

APPLERA CORP
Form S-4/A
October 09, 2001

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As filed with the Securities and Exchange Commission on October 9, 2001.

Registration No. 333-64788

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**AMENDMENT NO. 3
TO
FORM S-4**

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

APPLERA CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

3826
(Primary Standard Industrial
Classification Code Number)
301 Merritt 7
Norwalk, Connecticut 06851-1070
(203) 840-2000

06-1534213
(I.R.S. Employer
Identification Number)

(Address, Including Zip Code, and Telephone Number, Including
Area Code, of Registrant's Principal Executive Offices)

William B. Sawch, Esq.
Senior Vice President and General Counsel
Applera Corporation
301 Merritt 7
Norwalk, Connecticut 06851-1070
(203) 840-2000

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

Copies to:

Richard Capelouto, Esq.
Simpson Thacher & Bartlett
3330 Hillview Avenue
Palo Alto, California 94304
(650) 251-5000

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135 Commonwealth Drive
Menlo Park, California 94025
(650) 328-4600

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective time of the merger of a wholly owned subsidiary of the registrant with Axys Pharmaceuticals, Inc., which shall occur as soon as practicable after the effective date of this registration statement and the satisfaction of all conditions to the closing of the merger.

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If the securities being registered on this form are to be offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. //

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. //

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. //

CALCULATION OF REGISTRATION FEE

Title of each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee(3)
Applera Corporation Celera Genomics Group Common Stock, par value \$0.01 per share (including the rights associated with those shares pursuant to Applera Corporation's Stockholder Protection Rights Agreement)(4)	6,563,414 shares	Not applicable	\$200,050,921(2)	\$50,013

- (1) Represents the maximum number of shares of Applera Corporation Celera Genomics Group Common Stock, par value \$0.01 per share ("Applera Celera stock"), including the rights associated with those shares pursuant to Applera Corporation's Stockholder Protection Rights Agreement, issuable upon consummation of the merger based upon a maximum exchange ratio of 0.1355 shares of Applera Celera stock to be exchanged for each share of common stock, par value \$.001 per share, of Axys Pharmaceuticals, Inc., that would be outstanding if all Axys Pharmaceuticals, Inc. stock options and warrants that may be exercisable prior to the merger were exercised, and all Axys Pharmaceuticals, Inc. 8% Senior Secured Convertible Notes due 2004 outstanding on June 12, 2001 were converted.
- (2) Pursuant to Rule 457(f)(1) of the Securities Act, this amount represents the maximum aggregate offering price which would be computed by using the average of the high and low prices of Axys common stock reported by the Nasdaq National Market on July 5, 2001. This amount is estimated solely for the purpose of calculating the registration fee.
- (3) Estimated solely for purposes of calculating the registration fee required by Section 6(b) of the Securities Act of 1933, as amended, and computed pursuant to Rule 457(f) and (c) under the Securities Act based on (i) \$4.13, the average of the high and low sales prices for shares of Axys common stock on the Nasdaq National Market on July 5, 2001, (ii) the number of shares of Axys common stock outstanding as of the close of business on July 5, 2001, (iii) the number of shares of Axys common stock issuable upon conversion of all outstanding Axys Pharmaceuticals, Inc. 8% Senior Secured Convertible Notes due 2004, and (iv) the estimated maximum number of options to acquire shares of Axys common stock exercisable prior to the merger. The Registration Fee was previously paid with an accompanying overpayment on or about July 9, 2001.
- (4) Includes associated rights to purchase 1/1000th of a share of Applera Corporation's Series B participating junior preferred stock. Until the occurrence of prescribed events, the rights are not exercisable, are evidenced by the certificates representing Applera Celera stock and will be transferred only with shares of Applera Celera stock.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

[Axys Pharmaceuticals, Inc. Letterhead]

October [], 2001

Dear Stockholder:

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You are cordially invited to attend our special meeting of stockholders on November [], 2001, at 10:00 a.m., Pacific Time, at Axys' headquarters located at 180 Kimball Way, South San Francisco, California 94080.

At the special meeting, we will ask you to vote on the merger of Axys and Applera Corporation. In the merger, you will receive shares of Applera Corporation Celera Genomics Group Common Stock (NYSE: CRA). The exact number of shares of Applera Celera stock that you will receive will be determined by an exchange ratio that will be calculated based on the average closing price of Applera Celera stock over the 10 trading days immediately preceding (but excluding) the second trading day prior to the closing of the merger as described in the accompanying proxy statement/prospectus. For each of your shares of Axys common stock, you will receive no less than 0.0813 share of Applera Celera stock and no more than 0.1355 share of Applera Celera stock. The merger has been structured to be tax-free to you for United States federal income tax purposes, except for cash received in place of fractional shares.

If the merger had closed on October 1, 2001, for each of your shares of Axys common stock you would have received 0.1355 share of Applera Celera stock having a market value of \$3.25 based on the closing price of \$24.00 per share of Applera Celera stock on October 1, 2001. At the time of the special meeting, you will not necessarily know the exact number of shares or the exact market price of the Applera Celera stock that will be issued in connection with the merger. The maximum number of shares of Applera Celera stock that could be issued in exchange for shares of Axys common stock under the merger agreement is a total of 6,563,414 shares of Applera Celera stock, based upon the maximum exchange ratio of 0.1355 and the number of shares of Axys common stock outstanding on the date the merger agreement was signed and the number of shares of Axys common stock issuable upon exercise of stock options, warrants and convertible notes that may be exercisable prior to the merger. We urge you to obtain current market quotations for Applera Celera stock and Axys common stock prior to making any decision with respect to the merger.

Applera conducts its business through two operating groups: the Celera Genomics group and the Applied Biosystems group. The Applied Biosystems group and the Celera Genomics group are not separate legal entities, and holders of these stocks are stockholders of a single company, Applera. Applera Celera stock is a "tracking stock" which is issued by Applera and is intended to reflect the relative performance of the Celera Genomics group. Holders of Applera Celera stock will be stockholders of Applera only and will not have an ownership interest in the Celera Genomics group. As a result, holders of Applera Celera stock will be subject to the risks associated with an investment in Applera and all of its businesses, assets and liabilities. Applera Celera stock is redeemable and convertible at Applera's option as described in this proxy statement/prospectus.

We cannot complete the merger unless holders of a majority of the outstanding shares of Axys common stock vote for the approval and adoption of the merger agreement. Only stockholders who hold shares of Axys common stock at the close of business on October 1, 2001 will be entitled to vote at the special meeting.

The enclosed proxy statement/prospectus gives you detailed information about the proposed merger and includes the merger agreement as an annex. We encourage you to read carefully the proxy statement/prospectus, including its annexes. **You should also consider the matters discussed under "Risk Factors" on page 20 of the accompanying proxy statement/prospectus before voting.**

After careful consideration, the Axys board of directors has unanimously approved the merger agreement, has unanimously determined that the merger agreement and merger are advisable and fair to you and in your best interests and unanimously recommends that you vote **"FOR"** the approval and adoption of the merger agreement and the approval of the merger.

Your vote is very important. Whether or not you plan to attend the special meeting, please complete, sign and date the enclosed proxy card and return it in the enclosed prepaid envelope. If you attend the special meeting, you may revoke your proxy and vote in person if you wish, even if you have previously returned your proxy card. Your prompt cooperation will be greatly appreciated.

Sincerely,

Paul J. Hastings
President and Chief
Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the merger described in the accompanying proxy statement/prospectus or the Applera Celera stock to be issued in connection with the merger, or determined if the accompanying proxy statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

This proxy statement/prospectus is dated October [], 2001, and is first being mailed to the stockholders of Axys Pharmaceuticals, Inc. on or about October [], 2001.

AXYS PHARMACEUTICALS, INC.

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON NOVEMBER [], 2001**

A special meeting of stockholders of Axys Pharmaceuticals, Inc. will be held at Axys' headquarters located at 180 Kimball Way, South San Francisco, California 94080 on November [], 2001 at 10:00 a.m. Pacific Time, to consider and vote on the following matters described in the accompanying proxy statement/prospectus:

1. A proposal to approve and adopt an Agreement and Plan of Merger, dated as of June 12, 2001, among Axys, Applera Corporation and Angel Acquisition Sub, Inc., a subsidiary of Applera Corporation, and to approve the merger contemplated by that agreement; and
2. Such other and further business as may properly come before the special meeting or before any adjournment or postponement of the special meeting.

The board of directors of Axys has fixed the close of business on October 1, 2001 as the record date for the determination of stockholders entitled to receive notice of and to vote at the special meeting. A list of the stockholders entitled to vote will be open to the examination of stockholders at the offices of Axys at 180 Kimball Way, South San Francisco, California 94080, during ordinary business hours for 10 days prior to the date of the meeting.

Axys cannot complete the merger unless the holders of a majority of the outstanding shares of Axys common stock vote to adopt the merger agreement. Holders of Axys common stock will not have appraisal rights under Delaware law in connection with the merger.

The board of directors of Axys has unanimously approved the merger agreement and the merger and recommends that you vote FOR approval and adoption of the merger agreement and approval of the merger. The proposal is described in more detail in the accompanying proxy statement/prospectus, which you should read in its entirety before voting. A copy of the merger agreement is attached as Annex A to the accompanying proxy statement/prospectus.

By Order of the Board of
Directors,

Paul Hastings
President and Chief Executive
Officer

South San Francisco, California
October [], 2001

Your Vote Is Important!

To be sure your shares are represented at the meeting, please complete, date, sign and return your proxy card in the enclosed postage-paid envelope as soon as possible. You may vote in person at the meeting even if you send in your proxy card.

REFERENCE TO ADDITIONAL INFORMATION

This proxy statement/prospectus "incorporates by reference" important business and financial information about Applera that is not included or delivered with this proxy statement/prospectus. You may obtain documents incorporated by reference in this proxy statement/prospectus without charge by requesting them in writing or by telephone from Applera at the following address:

Applera Corporation
301 Merritt 7
Norwalk, Connecticut 06851-1070
(203) 840-2000

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Attn.: Secretary

If you would like to request any documents, please do so by November [], 2001 in order to receive them before the special meeting.

For a more detailed description of the information incorporated by reference by Applera into this proxy statement/prospectus and how you may obtain it, see "Where You Can Find More Information" on page 144.

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Annex A Agreement and Plan of Merger

Annex B Opinion of JPMorgan H&Q

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QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: What am I being asked to vote upon?

A: You are being asked to vote to approve and adopt the merger agreement entered into between Axys and Applera and to approve the merger contemplated by the merger agreement. In the merger, a wholly owned subsidiary of Applera will be merged with and into Axys. After the merger is completed, Axys, which will be the company surviving the merger, will be a wholly owned subsidiary of Applera. After the merger, the operations of Axys will be integrated into the research and development and business operations of the Celera Genomics group of Applera, which is one of the two operating groups through which Applera conducts its business.

Q: What will I receive in the merger for my shares of Axys common stock?

A: If the merger is completed, you will receive shares of Applera Corporation Celera Genomics Group Common Stock (NYSE: CRA) (which we refer to in this proxy statement/prospectus as Applera Celera stock) in exchange for your shares of Axys common stock. Applera Celera stock is a "tracking stock" issued by Applera that is designed to reflect the performance of the business conducted by the Celera Genomics group.

The exact number of shares of Applera Celera stock that you will receive will be determined by an exchange ratio that will fluctuate with the market price of Applera Celera stock and be subject to a version of a mechanism commonly referred to as a "collar" that reduces your exposure to losses and gains from market price fluctuation within specified market price ranges. The exchange ratio is calculated based on the average closing price of Applera Celera stock over the 10 trading days immediately preceding (but excluding) the second trading day prior to the closing of the merger. The actual number of shares of Applera Celera stock that you will receive in exchange for your shares of Axys common stock will be calculated at the time of the closing of the merger. A more complete description of this exchange ratio is included later in this proxy statement/prospectus beginning on page 56. We encourage you to read that section carefully.

If the closing of the merger were to have occurred on October 1, 2001, for each of your shares of Axys common stock you would have received 0.1355 shares of Applera Celera stock having a market value of \$3.25 based on the closing price of \$24.00 per share of Applera Celera stock on October 1, 2001, and the total consideration paid to all holders of outstanding Axys common stock would have been Applera Celera stock with an approximate total price of \$147 million, based on the average closing price of Applera Celera stock during the calculation period. You will receive cash instead of fractional shares, as described in this proxy statement/prospectus under "The Merger Fractional Shares."

Q: What is a "tracking stock"?

A: Applera Celera stock is a "tracking stock" which is issued by Applera and is intended to reflect the relative performance of the Celera Genomics group. It is listed on the New York Stock Exchange under the ticker symbol "CRA." If the merger is completed, the business of Axys will be conducted as part of the Celera Genomics group.

A "tracking stock" is a class of stock of a corporation designed to "track" the performance of a specific business within the larger

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corporation. Although holders of a "tracking stock" are equity holders of the larger corporation, "tracking stock" is intended to reflect or "track" the performance of a group of assets or division within the larger corporation. Investors commonly refer to this type of common stock as "tracking stock," "targeted stock" or "letter stock." Holders of Applera Celera stock do not have the same rights as typical common stockholders of a corporation without "tracking stock."

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Applera conducts its business through two operating groups: the Celera Genomics group and the Applied Biosystems group. Applera Corporation Applied Biosystems Group Common Stock (NYSE: ABI) (which we refer to in this proxy statement/prospectus as Applera Applied Biosystems stock) is a "tracking stock" intended to reflect the relative performance of the Applied Biosystems group of Applera. The Applied Biosystems group and the Celera Genomics group are not separate legal entities, and holders of these stocks are stockholders of a single company, Applera. This means that the assets Applera attributes to one group could be subject to the liabilities of the other group. Holders of Applera Celera stock will be subject to all of the risks relating to an investment in Applera, including the Applied Biosystems group. For more information about "tracking stock," see "Risk Factors Risks Related to a Capital Structure with Two Separate Classes of Common Stock" in this proxy statement/prospectus.

Q: How does the Applera Celera stock "track" or reflect the performance of the Celera Genomics group?

A: Applera believes that Applera Celera stock will reflect the separate performance of the Celera Genomics group. Applera's belief is based in part on the following:

upon the sale of 80% or more of the assets attributed to the Applera Celera stock, Applera's board of directors is required to take action that returns the value of the net proceeds of those assets to the holders of Applera Celera stock;

the amount available for payment of dividends to the holders of Applera Celera stock may not exceed the amount that would be available for payment of dividends if the businesses tracked by Applera Celera stock were a separate corporation;

if Applera decides to spin-off the assets attributed to the Celera Genomics group, Applera can redeem shares of Applera Celera stock with stock of one or more wholly-owned subsidiaries that hold all of the assets and liabilities attributed to the Celera Genomics group; and

the availability of separate, more detailed and specific public information about the Celera Genomics group and more focused coverage of the Celera Genomics group by research analysts.

Applera also believes that there are factors that may cause Applera Celera stock to not fully reflect the separate performance of the Celera Genomics group, including:

the complex nature of the terms of Applera Celera stock, such as the convertibility of Applera Celera stock into Applera-Applied Biosystems stock or vice versa, and the potential difficulties investors may have understanding these terms;

the fact that holders of Applera Celera stock generally do not have separate class voting rights with respect to significant matters affecting the Celera Genomics group;

the fact that, upon a liquidation or dissolution of Applera, holders of Applera Celera stock will not have specific rights against the assets of the Celera Genomics group and will not be entitled to receive liquidation proceeds which are proportional to the relative performance of the Celera Genomics group;

the assets attributed to the Celera Genomics group could be subject to the liabilities of the Applied Biosystems group, and vice versa, even if these liabilities arise from lawsuits, contracts or indebtedness that are attributed to the other group; and

any potential adverse investor reaction, by association, to earning announcements or other developments concerning the Applied Biosystems group.

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Q: Will I be able to sell the shares of Applera Celera stock I receive in the merger?

A: Yes. All stockholders of Axys, other than those deemed to be affiliated with or controlling stockholders of Axys, will generally be free to sell their shares of Applera Celera stock received in the merger. Affiliates of Axys will be able to sell their shares of Applera Celera stock within the limits permitted by Rule 145 under the Securities Act.

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- Q:** What tax basis will holders of Axys common stock have in the Applera Celera stock they receive in the merger?
- A:** Your tax basis in your shares of Applera Celera stock will equal your current tax basis in your Axys common stock reduced by the amount of basis allocable to fractional shares for which you receive a cash payment.
- Q:** What will happen to options to purchase shares of Axys common stock?
- A:** Each option to purchase Axys common stock outstanding at the time of the merger will be assumed by Applera and converted into an option to purchase shares of Applera Celera stock. The option will be exercisable for a number of shares of Applera Celera stock equal to the number of shares of Axys common stock subject to the option multiplied by the exchange ratio (rounded down to the nearest whole share) and the exercise price per share will equal the existing option exercise price divided by the exchange ratio (rounded up to the nearest whole cent). However, in no event will the option exercise price for stock options held by Axys employees and consultants be higher than the closing price of a share of Applera Celera stock on the date immediately prior to the closing of the merger.
- Q:** What if the merger is not completed?
- A:** If the merger is not completed, Axys will continue to operate as an independent company, and neither Applera nor Axys will be under any obligation to purchase your Axys common stock. Axys may be required to pay a termination fee if the merger is not completed for reasons described under "The Merger Termination of the Merger Agreement Termination Fee" in this proxy statement/prospectus.
- Q:** How do I vote?
- A:** After carefully reading and considering the information contained in, or incorporated by reference in, this proxy statement/prospectus, please complete and sign your proxy and return it in the enclosed return envelope as soon as possible so that your shares may be represented at the special meeting. If you sign and send in your proxy and do not indicate how you want to vote, we will count your proxy as a vote in favor of approval and adoption of the merger agreement and approval of the merger. If you abstain from voting or do not vote your shares by proxy or in person, it will have the same effect as a vote against approval and adoption of the merger agreement and approval of the merger.

The special meeting will be held at Axys' headquarters located at 180 Kimball Way, South San Francisco, California 94080 on November [], 2001 at 10:00 a.m. Pacific Time. You may attend the special meeting and vote your shares in person, rather than signing and mailing your proxy.

- Q:** If my shares are held in a brokerage account or in "street name" by my broker, how do I vote?
- A:** Your broker will vote your shares only if you provide instructions on how to vote. You should follow the directions provided by your broker on how to instruct your broker to vote your shares. If you do not instruct your broker, your shares will not be voted, which will have the same effect as a vote against adoption of the merger agreement.

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- Q:** Can I change my vote after I have mailed my proxy card?
- A:** Yes. You can change your vote at any time before your proxy is voted at Axys' special meeting. You can do this in one of three ways. First, you can send a written notice to the Secretary of Axys, William J. Newell, stating that you would like to revoke your proxy. Second, you can complete and submit a new proxy card by following the instructions on the proxy card. Third, you can attend Axys' special meeting and vote in person.
- Q:** Should I send in my stock certificates now?
- A:** No. After the merger is completed, you will receive written instructions for exchanging your stock certificates. Please do not send in your stock certificates with your proxy.
- Q:** When do you expect the merger to be completed?
- A:** We are working to complete the merger as quickly as possible. We expect the merger to be completed in November of 2001. The merger agreement requires that the merger be completed by December 31, 2001.
- Q:** Who can help answer my questions?
- A:** If you have more questions about the merger or need assistance in voting your shares, you should contact:

MacKenzie Partners, Inc.
156 Fifth Avenue
New York, New York 10010
212-929-5500 or 1-800-322-2885

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SUMMARY OF THE PROXY STATEMENT/PROSPECTUS

We are sending this proxy statement/prospectus to holders of Axy's common stock. This summary highlights selected information from this proxy statement/prospectus and may not contain all the information that is important to you. To better understand the merger, you should read this entire document carefully, including the agreement and plan of merger attached as Annex A, the opinion of JPMorgan H&Q, a division of J.P. Morgan Securities, Inc., attached as Annex B, and the other documents to which we refer. In addition, we incorporate by reference in this proxy statement/prospectus important business and financial information about Applera. You may obtain the information incorporated by reference in this proxy statement/prospectus without charge by following the instructions in the section entitled "Where You Can Find More Information" on page 144. We have included page references parenthetically to direct you to a more complete description of the topics presented in this summary.

The Companies

APPLERA CORPORATION (see page 114)

301 Merritt 7
Norwalk, Connecticut 06851-1070
(203) 840-2000

Applera Corporation was incorporated in Delaware in 1998 and succeeded by recapitalization to the business of PE Corporation (NY) (formerly The Perkin-Elmer Corporation) in May 1999. Applera conducts its business through two operating groups: the Celera Genomics group and the Applied Biosystems group. Applera has two classes of common stock, Applera Celera stock and Applera Applied Biosystems stock, that are intended to reflect the relative performance of these groups. For more information about Applera's two classes of common stock, see "Description of the Applera Capital Stock" and "Risk Factors Risks Related to a Capital Structure with Two Separate Classes of Common Stock" in this proxy statement/prospectus.

The Celera Genomics group is engaged principally in integrating advanced technologies to create therapeutic discovery and development capabilities for internal use and for its customers and collaborators. The Celera Genomics group's businesses are its online information business and its therapeutics discovery business. The online information business is a leading provider of information based on the human genome and related biological and medical information. Pharmaceutical, biotechnology, and academic customers use this information, along with customized information technology solutions provided by the Celera Genomics group, to enhance their capabilities in the fields of life science research and pharmaceutical and diagnostic discovery and development. The Celera Genomics group recently expanded its focus to include therapeutic discovery and development. The Celera Genomics group intends to leverage its capabilities in the study of genes and proteins and their relationship to diseases, both in internal programs and through collaborations, to identify drug targets and diagnostic markers, and to discover and develop novel therapeutic candidates. Initially, the Celera Genomics group intends to focus its therapeutic discovery efforts in the field of oncology.

The Applied Biosystems group is a world leader in the development, manufacture, sale and service of instrument systems and associated consumable products for life science research and related applications. Its products are used in various applications including the synthesis, amplification, purification, isolation, analysis and sequencing of nucleic acids, proteins and other biological molecules.

Applera has formed Celera Diagnostics as a joint venture between the Celera Genomics group and the Applied Biosystems group in the field of diagnostics. Applera expects that Celera Diagnostics will be focused on the discovery, development, and commercialization of novel diagnostic tests.

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The information contained on Applera's website is not incorporated by reference in this proxy statement/prospectus.

AXYS PHARMACEUTICALS, INC. (see page 80)

180 Kimball Way
South San Francisco, California 94080
(650) 829-1000

Axys, a Delaware corporation, is an integrated drug discovery and development company that has a broad pipeline of product candidates for chronic therapeutic applications that are partnered with world-class pharmaceutical companies, or for which Axys is seeking partners, and a portfolio of proprietary cancer related therapeutic products. Axys also has investments in affiliated businesses that use the Axys technologies. Currently, these companies include Discovery Partners International, Inc. (Nasdaq: DPII), a chemistry services company, DNA Sciences, Inc., a genetics company and Akkadix Corporation, an agricultural biotechnology company.

The information contained on Axys' website is not incorporated by reference in this proxy statement/prospectus.

ANGEL ACQUISITION SUB, INC. (see page 114)

c/o Applera Corporation
301 Merritt 7
Norwalk, Connecticut 06851-1070
(203) 840-2000

Angel Acquisition, a Delaware corporation, is a wholly owned subsidiary of Applera that was organized solely for purposes of completing the merger.

The Special Meeting (see page 39)

The special meeting of stockholders of Axys will be held at 10:00 a.m. Pacific Time, on November [], 2001, at Axys' headquarters located at 180 Kimball Way, South San Francisco, California 94080.

At the special meeting, we will ask the holders of shares of Axys common stock to:

approve and adopt the merger agreement and approve the merger; and

conduct any other business properly brought before the meeting.

Record Date; Vote Required (see page 39)

You can vote, or submit a proxy to vote, at the special meeting if you were a record holder of Axys common stock at the close of business on October 1, 2001, the record date for determining which holders of Axys common stock are entitled to vote at the special meeting. At the record date, there were 40,486,750 shares of Axys common stock entitled to vote at the special meeting.

Holders of Axys common stock as of the record date are entitled to one vote per share on each matter to be voted on at the special meeting.

The merger will be approved only if the holders of a majority of the outstanding shares of Axys common stock entitled to vote at the special meeting vote for the proposal to approve and adopt the merger agreement and approve the merger.

Reasons of Axys for the Merger (see page 46)

Since its inception, Axys has been focused on developing a state-of-the-art drug discovery system. Axys believes that the effectiveness of this system has been demonstrated in its partnerships with Merck, Bayer and Aventis. To more fully take advantage of the potential of its technologies as well as the expertise of Axys' scientific teams, Axys has determined that it needs a source of new targets for drug therapies. The delivery of potential targets for drug discovery has been at the core of the work of the Celera Genomics group in the human genome, and remains so in its future plans. Hence, Axys believes that Axys and the Celera Genomics group have complementary strengths which are expected to enable the combined company to move forward more quickly and effectively in the research and development of innovative drug candidates. In addition, holders of Axys common stock will have the opportunity to participate in a larger and better capitalized organization and

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to benefit from potential appreciation in Applera Celera stock. Axys believes that these and other factors should provide a greater opportunity for increased value for the stockholders of Axys than could be achieved on a stand-alone basis.

Reasons of Applera for the Merger (see page 49)

Applera believes that the merger will enable the combined company to compete more effectively and achieve a number of strategic objectives, particularly the expansion of the business of the Celera Genomics group into therapeutic drug discovery and development. In addition, Applera believes that the culture and employees of Axys and the Celera Genomics group, as well as their respective capabilities, technology, programs and products, will be both complementary and compatible, which will facilitate integration of Axys with the Celera Genomics group.

Recommendation of the Axys Board of Directors (see page 49)

The Axys board of directors has unanimously approved the merger agreement and the merger and has determined that the merger agreement and merger are advisable and fair to, and in the best interests of, Axys and its stockholders. The board of directors of Axys unanimously recommends that holders of Axys common stock vote FOR the approval and adoption of the merger agreement and the approval of the merger.

Opinion of Financial Advisor to the Axys Board of Directors (see page 49)

The board of directors of Axys received an opinion dated as of June 12, 2001 from its financial advisor, JPMorgan H&Q, a division of J.P. Morgan Securities Inc., that, as of the date of the opinion and subject to the assumptions and limitations in the opinion, the "exchange ratio" specified in the merger agreement was fair, from a financial point of view, to the holders of Axys common stock.

This opinion is attached as Annex B to this proxy statement/prospectus. We encourage you to read this opinion in its entirety.

Terms of the Merger Agreement

We have attached the merger agreement, which is the legal document that governs and sets the terms of the merger, as Annex A to this proxy statement/prospectus. We encourage you to read the merger agreement in its entirety.

