

[Back to Index](#)

APPLERA CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

continued

Applera-Celera Genomics Stock

	Number of Options	Weighted-Average Exercise Price	Weighted- Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at June 30, 2005	10,412,800	\$ 19.02		
Granted	74,800	11.52		
Exercised	(897,075)	9.53		
Cancelled	(733,992)	49.84		
Outstanding at March 31, 2006	8,856,533	17.69	5.68	\$ 14.3 million
Exercisable at March 31, 2006	8,792,925	\$ 17.73	5.65	14.3 million

The following table summarizes nonvested award activity under our restricted stock plans during the first nine months of fiscal 2006:

	Applera-Applied Biosystems Stock			Applera-Celera Genomics Stock		
	Number of		Weighted-Average Grant-Date Fair Value	Number of		Weighted-Average Grant-Date Fair Value
	Shares	Units*		Shares	Units*	
Nonvested at June 30, 2005	209,448		\$ 20.98	60,834		\$ 10.44
Granted	23,400	1,131,613	26.58	9,000	133,630	12.52
Vested	(74,166)		21.23	(29,306)		10.12
Cancelled		(19,250)	26.62		(1,775)	12.54