Conversion of Shares and Options (see page 56)

In the merger, each share of Axys common stock will be converted into the right to receive a fraction of a share of Applera Celera stock as determined in accordance with the merger agreement and as described in this proxy statement/prospectus. The exact number of shares of Applera Celera

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stock will be determined by an exchange ratio that will be calculated based on the average closing price of Applera Celera stock over the 10 trading days immediately preceding (but excluding) the second trading day prior to the closing of the merger as follows:

if this 10-day average closing price is greater than \$60.27, the fraction will be fixed at 0.0813 share;

if this 10-day average closing price is greater than \$48.23 and less than or equal to \$60.27, the fraction will be \$4.90 divided by this 10-day average closing price;

if this 10-day average closing price is equal to or greater than \$45.77 and less than or equal to \$48.23, the fraction will be 0.1016 share;

if this 10-day average closing price is less than \$45.77 and greater than or equal to \$34.32, the fraction will be \$4.65 divided by this 10-day average closing price; and

if this 10-day average closing price is less than \$34.32, the fraction will be fixed at 0.1355 share.

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Holders will receive only whole shares of Applera Celera stock, and will receive cash instead of fractional shares, as described in this proxy statement/prospectus under "The Merger Fractional Shares."

Conditions to the Completion of the Merger (see page 67)

Several conditions must be satisfied or waived before the merger will be completed. These include:

the approval of the merger and approval and adoption of the merger agreement by the Axys stockholders;

the absence of any injunction, temporary restraining order, or other legal restraint that prohibits the merger;

the absence of any suit or other proceeding by any government entity which seeks to prohibit the merger, limit Applera's ownership or operation of any material portion of Axys, or impose limitations on the ability of Applera to exercise ownership rights of any shares of Axys as the surviving corporation after the merger;

the accuracy, in all material respects, of the representations and warranties of Applera and Axys in the merger agreement;

the fulfillment of the obligations of Axys, Applera and Angel Acquisition under the merger agreement; and

receipt of legal opinions from counsel to the effect that the merger will qualify as a tax-free reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended.

Non-Solicitation Covenant (see page 65)

Axys has agreed, subject to limited exceptions, not to initiate or engage in discussions with another party about a business combination with the other party prior to the termination of the merger agreement.

Termination (see page 68)

Applera and Axys may mutually agree to terminate the merger agreement at any time. In addition, either Applera or Axys may terminate the merger agreement if specified events do or do not occur. These include:

if a court or government regulator permanently prohibits the merger;

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if the merger is not completed on or before December 31, 2001, other than as a result of the failure by the party proposing to terminate the merger agreement to perform its obligations;

if the holders of Axys common stock fail to approve and adopt the merger agreement and approve the merger at the special meeting; or

if the other party breaches its representations or agreements so that a closing condition would not be satisfied and the breach, if curable, remains uncured 30 days following notice to the breaching party.

Applera may also terminate the merger agreement if:

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the Axys board of directors withdraws or modifies, in a manner adverse to Applera, its recommendation of the merger agreement and the merger, or approves or recommends another acquisition proposal; or

the Axys board of directors fails to recommend rejection of any tender offer or exchange offer for more than 15% of the outstanding shares of Axys common stock.

The merger agreement may also be terminated by Axys if the Axys board of directors concludes in good faith after consultation with outside legal counsel that in order to avoid violating its fiduciary duties in connection with a proposal for an alternative transaction that meets specified standards, it must withdraw or modify its recommendation of the merger agreement and the merger and it withdraws or modifies its recommendation. For more information with respect to Axys' ability to terminate the merger agreement because of the fiduciary duties of its board of directors, see "The Merger Termination of the Merger Agreement" in this proxy statement/prospectus.

Termination Fee (see page 69)

Axys will pay Applera a fee of \$5.6 million and up to \$900,000 in out-of-pocket expenses if the merger agreement is terminated under circumstances including a withdrawal of or change in the recommendation of the Axys board of directors in a manner that is adverse to Applera or the completion of an alternative transaction that was publicly announced prior to the termination of the merger agreement. These circumstances are described in detail in "The Merger Termination of the Merger Agreement Termination Fee" in this proxy statement/prospectus.

Regulatory Matters (see page 68)

The merger is subject to the requirements of the Hart-Scott-Rodino Act. On June 29, 2001, Applera and Axys filed the requisite Pre-Merger Notification and Report Forms with the United States Federal Trade Commission and the United States Department of Justice. The waiting period under the Hart-Scott-Rodino Act expired on July 30, 2001.

Accounting Treatment (see page 73)

For accounting and financial reporting purposes, the merger will be treated as a purchase by Applera under generally accepted accounting principles.

NYSE Listing (see page 68)

Applera will list the Applera Celera stock to be issued in the merger on the New York Stock Exchange.

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Material United States Federal Income Tax Consequences (see page 71)

Applera has received an opinion from Simpson Thacher & Bartlett and Axys has received an opinion from Latham & Watkins to the effect that, if the merger is completed as contemplated, the merger will qualify as a tax-free reorganization for United States federal income tax purposes, and that holders of Axys common stock will not recognize any gain or loss for United States federal income tax purposes on the exchange of their common stock for Applera Celera stock, except to the extent they receive cash in lieu of fractional shares. These opinions are subject to certain assumptions and qualifications, as described under "The Merger Material United States Federal Income Tax Consequences."

Tax matters can be complicated, and the tax consequences of the merger to you will depend on your particular tax situation. You should consult your own tax advisor to fully understand the tax consequences of the merger to you.

Interests of Axys' Officers and Directors in the Merger (see page 73)

When considering the recommendation of the Axys board of directors, you should be aware that Axys officers and directors have interests in the merger that may be different from, or in addition to, your interests as stockholders. These interests exist in part because of rights they may have under Axys employment agreements and benefits plans. In addition, the merger agreement requires that after completion of the merger Applera must cause Axys, as the company surviving the merger, to indemnify the directors and officers of Axys for events occurring before the merger, including events that are related to the merger.

Dissenters' Rights (see page 78)

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Under Delaware law, stockholders of Axys will not be entitled to exercise dissenters' appraisal rights in connection with the merger.

Comparison of Rights of Holders of Applera Celera Stock and Axys Common Stock (see page 141)

Applera's certificate of incorporation and bylaws and Axys' certificate of incorporation and bylaws are different. In particular, Applera Celera stock is a "tracking stock" and Axys common stock is not. As a result, the holders of Axys common stock will have different rights as holders of Applera Celera stock, since holders of a "tracking stock" do not have the same rights as typical common stockholders of a corporation without "tracking stock." Applera conducts its business through two operating groups: the Celera Genomics group and the Applied Biosystems group. The Applied Biosystems group and the Celera Genomics group are not separate legal entities, and holders of these stocks are stockholders of a single company, Applera. This means that the assets Applera attributes to one group could be subject to the liabilities of the other group. Holders of Applera Celera stock will be subject to all of the risks relating to an investment in Applera, including the Applied Biosystems group. Axys is a separate legal entity and holders of its common stock are subject to the benefits and risks associated with its consolidated businesses, assets and liabilities. This is not the only difference between the rights of Applera Celera stock and Axys common stock. For more information, see "Description of Applera Capital Stock" and "Risk Factors Risks Related to a Capital Structure with Two Separate Classes of Common Stock" in this proxy statement/prospectus.

Comparative Market Price and Dividend Information (see page 18)

Shares of Applera Celera stock are listed on the New York Stock Exchange under the symbol "CRA." On June 12, 2001, the last full trading day prior to the public announcement of the proposed merger, Applera Celera stock closed at \$41.75 per share. On October [], 2001, the last full trading

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day prior to the date of this proxy statement/prospectus, Applera Celera stock closed at \$[] per share.

Shares of Axys common stock are traded on the Nasdaq National Market under the symbol "AXPH." On June 12, 2001, the last full trading day prior to the public announcement of the proposed merger, Axys' common stock closed at \$3.45 per share. On October [], 2001, the last full trading day prior to the date of this proxy statement/prospectus, Axys' common stock closed at \$[] per share.

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SELECTED HISTORICAL CONSOLIDATING FINANCIAL INFORMATION AND SELECTED UNAUDITED PRO FORMA CONSOLIDATING FINANCIAL INFORMATION

Applera Selected Historical Consolidating Financial Information

The following selected consolidating financial information has been derived from the consolidated financial statements of Applera, the combined financial statements of the Applied Biosystems group and the combined financial statements of the Celera Genomics group for each of the five fiscal years in the period ended June 30, 2001. The information set forth below should be read in conjunction with the Applera consolidated statements, the Applied Biosystems group combined financial statements, and the Celera Genomics group combined financial statements, and related notes thereto contained in the Applera Annual Report to Stockholders for the year ended June 30, 2001, incorporated herein by reference.

On May 6, 1999, Applera recapitalized and issued two new classes of common stock, the Applera Celera stock and the Applera Applied Biosystems stock, to the stockholders of Applera's predecessor. Effective November 30, 2000, Applera, which was named "PE Corporation" at the time of the recapitalization, was renamed "Applera Corporation" and the Applied Biosystems group, which was named the "PE Biosystems" group at the time of the recapitalization, was renamed the "Applied Biosystems" group. Therefore, neither the Applera Celera stock nor the Applera Applied Biosystems stock was issued or outstanding at any time prior to May 6, 1999.

All share and per share amounts have been restated to reflect all prior stock splits of Applera Applied Biosystems stock and Applera Celera stock.

A number of items impact the comparability of this information. Before-tax amounts include:

Applied Biosystems Group

Restructuring, other merger costs, and acquisition-related costs of \$48.1 million for fiscal 1998, \$6.1 million for fiscal 1999, and \$2.1 million for fiscal 2000;

A restructuring reserve adjustment of \$9.2 million for fiscal 1999 relating to excess fiscal 1998 restructuring liabilities;

Gains on investments of \$64.9 million for fiscal 1997, \$1.6 million for fiscal 1998, \$6.1 million for fiscal 1999, \$48.6 million for fiscal 2000, and \$15.0 million for fiscal 2001;

Acquired research and development charges of \$28.9 million for fiscal 1998;

Charges for the impairment of assets of \$0.7 million for fiscal 1997 and \$14.5 million for fiscal 1999;

Tax benefit and valuation allowance reductions of \$22.2 million for fiscal 1999;

A charge of \$3.5 million for a donation to Applera's charitable foundation for fiscal 1999;

Foreign currency hedge contract-related gain of \$2.3 million for fiscal 1999;

Charges of \$4.6 million for fiscal 1999 relating to the recapitalization of Applera;

Charges relating to the acceleration of some of Applera's long-term compensation programs as a result of the attainment of performance targets of \$9.1 million for fiscal 1999 and \$45.0 million for fiscal 2000; and

A gain of \$8.2 million on the sale of real estate for fiscal 2000.

Celera Genomics Group

Acquired research and development charges of \$26.8 million for fiscal 1997;

Charges of \$5.6 million relating to the recapitalization and transformation of the Company for fiscal 1999;

A charge for the impairment of goodwill and other intangibles of \$69.1 million for fiscal 2001; and

A loss of \$5.0 million from the Celera Genomics group's interest in Celera Diagnostics for fiscal 2001.

Fiscal years ended June 30,

	1997	1998	1999	2000	2001
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(Dollar amounts in thousands except per share amounts)

Financial Operations

Net revenues

Applied Biosystems group	\$ 767,465	\$ 940,095	\$ 1,221,691	\$ 1,388,100	\$ 1,619,495
Celera Genomics group	903	4,211	12,541	42,747	89,385
Eliminations			(17,335)	(59,812)	(64,754)
Applera Corporation	768,368	944,306	1,216,897	1,371,035	1,644,126

Income (loss) from continuing operations

Applied Biosystems group	132,739	24,009	148,365	186,247	212,391
Celera Genomics group	(30,247)	(8,315)	(44,894)	(92,737)	(186,229)
Eliminations			(6,674)	1,986	1,072
Applera Corporation	102,492	15,694	96,797	95,496	27,234

Per Share Information**Applera Corporation**

Income from continuing operations

Basic per share	\$ 2.16	\$ 0.32			
Diluted per share	\$ 2.07	\$ 0.31			
Dividends per share	\$ 0.68	\$ 0.68	\$ 0.51		

Applied Biosystems Group

Income from continuing operations

Basic per share			\$ 0.74	\$ 0.90	\$ 1.01
Diluted per share			\$ 0.72	\$ 0.86	\$ 0.96
Dividends per share			\$ 0.0425	\$ 0.17	\$ 0.17

Celera Genomics Group

Net loss

Basic and diluted per share			\$ (0.89)	\$ (1.73)	\$ (3.07)
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Other Information

Cash and cash equivalents and short-term investments

Applied Biosystems group	217,222	84,091	236,530	394,608	392,459
Celera Genomics group			71,491	1,111,034	995,558
Eliminations					
Applera Corporation	217,222	84,091	308,021	1,505,642	1,388,017

Total assets

Applied Biosystems group	1,003,810	1,128,937	1,347,550	1,698,156	1,677,887
Celera Genomics group	2,983	6,339	344,720	1,413,257	1,220,136
Eliminations			(172,963)	(28,098)	(10,165)
Applera Corporation	1,006,793	1,135,276	1,519,307	3,083,315	2,887,858

Long-term debt

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Fiscal years ended June 30,

Applied Biosystems group	59,152	33,726	31,452	36,115
Celera Genomics group				46,000
Eliminations				
Applera Corporation	59,152	33,726	31,452	82,115

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Selected Unaudited Pro Forma Consolidating Financial Information of Applera

The following selected unaudited pro forma consolidating financial information is derived from unaudited Applera pro forma financial statements and the notes thereto, which are included elsewhere in this proxy statement/prospectus and should be read in conjunction with those statements and related notes. See "Unaudited Pro Forma Consolidated and Consolidating Financial Statements" in this proxy statement/prospectus.

The unaudited Applera pro forma consolidated balance sheets assume that the merger took place on June 30, 2001 and combines Applera's June 30, 2001 audited consolidated balance sheet with Axys' June 30, 2001 unaudited balance sheet. The unaudited pro forma consolidated statement of operations for the year ended June 30, 2001 gives effect to the merger as if it occurred on July 1, 2000. Because Applera and Axys have two different fiscal years, and the combined company will adopt the fiscal year of Applera, pro forma operating results are presented on a June 30 fiscal year basis.

The unaudited pro forma consolidating financial information is presented for illustrative purposes only and is not necessarily indicative of the consolidated financial position or results of operations of future periods or the results that actually would have been realized had the entities been a single entity during this period.

Applera Corporation
Selected Unaudited Pro Forma Consolidating Financial Information
Fiscal Year Ended June 30, 2001

	<u>Pro Forma Celera</u>	<u>Applied Biosystems</u>	<u>Eliminations</u>	<u>Pro Forma Applera</u>
(Dollar amounts in thousands except per share amounts)				
Financial Operations				
Net revenues	\$ 97,343	\$ 1,619,495	\$ (64,754)	\$ 1,652,084
Net income (loss)	(229,781)	212,391	1,072	(16,318)
Per Share Information				
Net income per share:				
Basic	\$ (3.47)	\$ 1.01		
Diluted	(3.47)	0.96		
Dividends per share		0.17		
Other Information				
Cash and cash equivalents and short-term investments	\$ 1,016,385	\$ 392,459	\$	\$ 1,408,844
Total assets	1,381,934	1,677,887	(10,165)	3,049,656
Long-term debt	26,000			26,000

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION OF AXYS

The following selected consolidated financial information has been derived from the consolidated financial statements of Axys (and its predecessor company) for each of the five fiscal years in the period ended December 31, 2000, and the six month periods ended June 30, 2000

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and 2001. The operating results for the six months ended June 30, 2001 are not necessarily indicative of the results that may be expected for the entire fiscal year. The information set forth below should be read in conjunction with the Axys audited financial statements and notes thereto which are included in this proxy statement/prospectus commencing on page F-1, and "Axys Management's Discussion and Analysis of Financial Condition and Result of Operations" commencing on page 95 of this proxy statement/prospectus.

	Year Ended December 31,					Six Months Ended June 30,	
	1996	1997(1)	1998(1)(2)	1999(1)	2000	2000	2001
(in thousands, except per share amounts)							
(unaudited)							
Consolidated Statements of Operations:							
Revenues	\$ 21,560	\$ 20,499	\$ 35,760	\$ 24,084	\$ 6,990	\$ 2,922	\$ 3,890
Operating costs and expenses:							
Research and development	24,319	27,062	57,502	55,174	36,575	15,899	17,020
General and administrative	5,409	7,153	13,411	10,872	9,999	5,722	6,618
Restructuring charge				5,175	(592)	(625)	
Acquired in-process research and development	230		124,888				
Total operating costs and expenses	29,958	34,215	195,801	71,221	45,982	20,996	23,638
Operating loss	(8,398)	(13,716)	(160,041)	(47,137)	(38,992)	(18,074)	(19,748)
Interest income (expense), net	2,470	2,422	2,317	341	(4,105)	440	(1,659)
Equity in losses of joint venture			(2,393)	(836)	(3,208)		(9,397)
Other income (expense), net				(852)	889	79	(1,635)
Net loss from continuing operations	(5,928)	(11,294)	(160,117)	(48,484)	(45,416)	(17,555)	(32,439)
Discontinued operations		327	3,993	(279)	(5,941)	(2,529)	
Cumulative effect of change in accounting principle							972
Gain on disposal of segments					61,213	32,987	
Net income (loss)	\$ (5,928)	\$ (10,967)	\$ (156,124)	\$ (48,763)	\$ 9,856	\$ 12,903	\$ (31,467)
Net loss per share, basic and diluted from continuing operations							
	\$ (0.45)	\$ (0.75)	\$ (5.38)	\$ (1.59)	\$ (1.29)	\$ (0.52)	\$ (0.87)
Net income (loss) per share, basic and diluted	\$ (0.45)	\$ (0.73)	\$ (5.25)	\$ (1.60)	\$ 0.28	\$ 0.38	\$ (0.84)
Weighted average number of shares used in computing basic and diluted net loss per share							
	13,177	15,025	29,758	30,385	35,281	33,678	37,480
			December 31,			June 30,	
	1996	1997	1998	1999	2000	2000	2001
(unaudited)							
Consolidated Balance Sheet Data:							
Cash, cash equivalents and marketable investments(3)	\$ 66,720	\$ 53,408	\$ 72,717	\$ 26,657	\$ 41,776	\$ 39,510	\$ 20,827
Total assets	80,832	73,584	107,262	55,734	118,696	98,444	99,244
Long-term obligations	10,676	15,331	16,816	57	27,889	8	29,549
Accumulated deficit	(62,804)	(73,771)	(229,895)	(277,211)	(267,355)	(264,308)	(298,821)
Total stockholders' equity	52,900	43,890	60,512	14,047	79,565	64,340	59,695

(1)

Reclassified results of operations in accordance with Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" in connection with the sale of Axys Advanced Technologies and PPGx, Inc. during 2000.

- (2) Includes the results of operations of Sequana Therapeutics, Inc. from January 8, 1998 through December 31, 1998, including a one-time charge for acquired in-process research and development. Excluding this one-time charge, net loss and net loss per share would have been \$31,236,000 and \$1.05 per share, respectively.
- (3) Includes restricted cash of \$4 million at June 30, 2001.

COMPARATIVE PER SHARE INFORMATION (UNAUDITED)

The following table summarizes per share information for Applera and Axys on a historical and unaudited pro forma basis for Applera and a historical and equivalent pro forma basis for Axys. The following information should be read in conjunction with the audited consolidated financial statements of Applera, which are incorporated herein by reference, the audited financial statements of Axys, the unaudited interim financial statements of Axys, the selected historical consolidated and consolidating financial information of Applera and Axys, the selected unaudited pro forma consolidated and consolidating financial information and the unaudited pro forma condensed consolidated and consolidating financial statements included elsewhere in this proxy statement/prospectus. The pro forma information is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if the merger had been consummated as of the beginning of the periods presented, nor is it necessarily indicative of the future operating results or financial position of the combined companies.

	Year Ended June 30, 2001
Applera Corporation:	
Applied Biosystems Group	
Net income:	
Historical:	
Basic	\$ 1.01
Diluted	0.96
Pro forma:	
Basic	\$ 1.01
Diluted	0.96
Dividends:	
Historical	\$ 0.17
Pro forma	0.17
Book Value:	
Historical	\$ 4.92
Pro forma	4.92
Celera Genomics Group	
Loss from continuing operations:	
Historical:	
Basic and diluted	\$ (3.07)
Pro forma	
Basic and diluted(1)	\$ (3.47)
Dividends:	
Historical	\$
Pro forma	
Book Value:	
Historical	\$ 18.00

	Year Ended June 30, 2001
Pro forma(1)	18.20

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Axys Pharmaceuticals, Inc.:

Loss from continuing operations:	
Historical:	
Basic and diluted	\$ (1.62)
Equivalent pro forma:	
Basic and diluted(1)	\$ (0.47)
Dividends:	
Historical	\$
Equivalent pro forma	
Book Value:	
Historical	\$ 1.48
Equivalent pro forma(1)	\$ 2.47

(1)

The Axys per share equivalent pro forma information is calculated by multiplying the per share amounts for the Celera Genomics group by 0.1355, which is the exchange ratio that would have been applied to the Axys common stock under the merger agreement had the merger occurred on October 1, 2001. If the merger had occurred on October 1, 2001, the average closing price of Applera Celera stock during the calculation period that would have been used in the determination of the exchange ratio was \$21.38. The pro forma per share information may differ if the ten-day average closing price of Applera Celera stock exceeds \$34.32 per share prior to the closing of the merger.

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COMPARATIVE PER SHARE MARKET PRICE AND DIVIDEND INFORMATION

Applera Celera stock is listed on the New York Stock Exchange under the symbol: "CRA."

The following table sets forth the range of high and low sale prices of Applera Celera stock as reported by the New York Stock Exchange Composite Tape since May 6, 1999. On May 6, 1999, Applera recapitalized and issued two new classes of stock, the Applera Celera stock and the Applera Applied Biosystems stock, to the stockholders of Applera's predecessor. Effective November 30, 2000, Applera, which was named "PE Corporation" at the time of the recapitalization, was renamed "Applera Corporation," and the Applied Biosystems group, which was named the "PE Biosystems" group at the time of the recapitalization, was renamed the "Applied Biosystems" group. Therefore, neither the Applera Celera stock nor the Applera Applied Biosystems stock was issued or outstanding at any time prior to May 6, 1999. The table gives effect to the two-for-one stock split of Applera Celera stock effected in the form of a 100% stock dividend distributed on February 18, 2000. Applera has not paid any cash dividends with respect to Applera Celera stock and does not anticipate paying any cash dividends on Applera Celera stock in the foreseeable future.

	High	Low
FISCAL YEAR ENDED JUNE 30, 1999		
Fourth Quarter (from May 6, 1999)	\$ 11.2500	\$ 7.0938
FISCAL YEAR ENDED JUNE 30, 2000		
First Quarter	\$ 26.9063	\$ 7.8750
Second Quarter	\$ 96.4063	\$ 15.1875

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	<u>High</u>	<u>Low</u>
Third Quarter	\$ 276.0000	\$ 73.0000
Fourth Quarter	\$ 151.0000	\$ 50.1875
FISCAL YEAR ENDED JUNE 30, 2001		
First Quarter	\$ 118.5625	\$ 80.1875
Second Quarter	\$ 100.5000	\$ 29.2500
Third Quarter	\$ 54.9000	\$ 24.0000
Fourth Quarter	\$ 49.9000	\$ 26.2000
FISCAL YEAR ENDING JUNE 30, 2002		
First Quarter	\$ 39.9500	\$ 19.3000
Second Quarter (through October 3, 2001)	\$ 25.3000	\$ 23.2500

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Axys common stock is traded on the Nasdaq National Market under the symbol "AXPH."

The following table sets forth the range of high and low sale prices of Axys common stock as reported on the Nasdaq National Market since January 7, 1998, the date when Arris Pharmaceuticals Corporation and Sequana Therapeutics merged to form Axys. Axys has not paid any cash dividends since its inception and does not anticipate paying any cash dividends in the foreseeable future.

	<u>High</u>	<u>Low</u>
FISCAL YEAR ENDED DECEMBER 31, 1998		
First Quarter (from January 7, 1998)	\$ 10.75	\$ 7.66
Second Quarter	\$ 8.75	\$ 6.50
Third Quarter	\$ 7.75	\$ 3.38
Fourth Quarter	\$ 7.06	\$ 3.69
FISCAL YEAR ENDED DECEMBER 31, 1999		
First Quarter	\$ 8.13	\$ 3.75
Second Quarter	\$ 4.50	\$ 3.00
Third Quarter	\$ 5.97	\$ 3.56
Fourth Quarter	\$ 4.97	\$ 2.69
FISCAL YEAR ENDED DECEMBER 31, 2000		
First Quarter	\$ 20.25	\$ 3.88
Second Quarter	\$ 9.00	\$ 3.53
Third Quarter	\$ 8.88	\$ 5.00
Fourth Quarter	\$ 7.13	\$ 3.56
FISCAL YEAR ENDING DECEMBER 31, 2001		
First Quarter	\$ 6.75	\$ 2.50
Second Quarter	\$ 4.40	\$ 2.19
Third Quarter	\$ 4.25	\$ 2.25
Fourth Quarter (through October 3, 2001)	\$ 3.00	\$ 3.32

The following table sets forth the closing price per share of Applera Celera stock on the New York Stock Exchange and of Axys common stock on the Nasdaq National Market on June 12, 2001, the last full trading day prior to the announcement of the merger agreement; on October [], 2001, the last full trading day before the date of this proxy statement/prospectus; and the equivalent per share prices for Axys common stock based on Applera Celera stock prices using an exchange ratio calculated under the merger agreement as if the closing of the merger had occurred on those dates.

	<u>Celera Genomics Common Stock</u>	<u>Axys Common Stock</u>	<u>Estimated Equivalent Axys Per Share Price</u>
June 12, 2001	\$ 41.75	\$ 3.45	\$ 4.65
October [], 2001	\$ []	\$ []	\$ []

The actual equivalent per share price of a share of Axys common stock that holders of Axys common stock will receive if the merger is completed may increase or decrease from that noted in the table above due to continuous fluctuations in the per share price of Applera Celera stock on the New York Stock Exchange and application of the applicable exchange ratio as further discussed in this proxy statement/prospectus under "The Merger Consideration to be Received in the Merger".

We urge Axys stockholders to obtain current market quotations for Applera Celera stock and Axys common stock prior to making any decision with respect to the merger. We cannot give any assurance as to the future prices or markets for Applera Celera stock. Following the merger, Applera Celera stock will continue to be traded on the New York Stock Exchange, and there will be no further market for Axys common stock.

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RISK FACTORS

By voting in favor of approving and adopting the merger agreement and approving the merger, you will be choosing to invest in Applera Celera stock. You should carefully consider the following factors before voting on the proposal to approve and adopt the merger agreement and the merger.

Risks Related to the Merger

The number of shares of Applera Celera stock to be received in the merger by holders of Axys common stock may vary due to the formula for calculating the exchange ratio.

In the merger, each share of Axys common stock will be converted into the right to receive a number of shares of Applera Celera stock equal to the exchange ratio. The exchange ratio, or the number of shares of Applera Celera stock into which each share of Axys common stock will be converted, will fluctuate, within specified limits, depending upon the 10-day average closing price of a share of Applera Celera stock immediately preceding (but excluding) the second trading day prior to the closing date of the merger. See "The Merger Consideration to be Received in the Merger" in this proxy statement/prospectus for a discussion of the determination of the exchange ratio. In addition, the volatility of the market price of Applera Celera stock directly affects the exchange ratio calculation, as described in this proxy statement/prospectus. See "Summary Comparative Per Share Market Price and Dividend Information" in this proxy statement/prospectus for more detailed Applera Celera stock share price information. Variations in the Applera Celera stock share price may be the result of various factors including:

changes in the business, operations or prospects of the Celera Genomics group;

changes in the business, operations or prospects of Applera (including the Applied Biosystems group);

general market and economic conditions; and

other factors described under "Risks Related to the Celera Genomics Group Applera Celera Stock Price is Highly Volatile" in this proxy statement/prospectus.

At the time of the special meeting, holders of Axys common stock will not necessarily know the exact number of shares or the exact market price of the Applera Celera stock that will be issued in connection with the merger. The number of shares that will be received for each share of Axys common stock will be calculated using the exchange ratio described in this proxy statement/prospectus, and may vary accordingly based on the trading price of Applera Celera stock after the special stockholders meeting. Stockholders of Axys are urged to obtain current market quotations for Applera Celera stock prior to the date of the special stockholders meeting.

Axys' executive officers and board of directors have interests in the merger that are different from, or in addition to, those of holders of Axys common stock.

These interests include agreements with Axys that entitle its executive officers and its board of directors to receive severance or termination pay or to accelerated stock option vesting upon completion of the merger. See "The Merger Interests of Certain Persons in the Merger" beginning on page 73 in this proxy statement/prospectus for more information.

The Celera Genomics group may encounter difficulties in the integration and development of the business of Axys and in attracting and retaining employees of Axys.

The Celera Genomics group's strategy to integrate and develop the combined businesses of the Celera Genomics group and Axys following the merger involves a number of elements that management may not be able to implement as expected. For example, the Celera Genomics group may

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encounter operational difficulties in the integration of facilities and employees of the two companies. In addition, the Celera Genomics group's expansion into the drug discovery area as a result of the integration of the capabilities of the Celera Genomics group and Axys may not be achieved as successfully or as rapidly as currently anticipated, if at all, and may require the acquisition or development of additional technologies and capabilities. The consolidation of operations and scientific teams presents significant managerial challenges. There can be no assurance that these actions will be accomplished as successfully or as rapidly as currently anticipated, if at all. There can also be no assurance that the employees of Axys will be willing to continue their employment with Axys after the merger. There is no assurance that after the merger the Celera Genomics group will be able to maintain all of the existing commercial relationships of Axys or the Celera Genomics group.

Risks Related to the Celera Genomics Group

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

The Celera Genomics group has accumulated net losses of \$365.0 million as of June 30, 2001, and expects that it will continue to incur additional net losses for the foreseeable future. These losses are expected to increase as the Celera Genomics group increases its investments in new technology and product development, including investments for the development of its therapeutics discovery and development business and investments in Celera Diagnostics, its joint venture with the Applied Biosystems group, for the development of Celera Diagnostics' diagnostics business. The Celera Genomics group will record all initial operating losses of Celera Diagnostics up to a maximum of \$300 million, after which any additional operating losses would be shared equally by the Celera Genomics group and the Applied Biosystems group. As an early stage business, the Celera Genomics group faces significant challenges in simultaneously expanding its operations, pursuing key scientific goals and attracting customers for its information products and services. As a result, there is a high degree of uncertainty that the Celera Genomics group will be able to achieve profitable operations.

The Celera Genomics group's business plan depends heavily on continued assembly and annotation of the human and mouse genomes.

In June 2000, the Celera Genomics group and the Human Genome Project each announced the "first assembly" of the human genome, and in April 2001, the Celera Genomics group announced the assembly of the mouse genome. Assembly is the process by which individual fragments of DNA, the molecule that forms the basis of the genetic material in virtually all living organisms, are pieced together into their appropriate order and place on each chromosome within the genome. The Celera Genomics group's first assembly of the human genome covered approximately 95% of that genome, and its assembly of the mouse genome covered approximately 99% of that genome. The Celera Genomics group intends to continue updating its assembly of the human and mouse genomes as it continues to annotate these genomes. Annotation is the process of assigning features or characteristics to each chromosome. Each gene on each chromosome is given a name, its structural features are described, and proteins encoded by genes are classified into possible or known function.

The Celera Genomics group's ability to retain its existing customers and attract new customers for its genome database business is heavily dependent upon the continued assembly and annotation of these genomes. This information is also essential to the therapeutics discovery and development components of the Celera Genomics group's business strategy in which the Celera Genomics group intends to make substantial investments in the near future. As a result, failure to update the assembly and annotation efforts in a timely manner may have a material adverse effect on the Celera Genomics group's business.

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The Celera Genomics group's revenue growth depends on retaining existing customers and adding new customers.

The revenues that the Celera Genomics group expects to receive from its existing customers will offset only a portion of its expenses. In order to generate significant additional revenues, the Celera Genomics group must obtain additional customers and retain its existing customers. The Celera Genomics group's ability to retain existing customers and add new customers depends upon customers' continued belief that the Celera Genomics group's products can help accelerate their drug discovery and development efforts and fundamental discoveries in biology. Although customer agreements typically have multiple year terms, there can be no assurance that any will be renewed upon expiration. The Celera

Genomics group's future revenues are also affected by the extent to which existing customers expand their agreements to include new services and database products. In some cases, the Celera Genomics group may accept milestone payments or future royalties on products developed by its customers as consideration for access to the Celera Genomics group's databases and products in lieu of a portion of subscription fees. These arrangements are unlikely to produce revenue for the Celera Genomics group for a number of years, if ever, and depend heavily on the research and product development, sales and marketing and intellectual property protection abilities of the customer.

Use of genomics information to develop or commercialize products is unproven.

The development of new drugs and the diagnosis of disease based on information derived from the study of the genetic material of organisms, or genomics, is unproven. Few therapeutic or diagnostic products based on genomic discoveries have been developed and commercialized and to date no one has developed or commercialized any therapeutic or diagnostic products based on the Celera Genomics group's technologies. If the Celera Genomics group or its customers are unsuccessful in developing and commercializing products based on the group's databases or other products or services, customers and the Celera Genomics group may be unable to generate sufficient revenues and the Celera Genomics group's business may suffer as a result. Development of these products will be subject to risks of failure, including that these products will be found to be toxic, be found to be ineffective, fail to receive regulatory approvals, fail to be developed prior to the successful marketing of similar products by competitors or infringe on proprietary rights of third parties.

The industry in which the Celera Genomics group operates is intensely competitive and evolving.

There is intense competition among entities attempting to interpret segments of the human genome and identify genes associated with specific diseases and develop products, services and intellectual property based on these discoveries. The Celera Genomics group faces competition in these areas from genomic, pharmaceutical, biotechnology and diagnostic companies, academic and research institutions and government or other publicly-funded agencies, both in the United States and abroad. A number of companies, other institutions and government-financed entities are engaged in gene and protein analysis, and some of them are developing databases containing gene, protein, and related biological information and are marketing or plan to market their data to pharmaceutical and biotechnology companies and academic and research institutions. Additional competitors may attempt to establish databases containing this information in the future. In addition, some pharmaceutical and biotechnology companies may choose to develop or acquire competing technologies to meet their needs rather than purchase products or services from the Celera Genomics group. The Celera Genomics group has licensed some of its key technology on a non-exclusive basis from third parties and therefore this technology may be available for license by competitors of the Celera Genomics group or pharmaceutical or biotechnology companies seeking to develop their own databases for their own use. Also, a customer of the Celera Genomics group may use the products or services of the Celera Genomics group to develop products or services that compete with products or services separately developed by the Celera Genomics group or its customers.

Competitors may also discover and characterize genes or proteins involved in disease processes, potential candidates for new therapeutics, drug discovery and development technologies, or drugs in advance of the Celera Genomics group or its customers, or which are more effective than those developed by the Celera Genomics group or its customers, or may obtain regulatory approvals of their drugs more rapidly than the Celera Genomics group or its customers do, any of which could have a material adverse effect on any of the similar programs of the Celera Genomics group or its customers. Moreover, these competitors may obtain patent protection or other intellectual property rights that would limit the Celera Genomics group's rights or its customers' ability to use the Celera Genomics group's products to commercialize therapeutic, diagnostic or agricultural products. In addition, a customer may use the Celera Genomics group's services to develop products that compete with products separately developed by the group or its other customers.

The Celera Genomics group also faces competition from software providers. A number of companies have announced their intent to develop and market software to assist pharmaceutical and biotechnology companies and academic researchers in managing and analyzing their own genomic data and publicly available data.

The Celera Genomics group's current and potential customers are primarily from, and are subject to risks faced by, the pharmaceutical and biotechnology industries.

The Celera Genomics group derives a substantial portion of its revenues from fees for its information products and services paid by pharmaceutical companies and biotechnology companies engaged in drug discovery and development. These fees accounted for approximately 70% of the Celera Genomics group's revenue in fiscal year 2001. The Celera Genomics group expects that these companies will continue to be the Celera Genomics group's primary source of revenues for the foreseeable future. As a result, the Celera Genomics group is subject to risks and uncertainties that affect the pharmaceutical and biotechnology industries and to reduction and delays in research and development expenditures by companies in these industries.

In addition, the Celera Genomics group's future revenues may be adversely affected by mergers and consolidation in the pharmaceutical and biotechnology industries, which may reduce the number of the group's existing and potential customers. Large pharmaceutical and biotechnology customers could also decide to conduct their own genomics programs or seek other providers instead of using the Celera Genomics group's products and services.

The Celera Genomics group relies on its strategic relationship with the Applied Biosystems group.

The Celera Genomics group believes that its strategic relationship with the Applied Biosystems group has provided it with a significant competitive advantage in its efforts to date to sequence the human and other genomes. The Applied Biosystems group leases instruments, sells consumables and project materials and provides research and development services to the Celera Genomics group. The Celera Genomics group paid the Applied Biosystems group \$17.3 million in fiscal year 1999, \$54.4 million in fiscal year 2000 and \$60.1 million in fiscal year 2001 for these products and services. The Celera Genomics group's continued development of its database business and successful extension of its business into therapeutics discovery and development will depend on the Applied Biosystems group's ability to continue to provide leading edge, proprietary technology and products, including advanced technologies for gene and protein analysis. If the Applied Biosystems group is unable to supply these technologies, the Celera Genomics group will need to obtain access to alternative technologies, which may not be available, or may only be available on unfavorable terms. Any change in the relationship with the Applied Biosystems group that adversely affects the Celera Genomics group's access to the Applied Biosystems group's technology or failure by the Applied Biosystems group to continue to develop new technologies or protect its proprietary technology could adversely affect the Celera Genomics group's business.

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

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

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

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

The Celera Genomics group's sales cycle is lengthy and it may spend considerable resources on unsuccessful sales efforts or may not be able to complete deals on the schedule anticipated.

The Celera Genomics group's sales cycle is typically lengthy because the group needs to educate potential customers and sell the benefits of its products and services to a variety of constituencies within those companies. In addition, each agreement involves the negotiation of unique terms. The Celera Genomics group's ability to obtain new customers for genomic information products, collaborative services, and licenses to intellectual property depends on its customers' belief that the Celera Genomics group can help accelerate their drug discovery efforts. The Celera Genomics group may expend substantial funds and management effort with no assurance that an agreement will be reached with a potential customer. Actual and proposed consolidations of pharmaceutical and biotechnology companies have affected and may in the future affect the timing and progress of the Celera Genomics group's sales efforts.

Scientific and management staff has unique expertise which is key to the Celera Genomics group's commercial viability and which would be difficult to replace.

The Celera Genomics group is highly dependent on the principal members of its scientific and management staff, particularly J. Craig Venter, its President and Chief Scientific Officer. Additional members of the Celera Genomics group's medical, scientific and information technology staff are important to the implementation of its business plan. The loss of any of these persons' expertise would be difficult to replace and could have a material adverse effect on the Celera Genomics group's ability to achieve its goals.

The Celera Genomics group's competitive position may depend on patent and copyright protection and licenses to the important intellectual property patented by others, which may not be sufficiently available.

The Celera Genomics group's ability to compete and to achieve profitability may be affected by its ability to protect its proprietary technology and other intellectual property. While the Celera Genomics group's business is currently primarily dependent on revenues from access fees to its

on-line information system, the Celera Genomics group expects that obtaining patent protection may become increasingly important to its business as it moves beyond the on-line database business. The Celera Genomics group would be able to prevent competitors from making, using or selling any of its technology for which it obtains a patent. However, patent law affecting the Celera Genomics group's business, particularly gene sequences, gene function and genetic variations, or polymorphisms, is uncertain. As a result, the Celera Genomics group is uncertain as to its ability to obtain intellectual property protection covering its information discoveries sufficient to prevent competitors from developing similar subject matter. The United States Patent and Trademark Office has recently adopted new guidelines for use in the review of the utility of inventions, particularly biotechnology inventions.

These guidelines increased the amount of evidence required to illustrate utility in order to obtain a patent in the biotechnology field, making patent protection more difficult to obtain. Although others have been successful in obtaining patents to biotechnology inventions, since the adoption of these guidelines these patents have been issued with increasingly less frequency. As a result, patents may not issue from patent applications that the Celera Genomics group may own or license if the applicant is unable to satisfy the new guidelines. In addition, because patent applications in the United States are maintained in secrecy until patents issue, third parties may have filed patent applications for technology used by the Celera Genomics group or covered by the Celera Genomics group's pending patent applications without the Celera Genomics group being aware of those applications.

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

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

The Celera Genomics group's position may depend on its ability to protect trade secrets.

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

Public disclosure of genomics sequence data could jeopardize the Celera Genomics group's intellectual property protection and have an adverse effect on the value of its products and services.

The Celera Genomics group, the federally funded Human Genome Project and others engaged in similar research have made and are expected to continue making available to the public basic human sequence data. These disclosures might limit the scope of the Celera Genomics group's claims or make subsequent discoveries related to full-length genes and proteins unpatentable. While the Celera Genomics group believes that the publication of sequence data will not preclude it or others from being granted patent protection on genes and proteins, there can be no assurance that the publication has not affected and will not affect the ability to obtain patent protection. Customers may conclude that uncertainties of that protection and the fact that the basic human sequence data is available for free decrease the value of the Celera Genomics group's information products and services and as a result, it may be required to reduce the fees it charges for its products and services.

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

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

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

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

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

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

The Celera Genomics group's research and product development depends on access to tissue samples and other biological materials.

The Celera Genomics group will need access to normal and diseased human and other tissue samples, other biological materials and related clinical and other information, which may be in limited supply. The Celera Genomics group may not be able to obtain or maintain access to these materials and information on acceptable terms. In addition, government regulation in the United States and foreign countries could result in restricted access to, or use of, human and other tissue samples. If the Celera Genomics group loses access to sufficient numbers or sources of tissue samples, or if tighter

restrictions are imposed on its use of the information generated from tissue samples, its business may be harmed.

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

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

Expected rapid growth in the number of its employees could absorb valuable management resources and be disruptive to the development of the Celera Genomics group's business.

The Celera Genomics group expects to increase its employee base significantly, including the addition of Axys' employees. This growth will require substantial effort to hire new employees and train and integrate them in the Celera Genomics group's business and to develop and

implement management information systems, financial controls and facility plans. The Celera Genomics group's inability to manage growth effectively would have a material adverse effect on its future operating results.

Products and services developed using Celera Genomics group's databases, and the therapeutic discovery and development business of the Celera Genomics group, may be subject to government regulation.

The Celera Genomics group and its pharmaceutical and biotechnology customers use the Celera Genomics group's databases for drug discovery and development, which is subject to regulation by the United States Food and Drug Administration. Any new drug developed must undergo an extensive regulatory review and approval process. This process can take many years and require substantial expense. The Celera Genomics group and its customers may also use its databases to develop products or services in the field of personalized health/medicine. However, current and future patient privacy and health care laws and regulations issued by the United States Food and Drug Administration may limit the use of data concerning an individual's genetic information. To the extent that such regulations restrict or discourage the Celera Genomics group or its customers from developing these products and services, the Celera Genomics group's business may be adversely affected.

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

As part of the Celera Genomics group's strategy, it expects to pursue acquisitions (in addition to the Axys acquisition), investments and other strategic relationships and alliances. Acquisitions, investments and other strategic relationships and alliances may involve significant cash expenditures, debt incurrence, additional operating losses, and expenses that could have a material effect on the Celera Genomics group's financial condition and results of operations. Acquisitions involve numerous other risks, including:

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

diversion of management from daily operations;

inability to obtain required financing on favorable terms;

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

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potential loss of key employees or customers of acquired companies or of the Celera Genomics group; and

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

It may be difficult for the Celera Genomics group to complete these transactions quickly and to integrate these businesses efficiently into its current business. Any acquisitions, investments or other strategic relationships and alliances by the Celera Genomics group may ultimately have a negative impact on its business and financial condition. For example, future acquisitions may not be as successful as originally anticipated and may result in special charges, such as the charges for impairment of Paracel goodwill and intangibles in the amount of \$69.1 million and for the Molecular Informatics business in the amount of \$14.5 million.

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

Applera Celera stock price is highly volatile.

The market price of Applera Celera stock has been and may continue to be highly volatile due to the risks and uncertainties described in this section of this proxy statement/prospectus, as well as other factors that may have affected or may in the future affect the market price, such as:

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

price and volume fluctuations in the stock market at large which do not relate to the Celera Genomics group's operating performance; and

comments by securities analysts or government officials, including with regard to the viability or profitability of the biotechnology sector generally or with regard to intellectual property rights of biotechnology companies, or the Celera Genomics group's failure to meet market expectations.

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

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

Applera and some of its officers have been served in five lawsuits purportedly on behalf of purchasers of Applera Celera stock in Applera's follow-on public offering of Applera Celera stock completed on March 6, 2000. In the offering, Applera sold an aggregate of approximately 4.4 million shares of Applera Celera stock at a public offering price of \$225 per share. All of these lawsuits have been consolidated into a single case and an amended consolidated complaint was filed on August 21, 2001. The consolidated complaint generally alleges that the prospectus used in connection with the offering was inaccurate or misleading because it failed to adequately disclose the alleged opposition of the Human Genome Project and two of its supporters, the governments of the United States and the United Kingdom, to providing patent protection to Applera's genomic-based products. Although the Celera Genomics group has never sought, or intended to seek, a patent on the basic human genome sequence data, the complaint also alleges that Applera did not adequately disclose the risk that it would not be able to patent this data. The consolidated complaint seeks unspecified money damages, rescission, costs and expenses, and other relief as the court deems proper. Although Applera believes the asserted claims are without merit and intends to defend the case vigorously, the outcome of this or any other litigation is inherently uncertain. The defense of this case will require management attention and resources.

The Celera Genomics group's ability to develop proprietary therapeutics and the Celera Genomics/Applied Biosystems Joint Venture's ability to develop proprietary diagnostic products is unproven.

The development and commercialization of new drugs by determining the causes of diseases through the study of genes, variations in genes, and the proteins expressed by genes is unproven. As the Celera Genomics group expands its efforts into this new business area, it faces the difficulties inherent in developing and commercializing therapeutic products, and it has limited experience in operating a commercial research and development program. In addition, Applera has announced the formation of Celera Diagnostics, a joint venture between the Applied Biosystems group and the Celera Genomics group in the field of diagnostics. Celera Diagnostics faces the difficulties inherent in developing and commercializing diagnostic tests and in building and operating a commercial research and development program. Given the Celera Genomics group's unproven ability to develop proprietary therapeutics and Celera Diagnostics' unproven ability to develop proprietary diagnostic products, it is possible that the Celera Genomics group's and Celera Diagnostics' discovery processes will not result in any commercial products or services. Even if the Celera Genomics group or Celera Diagnostics is able to develop products and services, it is possible that these products and services may not be commercially viable or successful due to a variety of reasons, including difficulty obtaining regulatory approvals, competitive conditions, the inability to obtain necessary intellectual property protection, the need to build distribution channels, failure to get adequate reimbursement for these products from insurance or government payors, or the inability of the Celera Genomics group or Celera Diagnostics to recover its development costs in a reasonable period.

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

You will be stockholders of Applera and, therefore, financial effects on either the Celera Genomics group or the Applied Biosystems group could adversely affect the other.

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

liabilities out of the assets attributed to that group, Applera may be required to satisfy those liabilities with assets attributed to the Celera Genomics group.

Financial effects from the Applied Biosystems group that affect Applera's consolidated results of operations or financial condition could, if significant, affect the results of operations or financial condition of the Celera Genomics group and the market price of Applera Celera stock. In addition, net losses of the Applied Biosystems group and dividends or distributions on, or repurchases of, Applera Applied Biosystems stock or repurchases of preferred stock will reduce the funds Applera can pay as dividends on Applera Celera stock under Delaware law. For these reasons, you should read Applera's consolidated financial information with the financial information it provides for each group.

The market price of Applera Celera stock may not reflect the separate performance of the Celera Genomics group business.

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

The market price of Applera Celera stock may be affected by factors that do not affect traditional common stock.

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

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

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

Limits exist on the voting power of group common stock.

Applera Celera stock may not have any influence on the outcome of stockholder voting. Applera Applied Biosystems stock currently has a substantial majority of the voting power of the common stock of Applera and had approximately 74.7% of the voting power as of August 24, 2001, the record date for Applera's 2001 annual meeting of stockholders. Except in limited circumstances where there is separate class voting, the relative voting power of the two classes of common stock fluctuates based on their relative market values. Therefore, except in cases of separate class voting, either class of common stock that is entitled to more than the number of votes required to approve any stockholder action could control the outcome of the vote even if the matter involves a divergence or conflict of the interests of the holders of Applera Celera stock and Applera Applied Biosystems stock. These matters may include mergers and other extraordinary transactions.

A class of group common stock with less than majority voting power can block action if a class vote is required. If Delaware law, stock exchange rules or the Applera board of directors

requires a separate vote on a matter by the holders of either Applera Celera stock or Applera Applied Biosystems stock, those holders could prevent approval of the matter even if the holders of a majority of the total number of votes cast or entitled to be cast, voting together as a class, were to vote in favor of it. As a result, in cases where Applera Celera stockholders and Applera Applied Biosystems stockholders vote as separate classes on a proposal, the affirmative vote of shares representing a majority of the Applera Celera stock will not prevent the Applera Applied Biosystems stockholders from defeating the proposal.

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

You will not have some of the stockholder rights traditionally associated with common stock. The Celera Genomics group will not have a separate board of directors to represent solely your interests as holders of Applera Celera stock. Consequently, there will be no board of directors that owes any separate duties to you. Applera's board of directors will act in accordance with its good faith business judgment of the best interests of Applera, taking into consideration the interests of all common stockholders regardless of class or series, which may be detrimental to you.

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

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

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

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

As a policy, Applera's board of directors periodically monitors the ownership of shares of Applera Celera stock and shares of Applera Applied Biosystems stock by Applera's directors and senior officers as well as their option holdings and other benefits so that their interests are not misaligned with the two classes of common stock and with their duty to act in the best interests of Applera and its stockholders as a whole. However, because the actual stock market value of their interests in Applera Celera stock and Applera Applied Biosystems stock could vary significantly, it is possible that they could favor one group over the other as a result of their common stock holdings, options and other benefits. As of October 1, 2001, Applera's directors and senior officers held shares of Applera Celera stock and shares of Applera Applied Biosystems stock representing approximately equal percentages of the total shares outstanding of Applera Celera stock and Applera Applied

Biosystems stock. The stock market value of these shares will vary with fluctuations in the market price of Applera Celera stock and Applera Applied Biosystems stock. However, the market capitalization of the Applied Biosystems group is substantially greater than that of the Celera Genomics group and, therefore, the market value of the Applera Applied Biosystems stock held by Applera's directors and senior officers was significantly higher than the market value of the Applera Celera stock held by them on that date.

Numerous potential conflicts of interest exist between the classes of common stock that may be difficult to resolve by Applera's board or may be resolved adversely to one of the classes.

Allocation of corporate opportunities could favor one group over the other. Applera's board of directors may be required to allocate corporate opportunities between the groups. In some cases, Applera's directors could determine that a corporate opportunity, such as a business that it is acquiring or a new business, should be shared by the groups or be allocated to one group over the other. Any decisions could favor one group to the detriment of the other.

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

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

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

Holders of either class of common stock may be adversely affected by a conversion of group common stock. Applera's board of directors could, in its sole discretion and without stockholder approval, determine to convert shares of Applera Applied Biosystems stock into shares of Applera Celera stock, or vice versa, at any time, including when either or both classes of common stock may be considered to be overvalued or undervalued. If Applera's board of

directors chose to issue Applera Celera stock in exchange for Applera Applied Biosystems stock, the conversion would dilute the interests in Applera of the holders of Applera Celera stock. If the board of directors were to choose to issue Applera Celera stock in exchange for Applera Applied Biosystems stock, or vice versa, the conversion could give holders of shares of the class of common stock being converted a greater or lesser premium than any premium that was paid or might be paid by a third-party buyer of all or substantially all of the assets of the group whose stock is converted.

Cash proceeds of newly issued Applera Celera stock in the future could be allocated to the Applied Biosystems group. If and to the extent the Applied Biosystems group holds "Applera Celera Genomics Designated Shares" at the time of any future sale of Applera Celera stock, Applera's board of directors could allocate some or all of the proceeds of that sale to the Applied Biosystems group in consideration of a reduction in the number of these shares. Applera Celera Genomics Designated Shares are a type of authorized shares of Applera Celera stock that is described under "Description of Applera Capital Stock" in this proxy statement/prospectus. Any decision could favor one group over the other group. For example, the decision to allocate the proceeds of that sale to the Applied Biosystems group could adversely affect the Celera Genomics group's ability to obtain funds to finance its growth strategies. The Applied Biosystems group does not currently hold any Applera Celera Genomics Designated Shares. Applera Celera Genomics Designated Shares could be issued in the future if Applera's board of directors determines that the Celera Genomics group requires additional capital to finance its business and that the Applied Biosystems group should supply that capital.

Applera's board of directors may change its management and allocation policies without stockholder approval to the detriment of either group.

Applera's board of directors may modify or rescind Applera's policies with respect to the allocation of corporate overhead, taxes, debt, interest and other matters, or may adopt additional policies, in its sole discretion without stockholder approval. A decision to modify or rescind these policies, or adopt additional policies, could have different effects on holders of Applera Celera stock and holders of Applera Applied Biosystems stock or could result in a benefit or detriment to one class of stockholders compared to the other class. Applera's board of directors 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.

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

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

as a reallocation of pooled debt or preferred stock;

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

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

as a sale of assets between groups.

Applera's board of directors has not adopted specific criteria for determining when it will account for the transfer of cash or other property as a reallocation of pooled debt or preferred stock, a loan or repayment, an increase or decrease in Applera Celera Genomics Designated Shares or a sale of

assets. These determinations, including the terms of any transactions accounted for as debt, may be unfavorable to either the group transferring or receiving the cash or other property. Applera's board of directors expects to make these determinations, either in specific instances or by setting generally applicable policies, after considering the financing requirements and objectives of the receiving group, the investment objectives of the transferring group and the availability, cost and time associated with alternative financing sources, prevailing interest rates and general economic conditions.

Applera cannot assure you that any terms that it fixes for debt will approximate those that could have been obtained by the borrowing group if it were a stand-alone company.

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

The Applera tax allocation policy provides that some tax benefits that cannot be used by the group generating those benefits but can be used on a consolidated basis are to be transferred, without reimbursement, to the group that can use the benefits. Any tax benefits that are transferred from the Celera Genomics group to the Applied Biosystems group will not be carried forward to reduce the Celera Genomics group's future tax liability. Accordingly, future use by the Applied Biosystems group, without reimbursement, of tax benefits generated by the Celera Genomics group will result in the Celera Genomics group paying a greater portion of the total corporate tax liability than would have been the case if the Celera Genomics group were a stand-alone taxpayer.

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

Applera's certificate of incorporation provides that if a disposition of all or substantially all of the assets of the Celera Genomics group occurs, Applera must, subject to certain exceptions:

distribute to holders of Applera Celera stock an amount equal to the net proceeds of the disposition; or

convert at a 10% premium shares of Applera Celera stock into shares of Applera Applied Biosystems stock.

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

Applera's capital structure and variable vote per share may discourage acquisitions of the Celera Genomics group or Applera Celera stock.

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

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Decisions by Applera's board of directors and officers that affect market values could adversely affect voting and conversion rights.

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

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

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

Legislative proposals could have adverse tax consequences for Applera and holders of Applera Celera stock and Applera Applied Biosystems stock.

The Clinton Administration Budget Proposals in 1999 and 2000 proposed legislation that would have adversely affected holders of tracking stock such as Applera Celera stock and Applera Applied Biosystems stock. The 1999 proposal would have required corporate-level gain recognition on the issuance of tracking stock, while the 2000 proposal would have required that the stockholders of the issuing corporation be taxed upon the receipt of tracking stock in specified circumstances. Although Congress did not act on either proposal and the recent Bush Administration Budget Proposal does not contain a similar provision, it is impossible to predict whether any proposals relating to tracking stock will be made in the future, and to what extent Congress would act upon any proposals.

Applera may convert Applera Celera stock or Applera Applied Biosystems stock into shares of the other class without any premium if, based on the legal opinion of its tax counsel, it is more likely than not as a result of the enactment of legislative changes or administrative proposals or changes that Applera or its stockholders will be subject to tax upon issuance of Applera Celera stock or Applera Applied Biosystems stock or that the stock will not be treated as stock of Applera.

Risks Related to the Applied Biosystems Group

Rapidly changing technology in life sciences could make the Applied Biosystems group's product line obsolete unless it continues to improve existing products, develop new products, and pursue new market opportunities.

A significant portion of the net revenues for the Applied Biosystems group each year is derived from products that did not exist in the prior year. The Applied Biosystems group's future success depends on its ability to continually improve its current products, develop and introduce, on a timely and cost-effective basis, new products that address the evolving needs of its customers, and pursue new market opportunities that develop as a result of technological and scientific advances in life sciences. The Applied Biosystems group's products are based on complex technology which is subject to rapid change as new technologies are developed and introduced in the marketplace. Unanticipated difficulties or delays in replacing existing products with new products could adversely affect the Applied

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Biosystems group's future operating results. The pursuit of new market opportunities will add further complexity and require additional management attention and resources as these markets are addressed.

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

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

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

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

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

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

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Applera is currently subject to patent litigation with Amersham Pharmacia Biotech, Inc. and Molecular Dynamics, Inc. In the litigation, Amersham and Molecular Dynamics allege that the Applied Biosystems group has infringed four Amersham patents as a result of the Applied

Biosystems group's sale of DNA sequencing instrumentations and reagents. Also in the litigation, Applera has brought suit against Amersham and Molecular Dynamics alleging that they have infringed two of Applera's patents as a result of their sale of their DNA sequencing instrumentations and reagents. At present, these lawsuits are not scheduled for trial. The sale of DNA sequencing instrumentation and reagents is an important part of the Applied Biosystems group's business. If these lawsuits proceed to trial, the cost of the litigation, and the amount of management time that will be devoted to the litigation, will be significant. There can be no assurance that this litigation will be resolved favorably to Applera or either the Celera Genomics group or the Applied Biosystems group, that Applera and both of its groups will not be enjoined from selling the products in question or other products as a result, or that any monetary or other damages assessed against Applera will not have a material adverse effect on the financial condition of Applera, the Celera Genomics group, or the Applied Biosystems group.

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

Approximately 50% of the Applied Biosystems group's net revenues during fiscal 2001 were derived from sales to customers outside of the United States. The majority of these sales were based on the relevant customer's local currency. A significant portion of the related costs for the Applied Biosystems group are based on the U.S. dollar. As a result, the Applied Biosystems group's reported and anticipated operating results and cash flows are subject to fluctuations due to material changes in foreign currency exchange rates that are beyond the Applied Biosystems group's control.

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

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

Electricity shortages and earthquakes could disrupt operations in California.

The headquarters and principal operations of the Applied Biosystems group are located in Foster City, California. The State of California and its principal electrical utility companies have recently indicated that there is a statewide electricity shortage and that these utility companies are in poor financial condition. As a result, California has experienced temporary localized electricity outages, or rolling blackouts, which may continue or worsen into blackouts of longer duration in the future. Blackouts in Foster City, even of modest duration, could impair or cause a temporary suspension of the group's operations, including the manufacturing and shipment of new products. Power disruptions of an extended duration or high frequency could have a material adverse effect on operating results. In addition, Foster City is located near major California earthquake faults. The ultimate impact of earthquakes on the Applied Biosystems group, its significant suppliers, and the general infrastructure is unknown, but operating results could be materially affected in the event of a major earthquake.

The Celera Genomics/Applied Biosystems Joint Venture's ability to develop proprietary diagnostic products is unproven.

Applera has announced the formation of Celera Diagnostics, a joint venture between the Applied Biosystems group and the Celera Genomics group in the field of diagnostics. Celera Diagnostics faces

the difficulties inherent in developing and commercializing diagnostic tests and in building and operating a commercial research and development program. Celera Diagnostics' ability to develop proprietary diagnostic products is unproven, and it is possible that Celera Diagnostics' discovery process will not result in any commercial products or services. Even if Celera Diagnostics is able to develop products and services, it is possible that these products and services may not be commercially viable or successful due to a variety of reasons, including difficulty obtaining regulatory approvals, competitive conditions, the inability to obtain necessary intellectual property protection, the need to build distribution channels, failure to get adequate reimbursement for these products from insurance or government payors, or the inability of Celera Diagnostics to recover its development costs in a reasonable period.

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This proxy statement/prospectus is being furnished to stockholders of Axys in connection with the solicitation of proxies by the board of directors of Axys for use at the special meeting of its stockholders.

Date, Time and Place

The special meeting will be held at Axys' headquarters located at 180 Kimball Way, South San Francisco, California 94080, at 10:00 a.m. Pacific Time, on November [], 2001.

Purpose of the Special Meeting

At the special meeting, holders of Axys common stock will be asked to consider and vote upon the approval and adoption of the merger agreement and the approval of the merger and such other matters as may properly be brought before the special meeting.

The Axys board of directors has, by unanimous vote, approved the merger agreement and the merger and the transactions contemplated thereby, and recommends a vote FOR approval and adoption of the merger agreement and approval of the merger.

Record Date; Stock Entitled to Vote

Only holders of record of Axys common stock at the close of business on October 1, 2001, the record date for the special meeting, are entitled to receive notice of and to vote at the special meeting. Axys common stock constitutes the only issued and outstanding class of voting securities of Axys.

On the record date, 40,486,750 shares of Axys common stock were issued and outstanding and were held by 503 holders of record. Holders of record of shares of Axys common stock on the record date are each entitled to one vote per share on each matter to be considered at the special meeting.

Quorum

The presence at the special meeting, either in person or by proxy, of a majority of the shares of Axys common stock outstanding on the record date is necessary to constitute a quorum to transact business at the special meeting. If a quorum is not present, it is expected that the special meeting will be adjourned or postponed in order to solicit additional proxies.

Abstentions and "broker non-votes" will be counted for the purpose of determining whether a quorum is present. Broker non-votes are shares held by brokers or nominees on behalf of customers that are represented at the meeting but with respect to which the broker or nominee has not been instructed how to vote. Brokers holding shares of Axys common stock in street name for customers are prohibited from voting those customers' shares regarding the merger agreement and the merger in the absence of specific instructions from those customers.

Vote Required

The approval and adoption of the merger agreement and the approval of the merger requires the affirmative vote of holders of a majority of the shares of Axys common stock issued and outstanding and entitled to vote on the record date for the special meeting. If you abstain from voting or do not vote, either in person or by proxy, it will have the same effect of a vote against adoption and approval of the merger agreement and approval of the merger.

Share Ownership of Management and Others

At the close of business on the record date, directors and executive officers of Axys and their affiliates beneficially owned and were entitled to vote approximately 342,690 shares of Axys common

stock, representing approximately 0.8% of the shares of Axys common stock issued and outstanding on the record date. Each of those directors and executive officers has indicated his or her present intention to vote, or cause to be voted, the Axys common stock owned by him FOR the approval and adoption of the merger agreement and approval of the merger.

Voting of Proxies

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Shares represented by all properly executed proxies received in time for the special meeting will be voted at the special meeting in the manner specified by the holders thereof. Except for the broker non-votes, properly executed proxies that do not contain voting instructions will be voted in favor of the approval and adoption of the merger agreement and approval of the merger.

For voting purposes at the special meeting, only shares voted in favor of approval and adoption of the merger agreement and approval of the merger (which includes properly executed proxies without voting instructions but not broker non-votes) will be counted as favorable votes for the approval and adoption. The failure to submit a proxy (or to vote in person) or the abstention from voting or submission of a broker non-vote with respect to the approval and adoption will have the same effect as a vote against approval and adoption of the merger agreement and approval of the merger.

It is not expected that any matter other than those referred to in this proxy statement/prospectus will be brought before the special meeting. If, however, other matters are properly presented for a vote, the persons named as proxies will vote in accordance with their judgment with respect to those matters. The persons named as proxies by a holder of Axys common stock may propose and vote for one or more adjournments of the special meeting to permit further solicitations of proxies in favor of approval and adoption of the merger agreement and approval of the merger; however, no proxy which is voted against the approval and adoption of the merger agreement and approval of the merger will be voted in favor of an adjournment.

Revoking Proxies

Holders of Axys common stock on the record date may revoke their proxies at any time prior to the time their proxies are voted at the special meeting. Proxies may be revoked by written notice, including by telegram or facsimile, to the Secretary of Axys, by a later-dated proxy signed and returned by mail, or by attending the special meeting and voting in person. Attendance at the special meeting will not in and of itself constitute a revocation of a proxy. Any written notice of a revocation of a proxy must be sent so as to be delivered before the taking of the vote at the special meeting as follows:

Axys Pharmaceuticals, Inc.
180 Kimball Way
South San Francisco, CA 94080
Facsimile: (650) 829-1147
Attention: William J. Newell

Adjournments

The special meeting may be adjourned for the purpose of, among other things, soliciting additional proxies. Any adjournment may be made at any time by stockholders representing a majority of the votes present in person or by proxy at the special meeting, whether or not a quorum exists, without further notice other than by an announcement made at the meeting.

If a motion to adjourn or postpone the special meeting to another time or place is made because a quorum is not present at the time the special meeting is convened or for the purposes of soliciting additional proxies or allowing additional time for the satisfaction of conditions of the merger, the persons named as proxies will have the discretion to vote on these matters in accordance with their

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best judgment. However, proxies to be voted against a specific proposal may not be used to vote in favor of an adjournment of the special meeting for the purpose of soliciting additional votes in favor of that proposal or allowing additional time for the satisfaction of conditions of the merger.

Proxy Solicitation

Axys will bear the cost of the solicitation of proxies from its stockholders, except that Applera will pay 75% of the cost of filing, printing and distributing the registration statement and this proxy statement/prospectus and Axys will be responsible for 25% of these costs. In addition to solicitation by mail, the directors, officers and employees of Axys may solicit proxies from stockholders of Axys by telephone or telegram or by other means of communication. These directors, officers and employees will not be additionally compensated but may be reimbursed for reasonable out-of-pocket expenses in connection with the solicitation.

Axys has retained MacKenzie Partners, Inc. to assist in the solicitation of proxies by Axys. Axys will pay \$6,000, plus reimbursement of some out-of-pocket expenses, to MacKenzie Partners for its services. Axys will cause brokerage houses and other custodians, nominees and fiduciaries to forward solicitation materials to the beneficial owners of common stock held of record by those persons. Axys will reimburse any

of these custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses in doing so.

Do not send in any stock certificates with your proxy cards. Applera will instruct its exchange agent to send transmittal forms with instructions for the surrender of certificates representing shares of Axys common stock in exchange for the issuance of certificates representing shares of Applera Celera stock to former holders of Axys common stock shortly after the merger is completed.

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THE MERGER

Background of the Merger

In January 2000, Axys' management and board of directors concluded that Axys should explore opportunities for a strategic combination with a company in the life sciences industry. Axys was concerned that its limited financial resources and limited access to novel drug targets would constrain Axys' long-term ability to capitalize on its core scientific assets, primarily its highly skilled scientific employee base. At that time, Axys' cash was running low; it was lower than historical levels as a result of a strategic decision in early 1999 to internally develop a number of its drug discovery programs, rather than seeking a partner and on-going funding for these programs that would provide immediate revenue to Axys. In addition, in January 2000 Axys believed it would have difficulty raising additional capital due to adverse capital market conditions facing the biotech sector generally. This concern was heightened by Axys' challenges in realizing near-term value from any of its affiliated businesses through the sale or equity financing of these businesses. In early 2000, discussions regarding the potential sale of one of these affiliated businesses had been terminated and the other two affiliated businesses were believed to be inadequately developed to attract potential buyers or investors. Consequently, Axys engaged Lehman Brothers as its financial advisor and, through Lehman Brothers, Axys held preliminary discussions with various potential strategic parties during the first two quarters of 2000. None of these discussions progressed beyond the preliminary stage, and on or about August 2000, Axys terminated its relationship with Lehman Brothers.

In addition to exploring the opportunities for strategic combinations during the first half of 2000, Axys also sought additional financing for its operations, and engaged in a series of transactions in 2000 to provide Axys with further funding. In March 2000, when investor interest in the biotech sector was strong, Axys raised approximately \$31.5 million in gross proceeds through a private placement of Axys common stock. In April 2000, Axys merged its subsidiary Advanced Technologies with Discovery Partners and acquired 7,425,000 shares of Discovery Partners stock. Discovery Partners subsequently went public in July 2000; however, the Discovery Partners shares owned by Axys, which represented approximately 33% of Discovery Partners' outstanding shares, were subject to an underwriters' lock up until January 2001 and continue to be subject to various restrictions on resale. In July 2000, Axys put in place an equity line of credit for up to \$50 million and made an initial draw down of \$10 million. In September 2000, Axys raised an additional \$26 million by selling convertible notes with warrants, which notes were collateralized by most of Axys' Discovery Partners shares. Based on the closing price of Discovery Partners common stock on the Nasdaq National Market on September 1, 2000, Axys' 33% stake in Discovery Partners had a market value in excess of \$145 million. In December 2000, Axys agreed to merge its subsidiary PPGx with another private company, DNA Sciences. Although DNA Sciences filed for an initial public offering in January 2001, it subsequently withdrew that offering. Axys' other spinout business, Akkadix, sought but failed to secure additional funding in late 2000, and in early 2001, laid off a substantial portion of its workforce and was forced to substantially reduce its operations. On September 24, 2001, Akkadix filed a voluntary petition for relief under Chapter 7 of the United States Bankruptcy Code with the United States Bankruptcy Court for the Southern District of California. Axys does not expect any future benefit from its investment in Akkadix.

In Axys' view during late 2000, the following factors were important to its continuing ability to fund its programs for the next several years: (1) the ability to sell its Discovery Partners shares and the amount that could be realized from that sale, since their market value had declined substantially since the convertible note transaction in which \$26 million had been borrowed, (2) the ability to sell its shares in privately-held DNA Sciences and the amount that could be realized from that sale, (3) the ability to raise additional funding through the equity line or other sources in light of the current difficult biotech funding environment and (4) the entry into additional research and development collaborations to further reduce Axys' operating expenditures.

In January 2001, Axys received an unsolicited invitation from an interested party in the life sciences industry to discuss a possible strategic combination that did not convey specific terms or structure. In February, in response to the overture from this interested party, Axys requested JPMorgan H&Q, a division of J.P. Morgan Securities Inc., to assist Axys in identifying potential merger partners,

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exploring other strategic and financial transactions for Axys and reviewing publicly available information regarding possible merger partners. In identifying potential merger partners, Axys and JPMorgan H&Q focused on parties that had a potential strategic fit with Axys' expertise in the

discovery, design and development of small molecule drugs. Axys and JPMorgan H&Q did not openly solicit indications of interest for a merger or other business combination with Axys but targeted and contacted strategic parties that could facilitate the growth of Axys' business. JPMorgan H&Q was not formally engaged by Axys until May 7, 2001. The initial interested party did not deliver a firm proposal to Axys and ended discussions about a potential business combination at an early stage.

During the course of the ensuing months, JPMorgan H&Q and/or Axys engaged in discussions with approximately 10 other potential strategic parties, including Applera, which were potential merger partners for Axys and/or which Axys believed might have the potential to provide Axys with novel targets and other valuable resources. Preliminary discussions with these potential strategic parties about the possibility of a business combination transaction were initiated in a variety of ways. Some of the parties were contacted by JPMorgan H&Q at the request of Axys, others were contacted by Axys during the course of discussions of potential research and development relationships and others approached Axys directly with indications of interest in a potential business combination. Five of the strategic parties contacted by JPMorgan H&Q and/or Axys, including Applera, had preliminary meetings with Axys about potential business combination transactions and commenced preliminary due diligence reviews of Axys' business. Of these five parties with which Axys held preliminary meetings, Applera and one other strategic party expressed interest in further pursuing a potential business combination.

On April 2, Paul Hastings, Axys' President and Chief Executive Officer, Dr. Michael Venuti, Senior Vice President, Research and Preclinical Development and Chief Technical Officer and William Newell, Senior Vice President, Corporate & Business Development, met with Dr. Peter Barrett, Chief Business Officer of the Celera Genomics group, to discuss a possible transaction in general terms. On that same date, Axys and Applera entered into a confidentiality agreement. Executives of both companies, as well as their respective financial advisors, met periodically over the ensuing weeks to explore a potential strategic combination. Commencing in mid-April, Applera began a preliminary due diligence review of Axys' operations.

On May 2 and 3, a team from the Celera Genomics group led by Dr. Barrett met with Axys management to further discuss the Axys business. After that meeting and throughout the remainder of May, Applera conducted a more thorough due diligence review of Axys' business, scientific, legal and financial affairs and engaged in more in depth discussions with Axys' senior management team. Additional information was exchanged during these discussions about company strategies and potential synergies. Additionally, the importance of retaining Axys' skilled scientific work force was discussed, as well as various possible methods of providing incentives to that work force to remain after the conclusion of the potential transaction. During the month of May, Axys and Applera and their respective financial advisors also commenced preliminary negotiations regarding the possible financial terms for a merger.

On May 31, representatives of Applera informed Axys that Applera was considering a stock transaction in which each share of Axys stock would be exchanged for \$4.50 in Applera Celera stock. In addition, Applera indicated that it was considering providing additional stock options to some Axys employees after the closing of the potential transaction as well as providing that no Applera Celera stock options received by Axys employees upon conversion of their Axys stock options would have an exercise price in excess of the trading price of Applera Celera stock immediately prior to the closing.

The board of directors of Axys held meetings on May 14, May 17, May 23 and June 1 with Axys' management and legal advisors and, except with respect to the May 23 meeting, representatives of JPMorgan H&Q, concerning the progress of the Applera negotiations and related matters. During these meetings, the board of directors instructed management and Axys' legal and financial advisors to continue negotiations with Applera.

Beginning in the week of June 3, the respective financial advisors and legal counsel for Axys and Applera reviewed and negotiated the detailed terms of a definitive merger agreement to govern the

strategic combination of the parties and Applera continued to conduct its due diligence review of Axys' business throughout the week. On June 6, Applera's financial advisor, Morgan Stanley, confirmed with Axys' financial advisor, JPMorgan H&Q, that Applera was willing to pay \$4.50 in Applera Celera stock for each share of Axys stock, but that the \$4.50 would be subject to a 15% collar mechanism which would subject the Axys stockholders to the risk of receiving less than \$4.50 per share of Axys stock if the stock price of Applera Celera stock decreased by more than 15% prior to the closing and the opportunity to receive more than \$4.50 per share if the stock price of Applera Celera stock increased by more than 15% prior to the closing. In subsequent conversations, Axys' senior management informed representatives of Applera that a stock transaction at a higher price per share, without a collar mechanism, would be more attractive.

Tony L. White, Applera's Chairman and Chief Executive Officer, and Peter Chambré, Chief Operating Officer of the Celera Genomics group, met with Mr. Hastings on June 7, and Dr. Venuti met with Dr. Craig Venter, President and Chief Scientific Officer of the Celera Genomics group on June 10, to discuss the possible strategic transaction. On June 11, Mr. Hastings and Mr. Newell informed Dr. Barrett and Mr. Chambré that Applera would have to increase its offer price and widen the collar in order to provide more downside protection for the Axys stockholders. On the evening of June 11, representatives of JPMorgan H&Q informed the Axys board of directors and management that Applera had increased

its offer to \$4.65 per share of Axys common stock payable in Applera Celera stock based on the 10-day average trading price prior to the closing. In addition, Applera was willing to widen the collar mechanism to provide that the Axys stockholders would receive \$4.65 per share so long as the stock price did not decrease by more than 25% and that Axys stockholders would be able to participate in increases in the Applera Celera stock price until the value reached \$4.90 per share, with the ability to participate in any increases in the average price of Applera Celera stock during the calculation period that were more than 25% above the level corresponding to \$4.90 per share. Axys was informed that the new collar mechanism was designed to address Axys' concerns about protecting the Axys stockholders from a decrease of up to 25% in the market price of Applera Celera stock while enabling them to participate in increases in the average market price of Applera Celera stock during the calculation period.

The board of directors of Axys discussed the proposed terms of the merger, including the exchange ratio and other material terms, with legal counsel and representatives from JPMorgan H&Q at special meetings held on the evenings of June 10 and 11. During each of these meetings, members of the law firm of Latham & Watkins, outside counsel to Axys, reviewed with the directors their fiduciary duties. At the conclusion of each meeting, the board of directors instructed management to continue proceeding toward reaching a final definitive agreement with Applera.

During the period that Axys was providing due diligence materials to Applera, and Applera and Axys were negotiating a potential strategic combination, Axys was also providing due diligence information to the one other potential strategic party which remained interested in a potential business combination with Axys. This other potential strategic party was a large pharmaceutical company that had approached Axys on April 11 about the possibility of a strategic combination. Axys had had previous discussions with this party in January 2001 regarding a possible research and development collaboration. On April 23, Axys and the other strategic party executed a confidentiality agreement and, on the next day, Mr. Hastings, Mr. Newell and Dr. Venuti met with representatives of the other party to discuss a possible transaction, in general terms. Executives of both companies, and JPMorgan H&Q, met periodically over the next few weeks to discuss preliminary transaction structures and the other party commenced a preliminary due diligence review of Axys' business and operations. On May 23, Mr. Hastings and Mr. Newell met with representatives of the other party who indicated that it was considering a stock for stock merger in which each share of Axys common stock would be exchanged for \$4.50 in shares of common stock of the other party, based on the average trading price of the other party's common stock for the 20 trading days prior to the closing of the proposed transaction. On May 31, Mr. Hastings and Mr. Newell had additional discussions with the other party regarding due diligence and the possible merger. At that meeting Axys informed the other party that a higher per share price in the proposed merger would be more attractive, and the parties determined to commence drafting and negotiating a definitive agreement for the proposed transaction.

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During the first week of June the respective legal counsel for Axys and the other party reviewed and negotiated the detailed terms of a definitive merger agreement and had numerous discussions about the terms of the possible merger; in particular, the parties discussed Axys' ability to continue to operate its business during the pre-closing period and concerns that Axys had with the other party's requirement that the potential transaction be contingent on retaining 17 of 20 identified members of Axys' senior scientific staff through the closing of the potential transaction. On June 10, the other party increased its offer to \$4.75 per share of Axys common stock, payable in shares of common stock of the other party based on the twenty-day average trading price prior to the closing of the proposed transaction, but indicated that the employee retention condition was an integral part of its offer that it would not be prepared to eliminate. On June 11, the other party indicated that it would be willing to reduce the employee retention condition from 17 of 20, to 14 of 20 identified scientific personnel and to permit Axys to provide limited cash incentives to Axys employees. The cash incentives that the other party agreed to permit Axys to provide totaled an aggregate amount of \$750,000, only one-half of which could be paid by Axys to those employees who remained employed through the closing of the proposed transaction. The remaining half could be paid to Axys employees following the closing of the proposed transaction upon the achievement of specified performance objectives.

The status and terms of this alternative merger proposal were reviewed and discussed by the Axys board members during the board meetings held on May 14, May 17, May 23, June 1, June 10 and June 11, and during each of the meetings, the Axys board of directors instructed management to continue to pursue this potential merger transaction concurrently with their discussions with Applera.

The Axys board of directors believes that Axys' success to date and ongoing value are attributable to Axys' base of highly-qualified and experienced scientific employees. The Axys board of directors had significant concerns regarding Axys' ability to retain these very talented and sought after employees through the closing of a potential merger with this second party, and failing this retention, concerns that the potential merger might fail to close because the other party was requiring that the closing of the merger be contingent on Axys retaining a significant number of its scientific employees. Concern further deepened when the Axys board of directors was informed by Axys management that they were not confident that Axys could retain key scientific employees if a merger with a large pharmaceutical company were consummated, as it was believed that some might leave Axys in order to remain in the biotechnology industry rather than join a large pharmaceutical company. In this regard, Axys believed that the limited cash retention incentives that the other party would permit Axys to make available to its employees would not be sufficient to retain key scientific personnel. Although terms of the proposed transaction with Applera did not include cash retention incentives, the closing of the transaction was not conditioned upon retaining employees through the closing. In addition, Axys believed that it would have an increased ability to retain its employees through the closing of the merger with the Applera affiliate. This belief was based on the

current business practices of Applera, which encouraged collaborations for drug discovery and development, and its position within the biotechnology industry. This belief was also based on Applera's willingness to provide that all Axys stock options held by Axys employees that would be converted to Applera Celera stock options in the proposed merger would have an exercise price not exceeding the trading price of Applera Celera stock immediately prior to the merger and to consider the issuance of additional stock options to Axys employees following the merger. In addition, the second party wanted to limit strictly Axys' ability to amend and extend its existing collaboration agreements and enter into similar agreements for non-sponsored research and development programs prior to the closing of a merger. Although the terms of the proposed transaction with Applera required that, except in limited specified circumstances, Axys obtain the consent of Applera prior to amending or extending its existing collaboration agreements or entering into new collaboration agreements, senior management of Applera had indicated that Applera expected to be receptive to Axys's requests to enter into agreements as continued partnering has been and was expected to be generally consistent with the business practices of the Celera Genomics group. In contrast, the other party had a business strategy that focused on internal development for its own benefit rather than through collaboration. The board of directors noted that Axys' existing and planned collaboration agreements were an integral part of Axys' financial planning, and the elimination of these initiatives would meaningfully jeopardize Axys' sources of revenue and liquidity. The board of directors

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concluded that if the merger with this second party failed to close due to a failure to retain employees or some other reason, Axys' ability to continue its operations would be hampered significantly if it could not pursue its collaboration initiatives during the pre-closing period. At its meetings on June 1, June 10 and June 11, the board of directors discussed the differences between the terms of the two proposed transactions, including discussions about the closing conditions and the restrictions on Axys' ability to operate its business prior to the closing being required by Applera and the other party, as well as the differences between the Applera Celera stock and the common stock being offered by the other party. Concerns about the certainty of closing the merger due primarily to the other party requiring that the transaction be conditioned on retaining scientific personnel, in addition to concerns about the ongoing financial strength of Axys in the event the merger did not close, led the board of directors to conclude in its June 11 meeting that the Applera transaction, which was not contingent on retaining employees and offered Axys greater flexibility to continue partnering and collaboration initiatives, was superior to the proposal from the second party.

Immediately following the board meeting on June 11, and again during the afternoon and evening of June 12, Axys and its financial advisor invited the second party to revise its proposal to address Axys' concerns about its limited ability to operate its business during the pre-closing period and the employee retention condition. To date, Axys has not received a new proposal from the second party.

At a special meeting of the Axys board of directors held on the evening of June 12, 2001 and attended by JPMorgan H&Q and Axys' legal counsel, Latham & Watkins and Richards, Layton & Finger, the board of directors reviewed and discussed the final definitive Applera merger agreement. Axys' legal counsel reviewed with the members of the Axys board of directors their fiduciary duties relating to the proposed transaction with Applera. Also at this meeting, JPMorgan H&Q reviewed its financial analysis of the exchange ratio provided for in the transaction and delivered to the Axys board of directors its oral opinion (which opinion was confirmed by a written opinion dated June 12, 2001) to the effect that, as of the date provided in the opinion, and based on and subject to the matters described in the opinion, the exchange ratio provided for in the transaction was fair, from a financial point of view, to holders of Axys' common stock. See "The Merger Opinion of the Financial Advisor to the Axys Board of Directors" in this proxy statement/prospectus for more information about the opinion delivered by JPMorgan H&Q. The opinion is attached as Annex B to this proxy statement/prospectus. JPMorgan H&Q expressed no opinion as to the fairness of the offer from the second party nor did it make a recommendation to pursue one transaction over any other. At the conclusion of the meeting, the board of directors unanimously determined that the Applera merger was fair to and in the best interests of Axys' stockholders and approved the definitive merger agreement.

At a special meeting of the board of directors of Applera held by telephone on the afternoon of June 12, 2001 and attended by Morgan Stanley & Co. Incorporated, financial advisor to Applera, and Applera's legal counsel, Simpson Thacher & Bartlett, the board of directors reviewed and discussed the proposed terms of the merger transaction with Axys. The Applera board of directors approved the terms of the merger and delegated authority to members of senior management to finalize and enter into a definitive merger agreement.

The merger agreement was executed the night of June 12, 2001, and the transaction was announced in a joint press release on the morning of June 13, 2001.

Reasons of Axys for the Merger

The Axys board of directors carefully considered the terms and conditions of the merger agreement and the proposed merger. The Axys board of directors unanimously determined that the merger of Axys pursuant to the terms of the merger agreement is in the best interests of Axys' stockholders, unanimously approved the merger agreement and the merger and unanimously recommended that the stockholders of Axys vote to approve and adopt the merger agreement and approve the merger.

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In reaching its unanimous decision to approve the merger agreement, the Axys board of directors considered a number of positive factors, including the following:

the combination of the Celera Genomics group's strong capabilities in the areas of genomics; proteomics, which is the study of proteins encoded by genes; information technology; and high throughput computation, which is the study of multiple genes and their expressions simultaneously; and Axys' complementary strengths in the areas of medicinal, structural and combinatorial chemistry and biology, would enable the combined company to more effectively pursue the research and development of innovative small molecule drugs;

the combined company's enhanced ability to identify a high volume of new therapeutic targets, select the best targets from among them and develop new drugs to intervene with the targets;

the opportunity for Axys' stockholders to participate in a larger and better capitalized organization and to benefit from the potential appreciation in Applera Celera stock;

the opportunity for holders of Axys common stock to receive a significant premium of approximately 35% over the existing market price for shares of Axys' common stock prior to the announcement of the merger based on the Axys closing price on June 11, 2001 and the average closing price of Applera Celera stock for the 10 trading days preceding the announcement, and a greater premium if the average closing price of Applera Celera stock during the calculation period for the exchange ratio rose above \$45.77;

the greater liquidity of Applera Celera stock illustrated by the average daily trading volume of Applera Celera stock of 723,830 shares over the 10 trading days preceding the announcement of the merger as compared to 82,120 shares of Axys common stock over the same period;

Access to analyst coverage, as Applera Celera stock was covered by approximately 13 analysts, while Axys had no analyst coverage at the time the merger was announced.

the increased ability of Axys to access capital for research and development;

the scientific renown of the Celera Genomics group and its access to cutting-edge technologies, including technologies from the Applied Biosystems group;

the opinion of the financial advisor to the Axys board of directors that, as of June 12, 2001, and subject to the assumptions and limitations set forth in the fairness opinion, the exchange ratio was fair, from a financial point of view, to the holders of the outstanding shares of Axys' common stock, and the financial presentation made by Axys' financial advisor to the board of directors in connection with the delivery of its opinion;

the fact that with the assistance of its financial advisor Axys had engaged in a review of the available alternatives for strategic and financial transactions, and the fact that the Axys board of directors had concluded that Applera was the best available alternative for Axys for a strategic combination;

the ability of Axys to terminate the merger agreement upon receipt of a superior acquisition proposal, subject to the payment of specified customary termination fees;

the fact that the parties intended for the merger to qualify as a tax-free transaction for United States federal income tax purposes (except for tax resulting from any cash received for fractional shares by the holders of Axys common stock) which would permit Axys' stockholders to receive Applera Celera stock in a tax-free exchange;

the belief that Axys would have an increased ability to retain its employees through the closing of the merger due to the willingness of Applera to permit Axys to provide incentives to Axys' employees;

if Axys were to remain as a stand-alone company, there was a substantial possibility it would need to undertake significant cost savings measures to continue its business operations, including termination of a large number of its employees;

the belief that Axys and the Celera Genomics group have complementary cultures, which would assist Axys in the retention of its scientific employees through the closing of the transaction;

the limited conditions to closing and likelihood of closing the transaction;

the extensive negotiation process undertaken before the signing of the merger agreement;

the expectation that Axys' existing relationships with third-party collaborators would not be harmed by the merger since the Celera Genomics group actively seeks collaborative relationships and is not currently a direct competitor of Axys' major collaborators; and

the fact that Axys' strategy of extending existing collaboration agreements as well as pursuing additional collaboration agreements was consistent with the strategy of the Celera Genomics group.

The Axys board of directors also considered a number of potentially negative factors in its deliberations concerning the merger, including:

the risk that the merger would not be completed in a timely manner or at all, or, if completed, that the benefits sought in the merger would not be achieved;

the risk that the average closing price of Applera Celera stock during the 10-day period ending two business days prior to closing will decline below \$34.32, the level below which there will be no further adjustment to the exchange ratio, so that the market price of the Applera Celera stock to be received by holders of Axys common stock will be less than \$4.65 per share of Axys common stock;

that the market value of Applera Celera stock may decline after the closing of the merger;

the substantial management time and effort that will be required to consummate the merger and integrate the operations of the two companies;

the possibility that provisions in the merger agreement would likely have the effect of discouraging other persons potentially interested in merging with Axys from pursuing the opportunity; and

the other risks and uncertainties discussed above under "Risk Factors."

The Axys board of directors believes that these negative risks are outweighed by the potential benefits to be gained by the merger.

The Axys board of directors, at a meeting on October 5, 2001, discussed the merger in light of the decline in the stock market price of Applera Celera stock since the execution of the merger agreement. The Axys board of directors concluded that it has no reason to believe the relative values of the two companies have changed in any material respect. The Axys board of directors took into consideration the relative performance of the stock market, the biotechnology industry, and the genomic peer group to the stock performance of Applera Celera since the announcement of the merger and since the beginning of this year, as well as the public announcements made by Applera Celera since the announcement of the merger.

The foregoing discussion of the information and factors considered by the board of directors of Axys is not intended to be exhaustive. In view of the wide variety of the factors considered by the board of directors in evaluating the merger and the complexity of these matters, the board of directors of Axys did not find it practicable to, and did not, quantify or otherwise attempt to assign any relative weight to the various factors considered. In considering the factors described above, individual members of the board of directors of Axys may have given different weight to different factors.

Recommendation of the Axys Board of Directors

After careful consideration, and in light of the factors described under the heading "Reasons for the Merger Axys," the Axys board of directors has unanimously determined that the merger agreement is advisable, and that the merger and the consideration to be paid to the holders of Axys' common stock in the merger are fair to, and in the best interests of, the holders of Axys' common stock. Accordingly, the Axys board of directors has unanimously approved the merger agreement and the merger, and unanimously recommends that the holders of Axys' common

stock entitled to vote at the special meeting vote FOR the proposal to approve and adopt the merger agreement and approve the merger.

Reasons of Applera for the Merger

In reaching its determination to approve the merger agreement and the transactions contemplated thereby, the Applera board of directors considered a number of factors, including the factors listed below.

The board of directors' belief that the technology, expertise and infrastructure that would be acquired in the proposed acquisition of Axys would assist the Celera Genomics group in achieving its strategic goal of expanding its business in drug discovery and development and accelerate the ability of the Celera Genomics group to identify innovative new therapies. Specifically, the board of directors believes that combining the Celera Genomics group's target discovery programs with Axys' small molecule lead identification and optimization capabilities could lead to the development of new therapeutic products.

The board of directors' belief that Axys' highly-qualified and experienced scientific employees would be complementary with those of the Celera Genomics group and that the two organizations have complementary cultures.

The board of directors' belief that the combination of capabilities of Axys and the Celera Genomics group would provide increased opportunities for revenue growth through new and accelerated internal and collaborative therapeutic discovery and development programs.

The board of directors' belief that a business combination with Axys would provide opportunities beyond those available in a reasonable time frame through internal growth by permitting the Celera Genomics group to acquire technical capabilities, capacity infrastructure, people and expertise that will provide a base from which the combined business could accelerate development of therapeutics.

The board of directors' determination that the terms and conditions of the merger agreement, including the form and amount of consideration and the representations, warranties, covenants and conditions contained in the agreement, are in the best interests of Applera.

None of the foregoing factors or groups of factors had particular prominence in the decision of the Applera board of directors to approve the merger agreement and the transactions contemplated thereby, and none was assigned any specific or relative weight.

Opinion of the Financial Advisor to the Axys Board of Directors

The board of directors of Axys retained JPMorgan H&Q, a division of J.P. Morgan Securities Inc., as its financial advisor in connection with the proposed merger.

The full text of the definitive written JPMorgan H&Q opinion, dated June 12, 2001, which sets forth the assumptions made, the procedures followed, the matters considered and the limitations on the scope of the review undertaken by JPMorgan H&Q in rendering its opinion is attached as Annex B to this proxy statement/prospectus. Holders of Axys common stock are urged to read the JPMorgan H&Q

opinion carefully and in its entirety. The JPMorgan H&Q opinion only addresses the fairness of the exchange ratio provided in the merger agreement, from a financial point of view, to the holders of common stock of Axys as of the date of the JPMorgan H&Q opinion, and does not constitute a recommendation to any stockholder of Axys as to how the stockholder should vote at the special meeting.

At the meeting of the board of directors of Axys on June 12, 2001, JPMorgan H&Q rendered its oral opinion to the board of directors of Axys that, as of such date, the exchange ratio provided in the merger agreement, as defined in the merger agreement, was fair, from a financial point of view, to the holders of common stock of Axys. JPMorgan H&Q has confirmed its June 12, 2001 oral opinion by delivering its written opinion, dated June 12, 2001, to the board of directors of Axys, that, as of such date, the exchange ratio provided in the merger agreement was fair, from a financial point of view, to the holders of common stock of Axys. No limitations were imposed by the board of directors of Axys upon

JPMorgan H&Q with respect to the investigations made or procedures followed by it in rendering its opinion.

In arriving at its opinion, JPMorgan H&Q (1) reviewed a draft of the merger agreement, dated June 11, 2001, which was not materially different from the final agreement; (2) reviewed publicly available business and financial information concerning Axys and the Celera Genomics group, and the industries in which they operate; (3) compared the proposed financial terms of the merger with the publicly available financial terms of transactions involving companies JPMorgan H&Q deemed relevant and the consideration received for these companies; (4) reviewed the potential impact of a relevant range of prices of Applera Celera stock on the number of shares of Applera Celera stock that each holder of Axys common stock would receive based on the effect of the collar; (5) compared the financial and operating performance of Axys and the Celera Genomics group with publicly available information concerning other companies it deemed relevant and reviewed the current and historical market prices of the common stock of Axys and Applera Celera stock and publicly traded securities of these other companies; (6) reviewed internal financial analyses and forecasts prepared by the management of Axys relating to its business; and (7) performed other financial studies and analyses and considered other information as it deemed appropriate for the purposes of its opinion.

In giving its opinion, JPMorgan H&Q relied upon and assumed, without independent verification, the accuracy and completeness of all information that was publicly available or was furnished to it by Axys and Applera or otherwise reviewed by it. JPMorgan H&Q has not conducted any valuation or appraisal of any assets or liabilities, nor have any valuations or appraisals been provided to it. In relying on financial analyses and forecasts provided to it, JPMorgan H&Q has assumed that they have been reasonably prepared based on assumptions reflecting the best currently available estimates and judgments by management and its representatives as to the expected future results of operations and financial condition of Axys and the Celera Genomics group to which these analyses or forecasts relate. JPMorgan H&Q has also assumed that the merger will qualify as a tax-free reorganization for United States federal income tax purposes, that the merger will be accounted for as a purchase, and that the other transactions contemplated by the merger agreement will be consummated as described in the merger agreement. JPMorgan H&Q has relied as to all legal matters relevant to rendering its opinion upon the advice of counsel. JPMorgan H&Q has also assumed that the definitive merger agreement did not differ in any material respects from the draft thereof furnished to it. JPMorgan H&Q has further assumed that all material governmental, regulatory or other consents and approvals necessary for the consummation of the merger will be obtained without any adverse effect on Axys, the Celera Genomics group or the Applera or on the contemplated benefits of the merger.

JPMorgan H&Q also held discussions with members of the management of Axys with respect to aspects of the merger, and the past and current business operations of Axys and the Celera Genomics group, the financial condition and future prospects and operations of Axys and the Celera Genomics

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group, the effects of the merger on the financial condition and future prospects of Axys and the Celera Genomics group, and other matters it believed necessary or appropriate to its inquiry.

The opinion of JPMorgan H&Q is necessarily based on economic, market and other conditions as in effect on, and the information made available to it as of June 12, 2001. It should be understood that subsequent developments may affect this opinion and that JPMorgan H&Q does not have any obligation to update, revise, or reaffirm this opinion. For purposes of its opinion, JPMorgan H&Q was not asked to consider, and its opinion does not address, the relative merits of the merger as compared to any alternative business strategy that might exist for Axys or of the effect of any other business combinations in which Axys might engage. The opinion of JPMorgan H&Q is limited to the fairness, from a financial point of view, to the holders of common stock of Axys of the exchange ratio in the proposed merger, and it expresses no opinion as to the underlying decision by Axys to engage in the merger. JPMorgan H&Q expressed no opinion therein as to the price at which Celera Genomics common stock will trade at any future time.

The projections furnished to JPMorgan H&Q for Axys were prepared by the management of Axys. Axys does not publicly disclose internal management projections of the type provided to JPMorgan H&Q in connection with JPMorgan H&Q's analysis of the transaction, and these projections were not prepared with a view toward public disclosure. These projections were based on numerous variables and assumptions that are inherently uncertain and may be beyond the control of management, including, without limitation, factors related to general economic and competitive conditions and prevailing interest rates. Accordingly, actual results could vary significantly from those set forth in these projections.

In accordance with customary investment banking practice, JPMorgan H&Q employed generally accepted valuation methods in reaching its opinion. The following is a summary of the material financial analyses utilized by JPMorgan H&Q in connection with providing its opinion.

Analysis of Axys

Historical Price and Premium Analysis. JPMorgan H&Q calculated the implied premium over the closing price of the common stock of Axys as of June 11, 2001 of the consideration to be paid in the proposed merger.

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Period of Sales Price Comparison	Implied Premium at \$4.65
June 11, 2001	42.6%
5 Day Average	38.6%
10 Day Average	41.5%
20 Day Average	41.0%
60 Day Average	50.2%
90 Day Average	28.2%

Premiums Paid Analysis. JPMorgan H&Q compared the implied premium as of June 11, 2001 of the consideration to be paid in the proposed merger to implied premiums paid in comparable transactions. The transactions used for this analysis were:

Johnson & Johnson / Inverness

Vertex / Aurora

Antigenics Inc. / Aronex Pharmaceuticals

Johnson & Johnson / Alza Corp.

Johnson & Johnson / Heartport

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Lion Bioscience AG / Trega Biosciences Inc.

Shire Pharmaceuticals / BioChem Pharma

Corixa Corp. / Coulter Pharmaceuticals

Genzyme General / GelTex Pharmaceuticals

Elan Corp. / Dura Pharmaceuticals

Antigenics Inc. / Aquila Biopharmaceuticals

Chiron Corporation / Pathogenesis

Evotec Biosystems / Oxford Asymmetry

Cephalon / Anesta

Molecular Devices / LJJ BioSystems

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Elan Corp. / Liposome Company

Johnson & Johnson / Centocor

Applying the median premiums paid to the corresponding closing price of the common stock of Axys as of June 11, 2001, JPMorgan H&Q calculated the following implied equity values per share.

Period of Price Comparison	Median Premium Paid	Implied Equity Value per share
One day prior spot price	27.5%	\$ 4.16
10 day trailing average	31.9%	\$ 4.33
30 day trailing average	35.4%	\$ 4.43

JPMorgan H&Q compared the range from \$4.16 to \$4.43 to the offer price in the proposed merger, as of June 11, 2001, of \$4.65 and found the offer price in the proposed merger to be above this range.

Exchange Ratio Analysis. JPMorgan H&Q reviewed the ratios of the closing prices of the common stock of Axys to the corresponding closing prices of the common stock of the Celera Genomics group over various periods ending June 11, 2001. The resulting ratios are referred to as average exchange ratios.

Period Ending June 11, 2001	Average Implied Exchange Ratio
90 Day	0.0932x
60 Day	0.0831x
20 Day	0.0749x
10 Day	0.0719x
5 Day	0.0699x
1 Day	0.0710x

JPMorgan H&Q compared these ratios with the implied natural exchange ratio of 0.1012x as of June 11, 2001, and found the implied natural exchange ratio to be above these ratios.

Public Trading Multiples. Using publicly available information, JPMorgan H&Q compared selected employee data of Axys with similar data for comparable companies which JPMorgan H&Q judged to be of a similar employee business to Axys. The companies selected by JPMorgan H&Q were Array BioPharma, Inc., Medichem Life Sciences, Inc. and Albany Molecular Research, Inc. These companies were selected, among other reasons, because of their operational and organizational similarities with Axys. For each comparable company, JPMorgan H&Q determined the number of

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chemists and Ph.D.'s as of June 2001. JPMorgan H&Q calculated the multiples of enterprise value (enterprise value equals market value plus net debt) to the number of chemists and Ph.D.'s at each comparable company. These resulting median multiples were then applied to Axys' number of chemists and Ph.D.'s, yielding implied enterprise values that were then used to calculate implied equity values per share for Axys. JPMorgan H&Q, in its judgment, used the following results of these calculations:

Metric	Multiples	Implied Equity Value Per Share for Axys
Chemists	1.6x	\$ 3.52
Ph.D.'s	2.7x	\$ 5.36

JPMorgan H&Q compared the range from \$3.52 to \$5.36 to the offer price in the proposed merger, as of June 11, 2001, of \$4.65 and found the offer price in the proposed merger to be located within this range.

Discounted Future Value Analysis. Using publicly available information, JPMorgan H&Q compared selected financial data of Axys with similar data for selected publicly traded healthcare companies with near-term sales engaged in businesses which JPMorgan H&Q judged to be similar to Axys' business. The companies selected by JPMorgan H&Q were Aviron, ImClone Systems Incorporated, The Medicines Company, Praecis Pharmaceuticals Incorporated and Scios Inc. These companies were selected, among other reasons, because of their operational,

organizational and overall business similarities with Axys and because each company is expected to have near-term sales. For each comparable company, Wall Street projections for CY2002 and CY2003 revenues were measured as well as current equity values. JPMorgan H&Q calculated the current enterprise values for each company and used these values to calculate multiples of enterprise value to CY2002 and CY2003 revenues. JPMorgan H&Q selected the applicable median multiple and applied it to the projected CY2007 and CY2008 revenues for Axys as provided by management of Axys in order to calculate the future enterprise value of Axys. The resulting enterprise values were discounted back to the current year. JPMorgan H&Q then calculated equity values per share for Axys. JPMorgan H&Q, in its judgment, used the following results of these calculations:

	<u>Multiple</u>	<u>Implied Equity Value per Share for Axys</u>
CY2007	9.7x	\$ 4.15
CY2008	7.3x	\$ 4.25

JPMorgan H&Q then calculated the average of these implied equity values per share as \$4.20.

JPMorgan H&Q also compared selected financial data of Axys with similar data for selected publicly traded healthcare companies with current sales engaged in businesses which JPMorgan H&Q judged to be similar to Axys' business. The companies selected by JPMorgan H&Q were Celgene, Cephalon, COR Therapeutics and QLT Inc. These companies were selected, among other reasons, because of their operational, organizational and overall business similarities with Axys and because each company has current sales. For each comparable company, Wall Street projections for CY2001 and CY2002 revenues were measured as well as current equity values. JPMorgan H&Q calculated the current enterprise values for each company and used these values to calculate multiples of enterprise value to CY2001 and CY2002 revenues. JPMorgan H&Q selected the applicable median multiple and applied it to the projected CY2008 and CY2009 revenues for Axys as provided by management of Axys in order to calculate the future enterprise value of Axys. The resulting enterprise values were

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discounted back to the current year. JPMorgan H&Q then calculated equity values per share for Axys. JPMorgan H&Q, in its judgment, used the following results of these calculations:

	<u>Multiple</u>	<u>Implied Equity Value per Share for Axys</u>
CY2008	16.1x	\$ 4.87
CY2009	9.9x	\$ 4.27

JPMorgan H&Q then calculated the average of these implied equity values per share as \$4.57. JPMorgan H&Q then observed that the range of average implied equity values per share for Axys based on the near-term sales comparable companies and current sales comparable companies was \$4.20 to \$4.57, and found the offer price in the proposed merger, as of June 11, 2001, of \$4.65, to be above this range.

Historical Trading Price Analysis. JPMorgan H&Q reviewed and analyzed the historical closing prices for the common stock of Axys for the 12 month period ending June 11, 2001. JPMorgan H&Q observed the following values for the trading price of the common stock of Axys:

<u>Metric</u>	<u>Price</u>
Period High	\$ 8.06
Period Low	\$ 2.19

JPMorgan H&Q compared the range from \$2.19 to \$8.06 to the offer price in the proposed merger, as of June 11, 2001, of \$4.65. JPMorgan H&Q also considered in its analysis the historical closing prices for the common stock of Axys for the six months ended June 11, 2001. JPMorgan H&Q compared the six month range of \$2.19 to \$6.47 to the offer price in the proposed merger, as of June 11, 2001, of \$4.65.

Analysis of the Celera Genomics Group of Applera

Selected Public Company Analysis. JPMorgan H&Q compared selected financial data of the Celera Genomics group with similar data for selected publicly traded companies engaged in businesses which JPMorgan H&Q judged to be similar to the business of the Celera Genomics group. These companies included two publicly traded genomics-based discovery companies, Human Genome Sciences and Millenium, and nine publicly traded genomics/technology companies, Affymetrix, Caliper, Curagen, Deltagen, Exelixis, Gene Logic, Incyte, Lexicon Genetics and Luminex. For each comparable company, Wall Street projections for CY2001 and CY2002 revenues were measured as well as current equity values. JPMorgan H&Q calculated current enterprise values for each comparable company and used these values to calculate multiples of enterprise value to CY2001 and CY2002 revenues for the nine genomics/technology companies. JPMorgan H&Q found the median and average

to be as follows:

	Enterprise Value/ Estimated 2001 Revenue	Enterprise Value/ Estimated 2002 Revenue
Median	16.1x	7.5x
Average	20.9x	11.7x

JPMorgan H&Q then calculated the current enterprise value for the Celera Genomics group and used this value to calculate multiples of enterprise value to CY2001 and CY2002 revenues for the Celera Genomics group, based on Wall Street projections for CY2001 and CY2002, as follows:

Enterprise Value/ Estimated 2001 Revenue	Enterprise Value/ Estimated 2002 Revenue
16.9x	10.1x

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JPMorgan H&Q compared the multiples of enterprise value to revenue for the Celera Genomics group to those for the nine comparable genomics/technology companies and found the multiples for the Celera Genomics group to be above the median and below the average.

Historical Trading Price Analysis. JPMorgan H&Q reviewed and analyzed the historical closing prices for the Applera Celera stock for the 12 month period ending June 11, 2001. JPMorgan H&Q observed the following values for the trading price of Applera Celera stock:

Metric	Price
Period High	\$ 138.00
Period Low	\$ 27.50

JPMorgan H&Q compared the range from \$27.50 to \$138.00 to the price of Applera Celera stock as of June 11, 2001 of \$45.94.

Pro Forma Combined Company Analysis

Accretion (Dilution) Analysis. JPMorgan H&Q analyzed the potential pro forma financial effect of the merger on the estimated earnings per share of Applera Celera stock for CY2002. This analysis was based on information provided by the management of Axys and on Wall Street projections for the Celera Genomics group. JP Morgan H&Q found that the effect of the proposed merger would be dilutive to, or represent a decrease in, estimated earnings per share for the combined company in CY2002.

Relative Contribution Analysis. JPMorgan H&Q analyzed the relative contribution in CY2002 of each of the Celera Genomics group and Axys to revenues of the pro forma combined company based on information provided by the management of Axys and on Wall Street projections for the Celera Genomics group. This analysis indicated that the revenue contribution of the Celera Genomics group would be 93.1% and of Axys would be 6.9%, and that the pro forma ownership of the Celera Genomics group would be 94.75% and of Axys would be 5.25%.

The summary set forth above does not purport to be a complete description of the analyses or data presented by JPMorgan H&Q. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. JPMorgan H&Q believes that the summary set forth above and its analyses must be considered as a whole and that selecting portions thereof, without considering all of its analyses, could create an incomplete view of the processes underlying its analyses and opinion. JPMorgan H&Q based its analyses on assumptions that it deemed reasonable, including assumptions concerning general business and economic conditions and industry-specific factors. The other principal assumptions upon which JPMorgan H&Q based its analyses are set forth above under the description of each analysis. JPMorgan H&Q's analyses are not necessarily indicative of actual values or actual future results that might be achieved, which values may be higher or lower than those indicated. Moreover, JPMorgan H&Q's analyses are not and do not purport to be appraisals or otherwise reflective of the prices at which businesses actually could be bought or sold.

As a part of its investment banking business, JPMorgan H&Q and its affiliates are continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, investments for passive and control purposes, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements, and valuations for estate, corporate and other purposes. JPMorgan H&Q was selected to advise the board of directors of Axys with respect to the merger on the basis of this experience and its familiarity with Axys.

For services rendered in connection with the merger, Axys has agreed to pay JPMorgan H&Q a customary fee of which \$1,700,000 is contingent upon consummation of the proposed merger. In

addition, Axys has agreed to reimburse JPMorgan H&Q for its expenses incurred in connection with its services, including the fees and disbursements of counsel, and will indemnify JPMorgan H&Q against specified liabilities, including liabilities arising under the federal securities laws. Previously, JPMorgan H&Q has provided investment banking and other financial advisory services to Axys, including as a manager in a public offering of securities in 1996, and has received fees for rendering these services.

In the ordinary course of their businesses, JPMorgan H&Q and its affiliates may actively trade the debt and equity securities of Axys, or Applera for their own accounts or for the accounts of customers and, accordingly, they may at any time hold long or short positions in these securities.

The Merger Agreement

The following is a description of the proposed merger, including the material terms of the merger agreement. The following summary is qualified in its entirety by reference to the complete merger agreement, which is attached to this proxy statement/prospectus as Annex A, and is incorporated in this proxy statement/prospectus by reference. All stockholders of Axys are urged to read the merger agreement in its entirety.

Structure of the Merger

If all conditions to the merger are satisfied or waived in accordance with the merger agreement, Angel Acquisition, a direct, wholly owned subsidiary of Applera, will merge with and into Axys, with Axys continuing as the surviving corporation. Following the merger, Axys will be a wholly owned subsidiary of Applera. After the merger, Axys will be integrated into the research and development and business operations of the Celera Genomics group.

Closing Matters

Closing. The closing of the merger will take place on the second business day after all closing conditions have been satisfied or waived, unless the merger agreement has been terminated or another time or date is agreed to in writing by the parties. See " Conditions to the Merger" for a more complete description of the conditions that must be satisfied prior to closing.

Effective Time. On the closing date of the merger, Applera and Axys will file a certificate of merger agreement in accordance with the Delaware General Corporation Law and make all other required filings or recordings. The merger will become effective when the certificate of merger is duly filed or at such later time as is permissible in accordance with the Delaware General Corporation Law and as Axys and Applera agree and specify in the certificate of merger.

Certificate of Incorporation and Bylaws. The merger agreement provides that the restated certificate of incorporation of Axys will be the certificate of incorporation of the surviving corporation, and the bylaws of Angel Acquisition will be the bylaws of the surviving corporation.

Directors and Officers. The merger agreement provides that the directors of Angel Acquisition at the effective time of the merger will be the directors of the surviving corporation, and that the officers of Axys at the effective time will be the officers of the surviving corporation.

Consideration to Be Received in the Merger

Holders of Axys common stock will receive shares of Applera Celera stock in exchange for their shares of Axys common stock. The exact number of shares of Applera Celera stock that each holder of Axys common stock will receive will be determined by an exchange ratio.

The actual exchange ratio will not be determined until the closing of the merger, with the final exchange ratio based on a mechanism commonly referred to as a collar. Under this mechanism, the

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holders of Axys common stock will receive a fraction of a share of Applera Celera stock for each of their shares of Axys common stock, based on the 10-day average closing price of a share of Applera Celera stock immediately preceding (but excluding) the second trading day prior to the closing date of the merger and determined as follows:

if this 10-day average closing price is greater than \$60.27, the fraction will be fixed at 0.0813 share. This fixed ratio is intended to allow the holders of Axys common stock to share in any increase in the average closing price of Applera Celera stock during the 10-day pre-closing calculation period above \$60.27 per share;

if this 10-day average closing price is greater than \$48.23 and less than or equal to \$60.27, the fraction will be \$4.90 divided by this 10-day average closing price. This calculation is intended to provide the holders of Axys common stock a fixed value for their shares based on this 10-day average closing price as long as the 10-day average closing price is within this range;

if this 10-day average closing price is equal to or greater than \$45.77 and less than or equal to \$48.23, the fraction will be 0.1016 shares, or \$4.65 divided by \$45.77 (the 10-day average closing price prior to the signing of the merger agreement). This fixed ratio is intended to allow the holders of Axys common stock to share in any increase in the average closing price of Applera Celera stock above \$45.77 up to \$48.23 during the 10-day pre-closing calculation period;

if this 10-day average closing price is less than \$45.77 and greater than or equal to \$34.32, the fraction will be \$4.65 divided by this 10-day average closing price. This calculation is intended to provide the holders of Axys common stock a fixed value for their shares based on this 10-day average closing price as long as the 10-day average closing price is within this range; and

if this 10-day average closing price is less than \$34.32, the fraction will be fixed at 0.1355 share. This fixed ratio is intended to limit the aggregate number of shares of Applera Celera stock to be issued in the merger and protect Applera against additional dilution if the market price of Applera Celera stock further declines.

At the time of the special meeting, Axys stockholders will not necessarily know the exact number or the exact market price of the Applera Celera stock that will be issued in connection with the merger. The number of shares of Applera Celera stock that will be received for each share of Axys common stock will be calculated using the exchange ratio formula described above, and will vary accordingly based on the trading price of Applera Celera stock after the special meeting. Stockholders of Axys are urged to obtain current market quotations for Applera Celera stock prior to the date of the special meeting. No assurance can be given as to the market price of Applera Celera stock at any time prior to or on the effective date of the merger.

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The following is an illustration of resulting exchange ratios assuming an average closing price of Applera Celera stock of between \$80 and \$15 over the 10 trading days immediately preceding (but excluding) the second trading day prior to the closing of the merger.

Applera Celera Stock 10-day Average Closing Price	Exchange Ratio	Implied Axys Price per Share	Applera Celera Stock 10-day Average Closing Price	Exchange Ratio	Implied Axys Price per Share
\$ 80.00	0.0813	\$ 6.50	\$ 47.00	0.1016	\$ 4.78
\$ 79.00	0.0813	\$ 6.42	\$ 46.00	0.1016	\$ 4.67
\$ 78.00	0.0813	\$ 6.34	\$ 45.77	0.1016	\$ 4.65
\$ 77.00	0.0813	\$ 6.26	\$ 45.00	0.1033	\$ 4.65
\$ 76.00	0.0813	\$ 6.18	\$ 44.00	0.1057	\$ 4.65
\$ 75.00	0.0813	\$ 6.10	\$ 43.00	0.1081	\$ 4.65
\$ 74.00	0.0813	\$ 6.02	\$ 42.00	0.1107	\$ 4.65
\$ 73.00	0.0813	\$ 5.93	\$ 41.00	0.1134	\$ 4.65
\$ 72.00	0.0813	\$ 5.85	\$ 40.00	0.1163	\$ 4.65
\$ 71.00	0.0813	\$ 5.77	\$ 39.00	0.1192	\$ 4.65
\$ 70.00	0.0813	\$ 5.69	\$ 38.00	0.1224	\$ 4.65
\$ 69.00	0.0813	\$ 5.61	\$ 37.00	0.1257	\$ 4.65

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Applera Celera Stock 10-day Average Closing Price	Exchange Ratio	Implied Axy's Price per Share	Applera Celera Stock 10-day Average Closing Price	Exchange Ratio	Implied Axy's Price per Share
\$ 68.00	0.0813	\$ 5.53	\$ 36.00	0.1292	\$ 4.65
\$ 67.00	0.0813	\$ 5.45	\$ 35.00	0.1329	\$ 4.65
\$ 66.00	0.0813	\$ 5.37	\$ 34.32	0.1355	\$ 4.65
\$ 65.00	0.0813	\$ 5.28	\$ 34.00	0.1355	\$ 4.61
\$ 64.00	0.0813	\$ 5.20	\$ 33.00	0.1355	\$ 4.47
\$ 63.00	0.0813	\$ 5.12	\$ 32.00	0.1355	\$ 4.34
\$ 62.00	0.0813	\$ 5.04	\$ 31.00	0.1355	\$ 4.20
\$ 61.00	0.0813	\$ 4.96	\$ 30.00	0.1355	\$ 4.07
\$ 60.27	0.0813	\$ 4.90	\$ 29.00	0.1355	\$ 3.93
\$ 60.00	0.0817	\$ 4.90	\$ 28.00	0.1355	\$ 3.79
\$ 59.00	0.0831	\$ 4.90	\$ 27.00	0.1355	\$ 3.66
\$ 58.00	0.0845	\$ 4.90	\$ 26.00	0.1355	\$ 3.52
\$ 57.00	0.0860	\$ 4.90	\$ 25.00	0.1355	\$ 3.39
\$ 56.00	0.0875	\$ 4.90	\$ 24.00	0.1355	\$ 3.25
\$ 55.00	0.0891	\$ 4.90	\$ 23.00	0.1355	\$ 3.12
\$ 54.00	0.0907	\$ 4.90	\$ 22.00	0.1355	\$ 2.98
\$ 53.00	0.0925	\$ 4.90	\$ 21.00	0.1355	\$ 2.85
\$ 52.00	0.0942	\$ 4.90	\$ 20.00	0.1355	\$ 2.71
\$ 51.00	0.0961	\$ 4.90	\$ 19.00	0.1355	\$ 2.57
\$ 50.00	0.0980	\$ 4.90	\$ 18.00	0.1355	\$ 2.44
\$ 49.00	0.1000	\$ 4.90	\$ 17.00	0.1355	\$ 2.30
\$ 48.23	0.1016	\$ 4.90	\$ 16.00	0.1355	\$ 2.17
\$ 48.00	0.1016	\$ 4.88	\$ 15.00	0.1355	\$ 2.03

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The following is a graph showing the effect on the implied price per share of Axy's common stock in the merger of different average closing prices of Applera Celera stock between \$14.33 and \$80.33 over the 10 trading days immediately preceding (but excluding) the second trading day prior to the closing of the merger:

Treatment of Axys Stock Options

The merger agreement provides that, after the effective time of the merger, each outstanding option to purchase Axys common stock granted prior to the effective time of the merger under Axys' stock option plans, whether vested or unvested, will be assumed by Applera at the effective time and converted into an option to purchase shares of Applera Celera stock under the same terms and conditions as were applicable to the options as granted under the option plan and form of option agreement under which it was issued. To the extent permitted by law, Applera will comply with the terms of the relevant Axys stock option plans applicable to the options and will ensure that the stock options which qualified as incentive stock options prior to the effective time of the merger continue to qualify as incentive stock options after the merger.

The number of shares of Applera Celera stock that each converted option will be exercisable for will be equal to the number of shares of Axys common stock subject to these options prior to the merger multiplied by the exchange ratio, rounded down to the nearest whole share. The exercise price for each share under the option will be a price per share equal to the exercise price per share prior to the merger divided by the exchange ratio, rounded up to the nearest whole cent, provided that in no event will the option exercise price for options held by Axys employees or consultants other than Mr. Hastings be higher than the closing price of a share of Applera Celera stock on the date immediately prior to the closing of the merger. Mr. Hastings has requested that the exercise price of his options to acquire shares of Applera Celera stock that he will receive upon the conversion of his Axys stock options in the merger be equal to the exercise price of his Axys option divided by the exchange ratio, regardless of the closing price of Applera Celera stock on the date immediately prior to the closing. The exercise prices for options to purchase shares of Axys common stock held by Axys employees or consultants as of October 1, 2001, ranged from \$1.85 to \$17.75, with a weighted average exercise price of \$5.36. Axys employees and consultants held options to purchase a total of 5,236,089 shares of Axys

common stock, of which options to purchase 2,304,052 shares of Axys common stock are vested. The purpose of limiting the exercise price for these options is to provide the Axys employees and consultants with an incentive to continue their relationships with the Celera Genomics group after the merger, as well as to provide Axys employees with additional incentives consistent with what they would have received had they been hired as new employees by the Celera Genomics group. Within 10 business days after the effective time of the merger, Applera will deliver notices to the holders of Axys stock options stating that the options have been converted pursuant to the merger and setting forth the number of shares of Applera Celera stock for which these converted options shall be exercisable, as well as the applicable exercise price for these converted options.

For a further discussion of the treatment of Axys stock options and the Axys employee benefit plans under the merger agreement, see " Effect on Employee Benefits, Stock Plan and Stock Options" in this proxy statement/prospectus.

Exchange of Certificates in the Merger

BankBoston, N.A., in its capacity as exchange agent of Applera Celera stock, will handle the exchange of Axys stock certificates for stock certificates of Applera Celera stock and the payment of cash for fractional shares. Soon after the closing of the merger, the exchange agent will send a letter of transmittal, which is to be used to exchange Axys stock certificates for stock certificates of Applera Celera stock, to each former Axys stockholder. The letter of transmittal will contain instructions explaining the procedure for surrendering Axys stock certificates. **You should not return certificates with the enclosed proxy card.**

Axys stockholders who surrender their stock certificates, together with a properly completed letter of transmittal, will receive stock certificates representing the shares of Applera Celera stock into which their shares of Axys common stock were converted into the right to receive in the merger. After the merger, each certificate previously representing shares of Axys common stock will only represent the right to receive the shares of Applera Celera stock into which those shares of Axys common stock have been converted (and cash in lieu of fractional shares).

Applera will not pay dividends or make any other distributions with respect to Applera Celera stock to holders of any Axys stock certificates until the Axys stock certificates are surrendered. However, once those certificates are surrendered, Applera will pay to the holder, without interest, any dividends or other distributions that may have been declared after the effective time of the merger on the shares of Applera Celera stock into which those Axys shares have been converted. After the effective time of the merger, Axys will not register any transfers of shares of Axys common stock.

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Fractional Shares

No fractional shares of Applera Celera stock will be issued in the merger. Instead, Applera will deposit with BankBoston, N.A., the exchange agent, any cash payable in lieu of fractional shares of Applera Celera stock. From the deposited funds, the exchange agent will pay each of those former Axys stockholders who would have otherwise been entitled to a fractional share of Applera Celera stock an amount in cash determined by multiplying the fractional share interest to which the holder would otherwise be entitled by the average of the closing prices of a share of Applera Celera stock on the New York Stock Exchange Composite Transactions Tape on each of the 10 consecutive trading days immediately preceding (but excluding) the second trading day prior to the closing date of the merger.

Effect on Axys Convertible Notes and Warrants

Applera has agreed to become jointly and severally liable with Axys for the payment and performance by Axys of all of its obligations under the convertible notes issued by Axys and the related indenture and note purchase agreements and warrants to purchase Axys common stock. After the merger, each convertible note outstanding at the effective time of the merger will become convertible into the number of shares of Applera Celera stock that would have been received for the note if the note had been converted immediately prior to the merger.

The merger agreement provides that at the effective time of the merger, subject to limited exceptions, each outstanding unexercised warrant to purchase Axys common stock will be converted into a warrant to purchase shares of Applera Celera stock under the same terms and conditions as applied to the Axys warrant. Each warrant shall be exercisable for the number of shares of Applera Celera stock the holder of the warrant would have been entitled to receive in the merger if the warrant had been exercised immediately prior to the merger. The exercise price under the warrant will be a price per share equal to the total exercise price for all shares of Axys common stock that were purchasable under the warrant immediately prior to the merger divided by the number of full shares of Applera Celera stock that are purchasable under the warrant immediately after the merger.

Representations and Warranties

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It is a condition to the obligation of each party to complete the merger that on the date of closing of the merger the representations and warranties of the other party contained in the merger agreement are true in all respects or all material respects, depending on the language of each representation or warranty. This means that if the representations and warranties Axys makes in the merger agreement are not true in all respects or all material respects, as applicable, Applera will not be required to close the merger (although Applera would have the ability to waive this requirement if it chose to do so). Similarly, if the representations and warranties Applera makes in the merger agreement are not true in all respects or all material respects, as applicable, Axys will not be required to close the merger (although Axys would have the ability to waive this requirement if it chose to do so).

The merger agreement contains substantially reciprocal customary representations and warranties made by each of Applera and Axys to the other. These representations and warranties relate to, among other things:

due organization, qualification to conduct business and corporate standing and power;

capital structure;

corporate authority to enter into, and carry out the obligations under, the merger agreement, and enforceability of the merger agreement;

absence of a breach of the charter, bylaws, law or material agreements as a result of the merger;

required governmental consents, approvals, notices and similar filings;

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filings with the Securities and Exchange Commission;

accuracy of financial statements and absence of undisclosed liabilities;

accuracy of information supplied for this proxy statement/prospectus;

absence of specified changes or events;

litigation;

compliance with laws;

payment of fees to brokers in connection with the merger agreement; and

votes required for approval of the merger.

The merger agreement also contains representations and warranties of Axys relating to:

ownership of subsidiaries and entities in which Axys owns, directly or indirectly, more than a 5% equity interest but which are not subsidiaries of Axys;

labor matters;

adequacy of permits, licenses and similar governmental authorizations;

employee benefit plans;

tax matters;

real and personal property matters;

environmental matters;

material contracts with third parties;

intellectual property matters;

opinion of the financial advisor to the Axys board of directors;

the Axys board of directors recommendation;

amendment of Axys' stockholder rights agreement; and

absence of affiliate transactions.

The merger agreement also contains representations and warranties of Applera that relate to operations of Angel Acquisition prior to closing.

The representations and warranties contained in the merger agreement do not survive the effective time of the merger.

Covenants

It is a condition to the obligation of each party to complete the merger that the other party has performed or complied with its obligations under the merger agreement in all material respects. The obligations include complying with the covenants that Axys and Applera have undertaken in the merger agreement. The following summarizes the most significant of these covenants.

Conduct of Business by Axys Pending Closing. Axys and its subsidiaries have undertaken a covenant that places restrictions on the conduct of their businesses until either the effective time of the merger or the termination of the merger agreement. In general, Axys and its subsidiaries are required to carry on their businesses in the ordinary course of business consistent with past practice and use their reasonable best efforts to preserve substantially intact their current business organizations, keep

available the services of their current officers and employees and preserve their relationships with third parties. Axys and its subsidiaries have agreed to some specific restrictions that prohibit them from taking any of the following actions unless otherwise expressly provided in the merger agreement:

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declaring or paying dividends on, or making any other distributions in respect of, any of their capital stock;

making changes in their share capital, including, among other things, stock splits, combinations or reclassifications;

repurchasing or redeeming any of their capital stock;

issuing, delivering or selling any shares of their capital stock or other equity interests, other than in connection with the exercise of outstanding warrants and stock options of Axys or its subsidiaries, the grant or exercise of new stock options to the extent permitted under the merger agreement, purchases under Axys' employee stock purchase plan or the conversion of or payment of interest on Axys' convertible notes;

amending their certificates of incorporation or bylaws or the Axys stockholder rights agreement;

making acquisitions of other entities;

disposing of their properties or assets, or stock in subsidiaries or other companies in which Axys has invested, subject to limited exceptions;

incurring debt (including guarantees), except short term borrowings in specified amounts;

making loans, advances or capital contributions to, or investments in, any other person;

making any capital expenditures, beyond specified amounts;

acquiring assets other than inventory and supplies in the ordinary course of business consistent with past practice;

waiving, releasing or transferring any rights of material value in any existing license, lease, contract or other document other than in the ordinary course of business consistent with past practice;

paying, discharging or satisfying any claims, liabilities or obligations, other than in the ordinary course of business consistent with past practice;

settling or compromising any litigation or claim, other than those within specified amounts that do not provide for injunctive or similar relief;

adopting a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or reorganization;

entering into or amending any collective bargaining agreement;

engaging in or amending, in any material respect, specified types of material contracts or transactions and entering into or amending, in any respect, specified other types of material contracts;

entering into or amending any agreement restricting the ability of Axys to compete after the closing of the merger;

changing any accounting principle used by them, except as required by generally accepted accounting principles;

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transferring to any person any right to Axys' intellectual property, other than the granting of end-user licenses and the right to grant end-users sublicenses to customers in the ordinary course of business consistent with past practice;

entering into, terminating or amending any agreement under which a third party is granted exclusive rights with respect to any of their research, products, intellectual property or other technology;

adopting or amending (except as required by law) any company benefit plan;

increasing the compensation of directors or employees or increasing employee benefits other than for employees (other than directors and officers) in the ordinary course of business and consistent with past practice;

hiring or terminating any employee or consultant other than in the ordinary course of business consistent with past practice or as required under applicable laws or existing Axys benefits plans;

granting any new or modified severance or termination arrangement or increasing or accelerating any benefits payable under their severance or termination pay policies;

effectuating a "plant closing" or "mass layoff", within the meaning of applicable law, affecting any site of employment, facility, operating unit or employee of Axys without notifying Applera and complying with regulatory requirements;

making or changing any tax election; changing any annual tax accounting period or any method of tax accounting; or filing any amended material tax return; or

settling or compromising any material federal, state, local or foreign tax liability; entering into any closing agreement relating to any material tax; surrendering any right to claim a material tax refund; or consenting to any extension or waiver of the statute of limitations period for any material tax claim or assessment.

Axys has also agreed to notify Applera if any employee at or above a specified level of seniority gives Axys notice of his or her intention to terminate his or her employment with Axys, so that Applera may meet with the employee.

Conduct of Business by Applera Pending Closing. Until the closing of the merger (or the termination of the merger agreement prior to the closing of the merger), Applera has agreed not to declare or pay any dividend on or split, combine or reclassify any Applera Celera stock prior to the effective time of the merger or issue or authorize the issuance of any equity interest in substitution for shares of Applera Celera stock.

Additional Reciprocal Covenants Relating to Conduct of Business Pending the Merger. Both Axys and Applera have agreed to some specific restrictions that prohibit them from:

taking actions that would prevent or impede the merger from qualifying as a tax-free reorganization for tax purposes;

taking actions that, if taken on or prior to the date of the merger agreement, would have resulted in any of the representations and warranties set forth in the merger agreement being untrue;

taking actions that would or reasonably might be expected to result in any of the conditions to closing not being satisfied; or

issuing press releases or other public statements with respect to the merger or the merger agreement without the other party's prior consent.

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Recommendation of Axys Board of Directors. The Axys board of directors may withdraw or modify its recommendation of the merger in a manner adverse to Applera only if Axys receives a "superior proposal" as described below under " No Solicitation" in this proxy statement/prospectus.

No Solicitation. Axys has agreed that it will not (whether directly or indirectly through advisors, agents or other intermediaries), nor will it or its subsidiaries authorize or permit any of their officers, directors, agents, representatives, advisors or subsidiaries, to:

solicit, initiate or take any action knowingly to facilitate the submission of inquiries, proposals or offers with respect to a third party "transaction proposal" of the type described below;

enter into or participate in any discussions or negotiations regarding a transaction proposal;

furnish to any third party any nonpublic information with respect to its business, properties or assets in connection with any transaction proposal; or

otherwise knowingly assist or participate in, cooperate with, facilitate or encourage, any effort or attempt by any third party to do any of the foregoing.

A "transaction proposal" is any proposal or offer, other than the transactions contemplated by the merger agreement, with respect to:

any acquisition or purchase of 15% or more of the consolidated assets of Axys and its subsidiaries or of over 15% of any class of equity securities of Axys or its subsidiaries;

any tender offer, including a self tender offer, or exchange offer that if consummated would result in any person beneficially owning 15% or more of any class of equity securities of Axys or its subsidiaries; or

any merger, consolidation, business combination, sale of substantially all of the assets, recapitalization, liquidation, dissolution or similar transaction involving Axys or any of its subsidiaries whose assets, individually or in the aggregate, constitute more than 15% of the consolidated assets of Axys.

In the event a third party has made a bona fide transaction proposal that could result in a "superior proposal" of the type described below and the Axys board of directors concludes in good faith, upon consultation with outside counsel, that the failure to take such action would violate the fiduciary duties of the board of directors of Axys to its stockholders, then Axys may:

furnish to the third party information relating to Axys' business under an appropriate confidentiality letter on terms no less favorable to Axys than those in place with Applera concerning Axys and its business, properties or assets;

engage in negotiations or discussions with the third party;

comply with its obligations under the Securities Exchange Act of 1934 with respect to the transaction proposal; and

withdraw its recommendation that the stockholders of Axys approve and adopt the merger agreement and approve the merger.

A "superior proposal" is any proposal, other than the transactions contemplated by the merger agreement, with respect to:

any acquisition or purchase of 50% or more of the consolidated assets of Axys and its subsidiaries or of over 50% of any class of equity securities of Axys or its subsidiaries;

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any tender offer, including a self tender offer, or exchange offer that if consummated would result in any person beneficially owning 50% or more of any class of equity securities of Axys or its subsidiaries; or

any merger, consolidation, business combination, sale of substantially all of the assets, recapitalization, liquidation, dissolution or similar transaction involving Axys or any of its subsidiaries whose assets, individually or in the aggregate, constitute more than 50% of the consolidated assets of Axys or its subsidiaries,

if, in each case, the board of directors of Axys has concluded in good faith, after consultation with its outside legal counsel and its financial advisor(s), that the proposal is reasonably capable of being completed and represents a financially superior transaction for holders of Axys common stock compared to the merger under the merger agreement.

The merger agreement requires Axys to promptly inform Applera of all material terms and conditions of any transaction proposal (including any superior proposal) it receives and to keep Applera informed on a prompt and current basis of the status, terms and content of any discussions regarding any transaction proposal.

Rights Agreement. The Axys board of directors has agreed to take all action necessary in order to render its stockholder rights agreement inapplicable to the merger and other transactions contemplated by the merger agreement. Further, the Axys board of directors has agreed not to otherwise amend the rights agreement or take any action with respect to, or make any determination under, the rights agreement without the prior written consent of Applera.

Reasonable Best Efforts. Applera and Axys have agreed to cooperate with each other and to use their reasonable best efforts to take all actions and do all things advisable or necessary under applicable laws to complete the merger and the other transactions contemplated by the merger agreement. This cooperation includes obtaining all regulatory consents and approvals necessary to complete the merger and defending any lawsuits or other proceedings challenging the merger agreement. However, Applera and Axys will not be required to make any disposition of or enter into any agreement to hold separate any subsidiary, assets or business, or take any other action that Applera determines could significantly reduce the value of Axys or the benefits that Applera expects to derive from the merger and Axys and its subsidiaries have agreed not to take any of these actions without Applera's prior written consent. Additionally, Axys and its subsidiaries will not agree to take any of the above actions without the prior written consent of Applera.

Accountants Letter. Axys will also use its reasonable best efforts to deliver to Applera a comfort letter from Ernst & Young LLP in a form and substance reasonably satisfactory to Applera prior to the effective date of the Form S-4.

Access to Information; Confidentiality. Axys will provide Applera and its representatives reasonable access during normal business hours to Axys' properties, books, contracts, commitments, personnel and records, and will provide Applera with all information concerning its business, properties, financial condition, operations and personnel and a copy of each report, schedule, registration statement or other document filed by it as Applera may reasonably request. Applera and Axys will keep all non-public information confidential.

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Conditions to the Merger

Axys' and Applera's respective obligations to complete the merger are subject to the satisfaction or, to the extent permissible, the waiver of various conditions that include, in addition to other customary closing conditions:

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holders of a majority of the outstanding shares of Axys will have voted to approve and adopt the merger agreement and approve the merger;

there will not be any order, injunction or other legal restraint prohibiting completion of the merger;

the registration statement on Form S-4, of which this proxy statement/prospectus is a part, will have been declared effective by the Securities and Exchange Commission and no stop order suspending its effectiveness will have been issued and there will not be any proceedings seeking a stop order and material blue sky and other state securities law will have been complied with;

the shares of Applera Celera stock issued in the merger and reserved for issuance upon exercise of Axys' stock option, warrants and convertible notes will have been approved for listing on the New York Stock Exchange; and

each party will have received an opinion of its legal counsel to the effect that the merger will qualify as a tax-free reorganization under Section 368(a) of the Internal Revenue Code and that each of Applera, Axys and Angel Acquisition will be a party to the reorganization.

In addition, each party's obligation to complete the merger is subject to the satisfaction of the following conditions:

as of the closing date of the merger, the representations and warranties of the other party contained in the merger agreement which are qualified as to material adverse effect will be true in all respects; and the representations and warranties which are not qualified as to material adverse effect will be true in all material respects, except for those representations and warranties which address matters only as of a particular date, which will be true and correct as of that date; and

the other party will have performed or complied in all material respects with its obligations contained in the merger agreement.

Additionally, Applera's obligation to effect the merger and the other transactions contemplated by the merger agreement is conditioned upon:

the receipt of all necessary governmental and third party licenses, permits, consents, approvals, authorizations, qualifications and orders, except where the failure to obtain these licenses, permits, consents, approvals, authorizations, qualifications and orders could not reasonably be expected to have a material adverse effect on Axys or on Axys' ability to perform its obligations under the merger agreement. Axys and Applera believe that this condition has been satisfied;

the absence of any litigation or action pending or threatened by a governmental entity which seeks to, among other things, restrain or prohibit the merger or limit Applera's ownership or operation of Axys; and

the rights under the Axys stockholder rights agreement will not be redeemable and will not become redeemable upon the consummation of the merger. The Axys stockholder rights agreement has been amended so that the rights will not become redeemable upon consummation of the merger.

Stock Exchange Listings

Applera has agreed to use all reasonable efforts to cause the Applera Celera stock to be issued in the merger and upon the exercise or conversion of the stock options, warrants and convertible notes granted or issued by Axys prior to the closing of the merger to be approved for listing on the New York Stock Exchange.

Regulatory Approvals Required

The Hart-Scott-Rodino Antitrust Improvements Act of 1976 prohibits Axys and Applera from completing the merger until after we have filed the required notification and report forms and furnished any additional information and materials requested by the Antitrust Division of the United States Department of Justice and the United States Federal Trade Commission, if requested, and the required waiting period has expired or terminated. The required notification and report forms under the Hart-Scott-Rodino Act were filed by Axys and Applera with the Antitrust Division of the United States Department of Justice and the United States Federal Trade Commission on June 29, 2001, and the waiting period under the Hart-Scott-Rodino Act expired on July 30, 2001.

Termination of the Merger Agreement

Right to Terminate. Axys and Applera may mutually agree to terminate the merger agreement at any time. In addition, either of Axys or Applera may terminate the merger agreement if specified events do or do not occur. These include:

if a court or government regulator permanently prohibits the merger;

if the merger is not completed by December 31, 2001, except that a party may not terminate the merger agreement if the cause of the merger not being completed by that date is that party's failure to fulfill its obligations under the merger agreement;

if the holders of Axys common stock fail to approve the merger agreement at a duly held meeting held for the purpose of voting on the merger and the merger agreement; or

the other party breaches any of its representations, covenants or agreements so that a closing condition would not be satisfied and, if curable, the breach remains uncured for 30 days following notice.

The merger agreement may also be terminated by Applera if Axys or its board of directors:

withdraws, modifies or amends in any respect adverse to Applera its approval or recommendation of the merger and the merger agreement;

approves or recommends any transaction proposal from a third party; or

in response to the commencement of any tender offer or exchange offer for more than 15% of the outstanding shares of Axys common stock, does not recommend rejection of the tender offer or exchange offer.

In addition, Axys may terminate the merger agreement, after it receives a superior proposal and complying with its obligations under the merger agreement with respect to the superior proposal, if its board of directors concludes in good faith, upon consultation with outside counsel, that in order to avoid violating the fiduciary duties of the board of directors of Axys to the stockholders of Axys under the General Corporation Law of the State of Delaware, that the board of directors must not make or must withdraw or modify its recommendation that the stockholders of Axys approve the merger and the merger agreement.

Effect of Termination. Under the terms of the merger agreement, if the merger agreement is terminated it will become void and have no effect, and neither Applera nor Axys will have any liability to the other, except that:

Axys may have to pay a termination fee to Applera as described below under " Termination Fee" in this proxy statement/prospectus;

no party will be relieved from liability for any breach of the merger agreement prior to its termination;

Applera and Axys have agreed that for 1 year following the termination of the merger agreement each of Applera and Axys will not raid the employees employed by the other party or its subsidiaries in violation of California legal principles; and

specified provisions of the merger agreement expressly survive the termination on customary terms.

Termination Fee. Axys will pay to Applera \$5.6 million plus out-of-pocket fees and expenses incurred by Applera not exceeding \$900,000 if any of the following events occur:

prior to the termination of the merger agreement, any person makes, proposes, communicates or discloses in a manner which is or otherwise becomes public a bona fide intention to make a transaction proposal; and on or prior to 12 months after the date of the termination, a third party consummates a transaction which qualifies as a transaction proposal or Axys enters into a definitive agreement with a third party the terms of which would otherwise qualify as a transaction proposal; and either:

the merger agreement is terminated by Applera because Axys willfully breaches the merger agreement after a bona fide intention to make a transaction proposal becomes public as described above; or

the merger agreement is terminated by Applera or Axys because the stockholders of Axys fail to approve the merger agreement at a duly held meeting held for the purpose of voting on the merger and the merger agreement; or

Applera terminates the merger agreement due to:

the Axys board of directors withdrawing, modifying or amending in any respect adverse to Applera its approval or recommendation of the merger and the merger agreement (or resolving to do so);

the Axys board of directors approving or recommending any transaction proposal from a third party (or resolving to do so); or

the Axys board of directors, in response to the commencement of any tender offer or exchange offer for more than 15% of the outstanding shares of Axys common stock, not recommending rejection of the tender offer or exchange offer; or

the Axys board of directors terminates the merger agreement because, after receiving a superior proposal and complying with Axys' obligations in the merger agreement with respect to the superior proposal, the Axys board of directors concludes in good faith, upon consultation with outside counsel, that in order to avoid violating its fiduciary duties to the stockholders of Axys under the General Corporation Law of the State of Delaware, the Axys board of directors must withdraw or modify its recommendation that the stockholders of Axys approve and adopt the merger agreement and approve the merger.

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The merger agreement may be amended by the parties at any time before or after approval of the merger agreement by the holders of Axys common stock, except that after that stockholder approval is obtained, there will be no amendment that by law requires further approval by the stockholders without further approval of the stockholders. All amendments to the merger agreement must be in a writing signed by Applera, Axys and Angel Acquisition.

At any time prior to the effective time of the merger, the parties to the merger agreement may, to the extent legally allowed:

extend the time for the performance of any of the obligations or other acts of the other parties to the merger agreement;

waive any inaccuracies in the representations and warranties of the other parties contained in the merger agreement or in any document delivered pursuant to the merger agreement; and

waive compliance by the other parties with any of the agreements or conditions contained in the merger agreement (subject to the same conditions that apply to amendments).

All extensions and waivers must be in writing and signed by the party against whom the waiver is to be effective.

Expenses

Axys and Applera have agreed that all costs and expenses incurred in connection with the merger will be shared by Axys and Applera as described under "The Special Meeting Proxy Solicitation." In addition, Axys may be required to pay Applera a termination fee and reimburse Applera for specified expenses in the event the merger agreement is terminated under circumstances described in detail under "Termination of the Merger Agreement Termination Fee" in this proxy statement/prospectus.

Effect on Employee Benefits and Related Agreements

Benefit Plans. Applera has agreed that following the effective time of the merger until July 1, 2002, employees of Axys will participate in the employment benefits plans maintained by Applera or the surviving corporation providing benefits no less favorable in the aggregate than those benefits currently provided by Axys, excluding any stock compensation plans or programs and arrangements. Applera has also agreed to waive limitations as to pre-existing conditions, exclusions and waiting periods with respect to participation and coverage requirements applying to Axys employees in Applera benefit plans following the effective time of the merger and to provide credit for amounts paid by Axys employees prior to the effective time of the merger in satisfying deductible or out-of-pocket requirements under Applera's welfare plans. Applera will give employees of Axys at the effective time of the merger who remain employees thereafter full credit, under each Applera employee benefit plan in which the employee may participate, for service under each comparable Axys employee benefit plan maintained by Axys immediately before the effective time of the merger for purposes of eligibility and vesting and entitlement to vacation and vacation pay, but not for purposes of benefit accrual under any employee pension benefit plan.

Extension of Stock Options. If Applera or any of its subsidiaries terminate any Axys employee without cause within 90 days after the effective time, Applera has agreed to cause the employees' vested stock options that were converted from Axys stock options to be amended to provide that the exercise period for these vested options will be extended so as to permit their exercise by the terminated employee for a period of 12 months after the date of his or her termination. However, in the case of any employee holding an option intended to qualify as an incentive stock option under Section 421 of the Internal Revenue Code, the extension will be made only with the consent of the

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terminated employee. Mr. Hastings has indicated that he will not consent to any extension of his options in the event his employment is terminated.

Material United States Federal Income Tax Consequences

The following discussion sets forth the material United States federal income tax consequences of the merger to United States holders (as defined below) of Axys common stock. This discussion is based upon the Internal Revenue Code, Treasury regulations and court and administrative rulings and decisions in effect on the date of this proxy statement/prospectus. These laws may change, possibly retroactively, and any change could affect the continuing validity of this discussion. This discussion does not address any tax consequences arising under the laws of any state, locality or foreign jurisdiction.

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For purposes of this discussion, we use the term "United States holder" to mean:

a citizen or resident of the United States;

a corporation, partnership or other entity created or organized under the laws of the United States or any of its political subdivisions;

a trust that (x) is subject to the supervision of a court within the United States and the control of one or more United States persons or (y) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person; or

an estate that is subject to United States federal income tax on its income regardless of its source.

This discussion assumes that you hold your shares of Axys common stock as a capital asset and does not address the tax consequences that may be relevant to you in light of your particular circumstances. In addition, it does not present a description of the United States federal income tax laws applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

a financial institution;

a tax-exempt organization;

an S corporation or other pass-through entity;

an insurance company;

a mutual fund;

a dealer in securities or foreign currencies;

a trader in securities that elects the mark-to-market method of accounting for your securities;

a holder of Axys common stock who received your Axys common stock through the exercise of employee stock options or otherwise as compensation or through a tax-qualified retirement plan;

a person that has a functional currency other than the United States dollar;

a holder of options granted under any Axys benefit plan; or

a holder of Axys common stock who holds Axys common stock as part of a hedge, straddle or conversion transaction.

Applera and Axys have not and will not seek any ruling from the Internal Revenue Service regarding any matters relating to the merger. The Internal Revenue Service has announced that it will not issue advance rulings on the classification of an instrument similar to Applera Celera stock that has voting and liquidation rights in an issuing corporation but whose dividend rights are determined by

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reference to a segregated portion of the issuing corporation's assets, including assets held by a subsidiary. In addition, there are no court decisions or other authorities bearing directly on the classification of instruments with characteristics similar to those of Applera Celera stock.

Based on representations contained in representation letters provided by Applera and Axys and on certain customary factual assumptions, all of which must continue to be true and accurate in all respects as of the effective time, it is the opinion of Simpson Thacher and Bartlett, counsel to Applera, and Latham & Watkins, counsel to Axys, subject to the qualifications and assumptions set forth in this discussion, that the material United States federal income tax consequences of the merger are as follows:

the merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code;

Applera and Axys will not recognize gain or loss;

you will not recognize gain or loss when you exchange your Axys common stock solely for Applera Celera stock;

you will recognize capital gain or loss on any cash received in lieu of a fractional share of Applera Celera stock equal to the difference between the amount of cash received and the basis allocated to any fractional share which will constitute long-term capital gain or loss if your holding period in the Axys stock surrendered in the merger is more than one year as of the date of the merger;

the aggregate tax basis of Applera Celera stock you receive will be the same as the aggregate tax basis of the Axys common stock you surrender in exchange, decreased by the tax basis allocated to any fractional share interest exchanged for cash;

the holding period of Applera Celera stock you receive will include the holding period of shares of Axys common stock you surrender in the exchange; and

you must retain records and file with your United States federal income tax returns a statement setting forth facts relating to the merger.

It is a condition to the closing of the merger that each of Applera and Axys receive an opinion, which opinions are in addition to the opinions included in this section, from its tax counsel, dated as of the closing date, that the merger qualifies as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. The opinions will be based on updated representation letters provided by Applera and Axys to be delivered at the time of closing and customary factual assumptions and factual representations, all of which must continue to be true and accurate in all respects as of the closing, and will assume that the merger will be completed according to the terms of the merger agreement. An opinion of counsel represents counsel's best legal judgment and is not binding on the Internal Revenue Service or any court.

Backup Withholding. If you are a noncorporate holder of Axys common stock, you may be subject to backup withholding on any cash payments received in lieu of a fractional share interest in Applera Celera stock. You will not be subject to backup withholding, however, if you:

furnish a correct taxpayer identification number and certify that you are not subject to backup withholding on the substitute Form W-9 or successor form included in the letter of transmittal to be delivered to you following the completion of the merger;

provide a certification of foreign status on Form W-8BEN or a successor form; or

are otherwise exempt from backup withholding.

Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against your United States federal income tax liability, provided you furnish the required information to the Internal Revenue Service.

Tax matters are very complicated, and the tax consequences of the merger to you will depend upon your particular tax situation. We encourage you to consult your own tax advisors regarding the specific tax consequences of the merger, including tax return reporting requirements, the applicability of federal, state, local and foreign tax laws and the effect of any proposed change in the tax laws.

Accounting Treatment

For accounting and financial reporting purposes, the merger will be treated as a purchase by Applera under generally accepted accounting principles.

Interests of Certain Persons in the Merger

In considering the recommendation of the Axys board of directors with respect to the merger agreement and the merger, you should be aware that Axys' directors and executive officers have interests in the merger that are different from, or in addition to, your interests as a stockholder. The Axys board of directors was aware of these differing interests and considered them, among other matters, in recommending that you approve and adopt the merger agreement and approve the merger. These interests are summarized below.

Employment Agreements

Axys has entered into employment agreements with its executive officers: Mr. Hastings; Daniel F. Hoth, M.D., Senior Vice President and Chief Medical Officer of Axys; Mr. Newell; David E. Riggs, Senior Vice President and Chief Financial Officer of Axys; Dr. Venuti; and Douglas H. Altschuler, Vice President and General Counsel of Axys. Applera is evaluating whether these executive officers will continue as employees after the merger; it is not known at this time which of these employees will remain with the Celera Genomics group following the merger. In addition to employment agreements with its executive officers, Axys has an employment agreement with its former Chief Executive Officer, and current director, John H. Walker. These agreements may, under the circumstances set forth below, entitle the officer to severance or termination pay or accelerate stock option vesting in connection with the transactions contemplated by the merger agreement.

Executive Employment Agreement of Mr. Hastings dated as of January 2, 2001. Mr. Hastings became President and Chief Executive Officer of Axys in January 2001. Mr. Hastings' employment agreement provides for an annualized base salary equal to \$400,000 (subject to review each year) and eligibility for an annual bonus up to fifty percent of his then current base salary upon achievement of reasonable goals set by the Axys board of directors. Under the terms of the agreement, Axys loaned Mr. Hastings \$300,000 and Mr. Hastings issued a full-recourse promissory note, secured by any shares of Axys common stock received by him in connection with any stock option exercise, to Axys on January 2, 2001. The note bears interest at a rate of 5.61% per annum and is payable in full on the earlier of thirty days following Mr. Hastings' termination of employment (other than as set forth below) or January 2, 2004. So long as Mr. Hastings continues to render services to Axys, one thirty-sixth of the principal amount of the note and any interest accrued thereon will be forgiven on the first day of each calendar month. In addition, all remaining principal and interest due under the note will be forgiven if Mr. Hastings' employment is terminated without cause or due to death or disability, or voluntarily by Mr. Hastings for good reason. The agreement also provides that Mr. Hastings will receive medical and dental coverage and other standard benefits from time to time provided by Axys to its executives or other employees in general.

If Mr. Hastings is terminated for any reason other than death, disability, change of control, voluntarily without good reason, or for cause, he will receive one year's base salary (currently \$400,000) and his yearly target bonus (currently \$200,000) paid in twelve monthly installments. Mr. Hastings' options to purchase Axys' common stock that would have vested had he remained in employment an

additional twelve months will immediately vest. Axys will also continue to pay the costs associated with his health care benefits for up to twelve months or until he acquires comparable benefits. In the event that Mr. Hastings is terminated, including a voluntary termination by Mr. Hastings for good reason, upon a change of control, he will within seven days receive a lump sum payment equal to eighteen months of his base salary plus a pro rata share of his bonus for the calendar year in which the termination occurs, plus an additional eighteen months of his target bonus. Mr. Hastings will also receive eighteen months of continued health benefits (unless comparable benefits become available to him during that time). All of Mr. Hastings' outstanding options to purchase Axys' common stock shall become fully vested and exercisable immediately upon his termination. In order to obtain these lump sum payments, accelerated vesting and health care benefits in the case of any provided for termination scenario, Mr. Hastings must sign a release of all claims against Axys. Although Mr. Hastings may be able to voluntarily terminate his employment with good reason following the merger, Mr. Hastings has agreed not to do so for a period of six months. In addition, the Celera Genomics group has agreed to recommend to the Management Resources Committee of the Applera board of directors that Mr. Hastings receive an incentive package in consideration of his efforts in integrating Axys and the Celera Genomics group following the merger. The amount of the incentives to be recommended has not been determined at this time.

Executive Employment Agreement of Dr. Hoth dated as of March 30, 2001. Dr. Hoth's employment agreement provides for an annualized base salary equal to \$305,000 (subject to review) and eligibility for an annual bonus up to thirty percent of his then current base salary upon achievement of reasonable goals set by the Axys board of directors. The agreement also provides that Dr. Hoth will receive the standard benefits from time to time provided by Axys to its executive employees generally.

If Dr. Hoth is terminated involuntarily without cause at any time or voluntarily for good reason after a change of control, he will receive his annual salary and bonus accrued but unpaid as of that date plus health benefits for one year. Specifically, within thirty days following the effectiveness of a release of all claims against Axys, Dr. Hoth will receive a lump sum payment equal to one year's base salary (currently \$305,000) plus one year's target bonus (currently \$91,500). If Dr. Hoth's termination is within eighteen months following a change of control, 100% of his options to purchase shares of Axys' common stock will immediately vest and become exercisable. In order to obtain the lump sum payment and accelerated vesting benefits, Dr. Hoth must sign a release of all claims against Axys.

Amended and Restated Executive Employment Agreement of Mr. Newell dated as of March 27, 2001. Mr. Newell's employment agreement provides for an annualized base salary equal to \$275,000 (subject to review) and eligibility for an annual bonus up to thirty percent of his then current base salary upon achievement of reasonable goals set by the Axys board of directors. The agreement also provides that Mr. Newell will receive the standard benefits from time to time provided by Axys to its executive employees generally.

This agreement provides that if Mr. Newell is terminated involuntarily without cause at any time or voluntarily for good reason after a change of control, he will receive his annual salary and bonus accrued but unpaid as of that date plus health benefits for one year. Specifically, within thirty days following the effectiveness of a release of all claims against Axys, Mr. Newell will receive a lump sum payment equal to one year's base salary (currently \$275,000) plus one year's target bonus (currently \$82,500). If Mr. Newell's termination is within eighteen months following a change of control, 100% of his options to purchase shares of Axys' common stock will immediately vest and become exercisable. In order to obtain the lump sum payment and accelerated vesting benefits, Mr. Newell must sign a release of all claims against Axys.

Amended and Restated Executive Employment Agreement of Mr. Riggs dated as of March 27, 2001. This agreement provides that if Mr. Riggs is terminated involuntarily without cause at any time

or voluntarily for good reason after a change of control, he will receive his annual salary and bonus accrued but unpaid as of that date plus health benefits for one year. Specifically, within thirty days following the effectiveness of a release of all claims against Axys, Mr. Riggs will receive a lump sum payment equal to one year's base salary (currently \$235,000) plus one year's target bonus (currently \$70,500). If Mr. Riggs' termination is within eighteen months following a change of control, 100% of his options to purchase shares of Axys' common stock will immediately vest and become exercisable. In order to obtain the lump sum payment and accelerated vesting benefits, Mr. Riggs must sign a release of all claims against Axys.

Amended and Restated Executive Employment Agreement of Dr. Venuti dated as of March 28, 2001. Dr. Venuti's employment agreement provides for an annualized base salary equal to \$290,000 (subject to review) and eligibility for an annual bonus up to thirty percent of his then current base salary upon achievement of reasonable goals set by the Axys board of directors. Dr. Venuti was obligated to pay Axys principal and accrued interest under a \$300,000 promissory note issued to Axys as of August 14, 2000; the agreement provides that (other than as set forth below), Axys will forgive \$60,000 of the indebtedness on August 14, 2001 and each August 14 through 2005 so long as he continues to render services to Axys through these dates. The agreement also provides that Dr. Venuti will receive the standard benefits from time to time provided by Axys to its executive employees generally.

This agreement provides that if Dr. Venuti is terminated involuntarily without cause at any time or voluntarily for "good reason" after a change of control, he will receive his annual salary and bonus accrued but unpaid as of that date plus health benefits for one year. Specifically, within thirty days following the effectiveness of a release of all claims against Axys, Dr. Venuti will receive a lump sum payment equal to one year's base salary (currently \$290,000) plus one year's target bonus (currently \$87,000). If the termination is within eighteen months following a change of control, 100% of Dr. Venuti's options to purchase shares of Axys' common stock will immediately vest and become exercisable and principal and accrued interest amounts outstanding under the Note shall be forgiven as of the date of his termination. In order to obtain the lump sum payment, accelerated vesting and debt forgiveness benefits, Dr. Venuti must sign a release of all claims against Axys.

Dr. Venuti has signed an additional amendment to his employment agreement waiving rights that may arise upon consummation of the transactions contemplated by the merger agreement, and in particular specifying that the completion of the merger and the fact that Dr. Venuti will be working for a subsidiary of Applera and may report to an officer of Applera or one of its subsidiaries will not constitute "good reason" for Dr. Venuti to voluntarily terminate his employment.

Executive Employment Agreement of Mr. Altschuler dated as of December 14, 2000. This agreement provides that if Mr. Altschuler is terminated involuntarily without cause at any time or voluntarily for good reason after a change of control, he will receive his annual salary and bonus accrued but unpaid as of that date plus health benefits for one year. Specifically, within thirty days following the effectiveness of a release of all claims against Axys, Mr. Altschuler will receive a lump sum payment equal to one year's base salary (currently \$230,000) plus one year's target bonus (currently \$57,500). If Mr. Altschuler's termination is within eighteen months following a change of control, 100% of his options to purchase shares of Axys' common stock will immediately vest and become exercisable. In order to obtain the lump sum payment and accelerated vesting benefits, Mr. Altschuler must sign a release of all claims against Axys.

Amended and Restated Employment Agreement of Mr. Walker dated as of December 14, 2000. Mr. Walker's agreement provides for an annualized base salary equal to \$212,500 each year commencing on January 1, 2001 and terminating on December 31, 2003. On the date of the agreement, Mr. Walker was obligated to pay Axys principal in the amount of \$400,000 and accrued interest in the amount of \$94,611.04 in connection with a promissory note issued by Mr. Walker to Axys. Effective as

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of this date and under the terms of the agreement, Axys forgave all outstanding principal and interest due under the note and agreed to pay Mr. Walker a tax gross-up payment of \$160,000. Previously, in 2000, pursuant to the terms of Mr. Walker's employment agreement, Axys forgave \$160,000 of principal and accrued interest of \$30,929 under the promissory note, and provided a tax gross-up payment of \$64,000 in connection with this forgiveness. The agreement provides that Axys will, at its sole expense, provide Mr. Walker and his eligible dependents with medical and dental plan benefits, which benefits will be provided without regard to whether Mr. Walker continues to render services to Axys. Additionally, so long as Mr. Walker continues to render services to Axys, Axys will maintain a split-dollar life insurance policy in Mr. Walker's name to which Axys made premium payments while Mr. Walker was the Chief Executive Officer of Axys and which includes a collateral assignment in favor of Axys. Mr. Walker is also entitled to all other rights and benefits that Axys from time to time provides to its executive employees generally.

If Mr. Walker is terminated other than for cause or good reason, he will receive in a lump sum an amount equal to his base salary (\$212,500) for each of the calendar years 2001, 2002 and 2003 (less any amount he has already been paid). In addition, any options to purchase common stock of Axys that are unvested immediately prior to the termination of his employment will immediately vest and become exercisable as of that date. In order to obtain the lump sum payment and accelerated vesting benefits, Mr. Walker must sign a release of all claims against Axys.

Other Axys employees are also party to employment agreements with Axys containing similar provisions relating to the effects of a change of control. Some of these employees have entered into agreements with Applera specifying that the completion of the merger and the fact that the employees will be working for a subsidiary of Applera will not constitute "good reason" for the employees to voluntarily terminate their employment under the terms of their employment agreements. For other Axys employees, including those described above other than Mr. Hastings and Dr. Venuti, changes in the circumstances of their employment relating to the completion of the merger may result in their ability to voluntarily terminate their employment for "good reason."

Stock Options

Axys' equity-based compensation plans, other than Axys' Non-Employee Directors' Stock Option Plan established in 1994, do not provide for the acceleration of outstanding options upon a change in control in which options are assumed. As of October 1, 2001, Axys' directors and executive officers held vested and unvested options to acquire an aggregate of 2,646,574 shares of Axys common stock with a weighted average exercise price of \$5.56 per share. Under the merger agreement, upon the consummation of the merger, each converted option whether vested or unvested, will be exercisable for a number of shares of Applera Celera stock equal to the number of shares of Axys common stock subject to these options prior to the merger multiplied by the exchange ratio, rounded down to the nearest whole share, and the exercise price for each share under the option will be a price per share equal to the exercise price per share prior to the merger divided by the exchange ratio, rounded up to the nearest whole cent. In no event, however, will the exercise price for options held by employees of or consultants to Axys other than Mr. Hastings exceed the closing price of a share of Applera Celera stock on the date immediately prior to the closing of the merger. Axys employees and consultants other than Mr. Hastings hold vested and unvested options to acquire an aggregate of 4,636,089 shares of Axys common stock with a weighted average exercise price of \$5.34. If the merger had closed on October 1, 2001, the exercise price of Axys stock options to purchase an aggregate of 4,496,954 shares held by a total of approximately 190 holders would have been adjusted to \$15,015,254, representing an aggregate difference of \$9,724,363 between the current exercise prices and the new exercise prices for these stock options. Information regarding the options to purchase shares of Axys common stock currently held by each executive officer of Axys, together with the range of exercise prices for those options, the weighted average exercise price and the aggregate difference between the current exercise

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prices and the new exercise prices for these stock options if the merger had closed on October 1, 2001 is detailed below:

Name	Number of Securities Underlying Options Granted	Lowest and Highest Exercise Price Per Share	Weighted Average Per Share Exercise Price	Aggregate Difference If Merger Closed on October 1, 2001
Paul J. Hastings	600,000	\$4.88 - \$5.63	\$ 5.50	\$ (no adjustment)
Daniel F. Hoth	260,000	\$3.56 - \$7.25	\$ 4.57	\$ 396,950
William J. Newell	265,000	\$3.56 - \$7.25	\$ 4.92	\$ 442,575
David E. Riggs	240,000	\$4.88 - \$6.81	\$ 6.49	\$ 777,589
Michael C. Venuti	360,000	\$3.56 - \$7.25	\$ 4.96	\$ 616,725
Douglas H. Altschuler	100,000	\$4.06 - \$4.75	\$ 4.54	\$ 129,390
John H. Walker	560,000	\$4.63 - \$7.25	\$ 5.34	\$ 1,173,125
All executive officers (7 persons)	2,385,000	\$3.56 - \$7.25	\$ 5.28	\$ 3,536,364

In addition, in the event that Applera or any of its subsidiaries terminates the employment of an employee of Axys without cause within 90 days of the consummation of the merger, the exercise period for any vested options then held by the terminated employee will be extended to a total of 12 months following the termination. However, in the case of any employee holding an option intended to qualify as an incentive stock option under Section 421 of the Internal Revenue Code, the extension will be made only with the consent of the terminated employee. As described above under "Treatment of Axys Stock Options," Mr. Hastings' option exercise price will be equal to the exercise price of his Axys option divided by the exchange ratio.

Under the Axys Non-Employee Directors' Stock Option Plan established in 1994, non-employee directors of Axys receive annual automatic stock option grants. Options granted under the plan generally vest at a rate of 25% per year for four years. In the event of a change-in-control of Axys, such as the proposed merger, the vesting of these options will accelerate and the options expire if not exercised prior to the change-in-control. As a result, the non-employee directors will be able to exercise options to purchase 261,574 shares of Axys common stock at an average exercise price of \$8.19. If the non-employee directors do not exercise these options prior to the completion of the merger, all options to purchase these shares of Axys common stock will expire. For more information about this stock option plan, see "Management of Axys Compensation of Non-Employee Directors of Axys" in this proxy statement/prospectus.

The Applera board of directors has also approved a number of grants of new Applera stock options to Axys employees effective upon the closing of the merger, subject to their continued employment by Applera. These grants have been authorized for 94 Axys employees and are for options to acquire a total of 222,770 shares of Applera Celera stock. These stock options will be granted under an existing Applera stock option plan effective upon the closing of the merger, at an exercise price equal to the market price on the date of grant. The only grant included to an executive officer of Axys is an option exercisable for 30,000 shares of Applera Celera stock to Dr. Venuti.

Indemnification Agreements

Pre-Existing Indemnification and Insurance. Axys has entered into separate indemnification agreements with each of its directors and officers which require Axys, among other things, to indemnify them against liabilities arising from their status as directors or officers to the fullest extent permitted by Axys' amended and restated bylaws and Delaware law. In addition, Axys' amended and restated bylaws provide that Axys will indemnify its directors and officers to the fullest extent permitted by Delaware law, including in circumstances in which indemnification is otherwise discretionary under Delaware law. Axys also maintains directors' and officer's liability insurance.

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Additional Indemnification and Insurance. The merger agreement provides that Applera and the surviving corporation of the merger will, to the fullest extent permitted by law, indemnify and hold harmless each of Axys' present and former directors and officers against any costs or expenses arising out of or pertaining to the transactions contemplated by the merger agreement, or for any actions or omissions at or prior to the effective time of the merger, in each case to the same extent provided in Axys' amended and restated certificate of incorporation, Axys' amended and restated bylaws or any pre-existing indemnification contract with the present or former director or officer. The surviving corporation of the merger must maintain policies of directors' and officers' liability insurance containing terms and conditions which are not less advantageous than policies maintained by Axys prior to the effective time of the merger for a period of six years following the closing of the merger (provided that the surviving corporation of the merger is not required to pay an annual premium for any policy in excess of 200% of the annual premiums currently paid by Axys).

Resale of Applera Celera Stock

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The shares of Applera Celera stock to be issued to stockholders of Axys pursuant to the merger have been registered under the Securities Act, so these shares may generally be freely traded without restriction by people who will not be "affiliates" of Applera after the merger and who were not "affiliates" of Axys on the date of the Axys special meeting for purposes of Rule 145 under the Securities Act. All directors and some of the officers of Axys may be deemed to have been "affiliates" of Axys within the meaning of this rule. Those people may resell Applera Celera stock received by them in the merger only if the shares are registered for resale under the Securities Act or an exemption from registration under the Securities Act is available. Those people may be permitted to effect resales under the safe harbor provisions of Rule 145 under the Securities Act (or Rule 144 in the case of persons who become "affiliates" of Applera) or as otherwise permitted under the Securities Act. People who may be deemed to be affiliates of Axys or Applera generally include individuals or entities that control, are controlled by, or are under common control with, Axys or Applera, as applicable, and may include officers and directors of this party as well as principal stockholders of Axys or Applera, as applicable. It is recommended that these persons obtain advice of securities counsel prior to effecting any resales.

This proxy statement/prospectus does not cover resales of Applera Celera stock received by any person, including any person who may be deemed to be an affiliate of Applera or Axys.

Dissenters' Rights

Under Delaware law, stockholders of Axys will not be entitled to exercise dissenters' appraisal rights or to demand payment for their shares in connection with the merger.

Financing Arrangement between Axys and Applera

On October 8, 2001, Axys and Applera entered into a financing arrangement under which Applera is funding some operational and capital needs of Axys. Applera agreed to provide Axys up to \$13 million through a loan from an Applera subsidiary. The loan is secured by those shares of Discovery Partners and DNA Sciences held by Axys that are not already pledged or otherwise committed by Axys. This financing arrangement is contingent upon receipt of required consents. The loan documents contemplate that Axys will initially receive a total of \$11 million to be paid on three specified dates. Applera has the ability in its discretion to provide additional amounts in increments of \$500,000 to meet additional funding requirements of Axys through the closing. Interest will be payable at maturity of the loan, and will accrue at a rate of 1% over the prime rate. All amounts borrowed under the loan, including accrued interest, must be repaid in full upon the earliest of:

a sale of all or substantially all of the assets of Axys;

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a change of control of Axys;

a financing by Axys that results in proceeds to Axys of at least \$13 million;

a termination fee becoming payable to Applera under the merger agreement (See "Merger Agreement Termination of the Merger Agreement Termination Fee" in this proxy statement/prospectus);

120 days after termination of the merger agreement (other than a termination resulting in a termination fee becoming payable to Applera as described above); and

June 15, 2002.

In addition, Applera will have no obligation to lend any funds to Axys after any of the events described above requiring repayment has occurred, or after any of the following:

the closing of the merger;

any termination of the merger agreement; and

any event of default under the loan documents.

If the merger is not completed, there can be no assurance that Axys' business will generate sufficient cash flow from operations or that future borrowings will be available in an amount sufficient to enable it to service its indebtedness, including the loan to Applera, or to fund its other liquidity needs. In addition, there can be no assurance that Axys will be able to effect any refinancing on commercially reasonable terms or at all.

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INFORMATION ABOUT AXYS

Business

Overview

Axys is a biopharmaceutical company focused on the discovery, design and development of therapeutic drugs that address significant markets with major unmet medical needs. Axys collaborates with large pharmaceutical companies in discovering therapeutics for chronic diseases for which there are large markets. Axys also selectively focuses its own resources on discovering and developing drugs for the treatment of various types of cancer and other specialty therapeutic opportunities. Axys has on-going programs in the treatment of autoimmune diseases, inflammatory diseases, and cancer. Axys' drug design platform integrates advanced biology, chemistry, biophysics and information technologies to optimize the potency, selectivity and physical properties of new drugs, making the drug discovery process more efficient and productive.

Currently, Axys has significant collaborations with Aventis Pharmaceuticals Products, Inc. (a subsidiary of Aventis S.A.), Merck & Co. and Bayer A.G. These collaborations provide Axys with financial support and collaborative resources for these research programs. Axys' partners are also responsible for developing Axys' clinical drug candidates and commercializing Axys' products in broad medical markets in the event Axys' products are approved by the United States Food & Drug Administration. Axys believes that several of its partnered programs are positioned to advance into human clinical testing over the next few years, which Axys expects will generate increased milestone payments and eventual royalty streams. Axys has additional research programs underway, both proprietary and in collaboration with other life science companies, and Axys believes that novel drug candidates will enter clinical studies within the next 12 to 18 months. At the present time, Axys aims to establish additional partnerships with major pharmaceutical companies in order to obtain the funding and collaborative research support needed to expand its discovery efforts in cancer and other areas.

Axys believes that advances in genomic research represent a major opportunity for drug discovery directed at novel biological targets. Axys seeks to exploit this opportunity by combining medicinal chemistry and molecular biology, through collaborations and internally, to identify possible drug candidates for a drug target or group of drug targets. Over the next few years, Axys expects to continue its research and development efforts and to bring drug candidates into clinical development. Axys also seeks to license and acquire technologies, resources and products that have the potential to strengthen its drug discovery platform and product pipeline.

During the year 2000, Axys reported gains of \$61.2 million on the sale of two of Axys' three non-core affiliated companies. In April 2000, Axys sold Advanced Technologies to Discovery Partners. Discovery Partners completed an initial public offering of common stock in July 2000. In consideration of the sale of Advanced Technologies, Axys received 7,425,000 shares of Discovery Partners common stock with a carrying value of \$40.4 million on December 31, 2000. In December 2000, Axys also sold its interest in PPGx, Axys' pharmacogenomics subsidiary (pharmacogenomics is the application of genomics to disease prediction, including susceptibility, drug response and side effects), to DNA Sciences for 1,478,550 shares of Series D Preferred Stock and 108 shares of common stock in DNA Sciences, valued in the aggregate at \$15 million as of December 31, 2001. In addition, at December 31, 2000, Axys owned 23% of Akkadix. In March 2001, Axys' ownership interest increased to 44% in connection with the exercise of contractual put options held by third party investors in Akkadix (see note 3 in the financial statements of Axys that appear commencing on page F-1 of this proxy statement/prospectus). On September 24, 2001, Akkadix filed a voluntary petition for relief under Chapter 7 of the United States Bankruptcy Code with the United States Bankruptcy Court for the Southern District of California. Axys does not expect any future benefit from its investment in Akkadix.

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What Gives Axys an Edge in Drug Discovery and Development?

The entire drug discovery process runs from target identification and validation to lead identification to preclinical development to clinical development. The following sections describe each part of this process and the technologies that Axys employs in drug discovery.

In recent years, the advent of new drug discovery technologies, including genomics, information technology, computational sciences, structure-based drug design, combinatorial chemistry, which is a process to prepare sets of compounds from sets of building blocks, and high throughput screening, which is a process for rapid assessment of the activity of samples from a compound collection, has offered great potential for streamlining the lengthy and expensive process of drug discovery. Axys has assembled a premier platform for drug discovery by combining and integrating these new technologies with the traditional pharmaceutical sciences, including medicinal chemistry and pharmacology. Axys' capabilities in this area, which include assay development, which is the development of a process to assess the biological activity of multiple chemical compounds against a single protein, compound screening, lead optimization, pharmacology and preclinical development, are instrumental in increasing the speed and efficiency of Axys' drug candidate identification efforts. In addition, Axys has functional genomics capabilities, which it is using to select and validate targets for Axys' cancer research.

As a biopharmaceutical company, Axys' core strengths lie in the portion of the drug discovery continuum spanning from selection of leads from hits in primary screens, through lead optimization using structure-based drug design and combinatorial chemistry, to preclinical development and pharmacology. In this regard, Axys believes it is among the few biotechnology companies having an in-house medicinal chemistry group of Axys' size and scope.

Target Identification and Validation

Target identification and validation is the process of identifying and validating those genetic-based targets that are the most promising for therapeutic intervention by small molecules. There are numerous potential targets, which may apply to all manner of diseases. As described below, Axys is currently focusing its target identification and validation efforts on discovering new biochemical pathways in cancer.

The human genome is the collection of all the genetic information of a human being. Scientifically defined, the human genome consists of 23 pairs of chromosomes that contain the 40,000 or so genes that define every human's make-up. Genes are made up of DNA (deoxyribonucleic acid). In humans, a DNA molecule resembles a twisted ladder and consists of two strands a double helix whose carbohydrate-like sides are connected by pairs of nitrogen-containing chemicals called bases, which form the rungs of the ladder. The particular order of the bases is called the DNA sequence. In total, there are approximately 3 billion base pairs of DNA comprising all of the chromosomes in the human genome. Much effort has been devoted by various governments, research institutions and companies to mapping out the exact location of each gene on each chromosome in order to determine the complete DNA sequence of the 3 billion DNA bases. Detailed knowledge of the human genome is now available, either through public databases or through commercially available databases. Through 1999, Axys had applied the technology generally known as positional cloning to disease gene identification. This technology depended on securing DNA samples from donor populations with a known disease incidence, followed by high throughput genotyping and DNA sequencing to establish a linkage between the disease and a particular chromosome or specific gene.

However, knowing the sequence of a gene is really only the beginning of the drug discovery process. The next step is the determination of the biological processes in which the gene plays a role. The term "functional genomics" refers to a variety of scientific disciplines that examine gene function and identify disease pathways resulting from a gene or genes that are not functioning properly. The job

of determining the functions of a gene and its protein products requires testing in systems that approximate human systems, such as the *C. elegans* (nematode worm) system.

Although Axys was a pioneer in genomics research using positional cloning techniques in many different disease areas, Axys concluded in 1999 that many of its genomics programs were at too early a stage and too far removed from product development to justify the sizeable investment that Axys was making. So, during the last half of 1999, Axys wound down its genomics research programs which were based on positional cloning technology, which compares the genetic composition of a diseased species with that of a non-diseased species. Axys continues to utilize its genomics capabilities as part of its cancer research programs. Axys has integrated these capabilities with its functional genomics capabilities to create a directed set of target identification and validation tools described below, which Axys uses to discover new biochemical pathways in cancer.

Axys makes use of both proprietary and licensed information technology software to enable the discovery of new genes and the identification of known genes and species homologs (sister genes) in its efforts in target identification and validation. When new gene sequences are identified, Axys is able to rapidly access both public and proprietary databases through these software tools. When the function of a gene needs to be determined, especially in the case when it might play a pivotal role in a biochemical process, Axys can use antisense knock-out technology, either in well-characterized functional systems, such as the nematode worm, or in mammalian systems. Antisense knockout technology involves

the application of short synthetic DNA to lower the level of protein production by the gene. For most applications of antisense, as applied to specific new targets, Axys has licensed the technology from Atugen. Axys also employs sophisticated gene expression array technology, licensed from Molecular Dynamics-Amersham. Using this technology, very small arrays are custom built on glass slides to study the expression levels of thousands of genes at the same time. With the information generated from these arrays, Axys can compare differences in gene expression between normal and diseased or genetically manipulated cells. Finally, another technology Axys uses is *C. elegans*, a microscopic multicellular round worm that is the most thoroughly understood multicellular animal in terms of cellular development, anatomy and genetic content. *C. elegans* is useful as a research tool because as many as 70% of the currently known human disease genes possess a highly significant homolog in the nematode.

By combining gene expression data and Axys' antisense results with information about genetic relationships gained from model systems and Axys' information technology capabilities, Axys is better able to identify points in biological pathways that may be the best point of intervention for a potential therapeutic. For a description of some of Axys' more significant target validation and identification activities in cancer in 2000 and the first half of 2001, see the section below entitled "What Does Axys' Non-Partnered Research and Development Franchise Look Like?"

Lead Identification

Once a biological point of intervention or target is identified and validated, Axys has the capability to rapidly identify chemical compounds that regulate the protein product of the relevant gene. Axys has generated such lead compounds for new biological targets at a rapid pace by making use of a broad range of technologies in dual discovery tracks: (1) structure-based drug design driven by X-ray crystallography and computational modeling, and (2) high throughput screening combined with chemical compound diversity.

Axys uses a broad range of scientific capabilities to study the basic structure of molecules (X-ray crystallography) and advanced chemistry that uses the knowledge gained from crystallography and structural biology. These technologies can speed research by enabling an understanding of the precise three-dimensional structure of a target associated with a disease. Then, Axys brings additional computational science capabilities into play. Axys has a rapid, flexible molecular docking model that

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can be used to find a natural or synthetic "inhibitor" that can bind to the molecule and change the way it will perform in the body. By using structure-based design, Axys has the ability to rapidly create lead compounds that are less likely to cause side effects or be toxic.

Axys' medicinal chemists also play an important role in Axys' lead identification efforts. The chemists obtain structural information by analyzing pictures of the molecule taken through X-ray crystallography and molecular modeling, complemented by powerful computational resources and coupled with production-level protein expression and purification, all of which enables them to develop and refine target compound families. Axys' particular strength is in the determination of serine and cysteine protease protein structures, and the design of small molecules with potency and specificity among these closely related protein family members. Proteases are enzymes, which play a critical role in virtually every biological process. Axys believes the ability to develop protease inhibitors, which are molecules that prevent a protease from engaging in a reaction, may give Axys important advantages in its drug discovery activities.

Axys' combinatorial chemistry expertise complements its structure-based design activities. Combinatorial chemistry capabilities are particularly useful where there is little known structural information. Axys has created compound diversity libraries, originally through Axys' former subsidiary Advanced Technologies, which have synthesized and delivered to Axys approximately 530,000 individual compounds to date. Axys may develop additional compound diversity libraries or purchase additional compounds from Discovery Partners. Axys expects to have received an aggregate of approximately 600,000 such compounds, encompassing over 140 distinct sub-libraries, by year-end 2001. Axys' medicinal and combinatorial chemists are able to generate a wide variety of diversity or lead optimization libraries, depending on Axys' needs. Assays for high throughput screening are adapted for automation and validated for screening against diverse chemical structures to provide data with a low false positive hit rate. Screening hits are rapidly confirmed or eliminated based on follow-up assays, and are qualified for further library expansion and medicinal chemistry based on novelty, potency and selectivity criteria.

To screen these libraries, Axys uses automated robotics systems. These robots test the binding activity of thousands of compounds against a disease target, usually a protein. This binding activity is a measure of the compound's ability to inhibit or improve the activity of the protein. The primary role of the technology is to detect active compounds and supply directions for their optimization using other techniques. Given the variety and size of chemical libraries available today, and the need to compare the results from multiple screens, data collection and management of information are critical elements of high throughput screening. Axys maintains databases of structures, assays performed, screening results and other similar information in relational databases, which can be queried from any number of research parameters.

Optimization, Preclinical Development and Clinical Development

Once a lead candidate has been identified, the most resource-intensive stage of Axys' drug discovery process begins. This is the process of identification of a preclinical candidate with the desired pharmaceutical product profile. It requires directed medicinal chemistry efforts coupled closely with pharmacokinetics, drug metabolism and efficacy studies in pharmacology. Axys' experience in such programs partnered with major pharmaceutical companies during the last several years has resulted in an integration of effort by Axys' medicinal chemists and Axys' pharmacology group.

Axys believes that it is one of the few biotechnology companies having an in-house medicinal chemistry group of its size and scope. Axys has approximately 55 medicinal chemists. Axys uses its medicinal chemistry capabilities to improve the potency, selectivity (won't bind to wrong target), oral bioavailability (compound can be absorbed by the body when taken orally as a pill), metabolic stability

(how rapidly the body breaks down the compound), and biological half-life (how long the effects of the drug will last) of a drug candidate.

Axys is building a new 43,500 square foot building dedicated to medicinal chemistry on the Axys research campus in South San Francisco, California. The facility will house medicinal chemistry, X-ray crystallography and computational chemistry. This facility will be able to accommodate approximately 80 chemists upon completion in the latter half of 2001, allowing for future growth.

Before qualifying for evaluation in human trials, chemical compounds must pass extensive safety and effectiveness tests. In such tests, Axys uses cell-based and animal-based models of human disease to provide important information on the duration of action of a potential drug, as well as how it is absorbed by the body or metabolized. On-site studies take advantage of advanced technologies, such as mass spectrometry (a sensitive analytical method to identify a compound and the products into which it is broken down), to evaluate hundreds of samples, indicating not only drug concentrations but also the pharmacodynamic (what the drug does to the body) and the pharmacokinetic (what the body does to the drug) characteristics of compounds nearing human clinical trials.

Finally, while some of Axys' collaborative partners currently provide clinical development expertise, Axys also has an in-house clinical development group with the capability to manage clinical trials, satisfy regulatory requirements, and ensure manufacturing quality control and quality assurance. This group is responsible for taking Axys' products forward into human testing.

What Drug Discovery Partnerships with Pharmaceutical Companies Does Axys Have?

Partnered Pipeline Preclinical

Merck Osteoporosis (Cathepsin K)

Aventis Inflammation (Cathepsin S)

Bayer Asthma (Tryptase)

Merck (Cathepsin K Inhibitors/Osteoporosis/Preclinical)

In November 1996, Axys entered into a research and development collaboration with Merck to develop small molecule inhibitors of cathepsin K for the treatment of osteoporosis. Osteoporosis is a disease of the bones that results in weakened bones which leads to pain, difficulty in moving, deformity and fractures. This condition mainly affects post-menopausal women.

Cathepsin K belongs to a class of enzymes called cysteine proteases. It is known to be secreted in excessive amounts by osteoclasts. In the healthy human body, osteoblast cells are responsible for bone-building while osteoclasts are responsible for bone degradation. By maintaining a careful balance in each type of cell's activity, normal bone remodeling and skeletal integrity is achieved. However, when the rate at which bone is destroyed by the osteoclasts exceeds the rate at which new bone is produced by osteoblasts, the result is excessive bone degradation (bone resorption) a condition that results in brittle bones and is characteristic of osteoporosis.

In February 1997, Axys announced the first-ever solution of the three-dimensional crystal structure of cathepsin K that has enabled Axys to design potent and selective inhibitors of cathepsin K. In December 1999, Axys announced the successful testing of a specific, selective cathepsin K inhibitor compound in an animal efficacy model, which triggered a milestone payment to Axys. In addition, although the research and development relationship was originally scheduled to end after two years and had already been extended for one additional year, Axys agreed with Merck in December 1999 to extend this collaboration for another additional year until early November 2000. In November 2000, Axys and Merck extended their osteoporosis collaboration for a fifth year to develop additional analog compounds to those previously provided. In

February 2001, Axys received a \$1.5 million payment from

Merck for an important milestone attained in the cathepsin K inhibition program. Axys expects studies needed for an investigational new drug application to be completed in 2001, with phase I clinical trials expected to begin during the first quarter of 2002.

Aventis (Cathepsin S inhibitors/Inflammatory Diseases/Preclinical)

In July 1998, Axys entered into a collaborative research and development agreement with Aventis (successor to Rhone-Poulenc Rorer). The objective of the collaboration is the discovery and development of small molecule drugs, which are drugs that can be taken orally, that inhibit cathepsin S, a human cysteine protease associated with some inflammatory diseases.

Cathepsin S is a cysteine protease found in antigen-presenting cells of the immune system. Unlike many other proteases, it is rarely found in other types of cells. Cathepsin S is believed to function in a pathway that regulates the body's ability to fight off these foreign antigens, leading to an inflammatory reaction. As a result, it may be possible to use inhibitors of cathepsin S to block the pathway and consequently protect the body from certain inflammatory diseases and perhaps autoimmune disorders. Axys' researchers were the first to solve the three-dimensional X-ray crystal structure of cathepsin S, as reported in June 1998 in *Protein Science*, which allowed Axys to design potent and selective inhibitor drug candidates.

Cathepsin S is associated with some inflammatory diseases, including arthritis, asthma, atherosclerosis and a variety of autoimmune diseases. Under the terms of the agreement, Aventis has exclusive development and marketing rights to cathepsin S protease inhibitors for respiratory diseases, atherosclerosis and related conditions, rheumatoid arthritis, and multiple sclerosis. Rheumatoid arthritis affects approximately 2.5 million Americans. Coronary heart disease is caused by the atherosclerotic narrowing of the coronary arteries and is the number one cause of death in United States with approximately 500,000 deaths occurring annually. Approximately 350,000 people have been diagnosed with multiple sclerosis.

In November 1999, Axys announced the successful testing of a potent, selective cathepsin S inhibitor compound in an animal efficacy model of asthma and received a milestone payment. In addition, current in vivo proof-of-concept studies are underway and planned for rheumatoid arthritis and atherosclerosis. In October 2000, Axys announced that on the basis of data from an in vivo efficacy model of asthma, Aventis qualified a collaboration compound for pre-clinical advancement. Upon successful completion of this work, Axys expects Aventis to initiate studies needed for an investigational new drug application of a lead cathepsin S compound in late 2001.

Bayer (Tryptase Inhibitors/Asthma/Preclinical)

In 1994, Axys entered into an agreement with Bayer for the research and development of tryptase inhibitors for the treatment of asthma. Tryptase is a serine protease that has been shown to regulate inflammation. Tryptase is released by mast cells as part of an immune response to allergens such as pollen, mold or grasses and contributes to several biological events that result in inflammation. Axys' tryptase inhibitors are designed to slow or halt the inflammatory process at an early stage, in an attempt to provide safe and effective therapies for the treatment of the underlying cause of disease, rather than the symptoms. The most significant indication for tryptase inhibitors is allergic asthma, as a replacement for inhaled steroid therapies.

Asthma is characterized by generalized airway inflammation and tightness in the lungs (bronchoconstriction) that makes breathing difficult. Five percent of the United States population, or approximately 13 million people, are estimated to suffer from some form of asthma. The exact causes of asthma are not well understood, and current treatments for asthma include controlling inflammation through the use of inhaled steroids, treating airway constriction through the use of bronchodilators and prevention of asthma attacks through the daily use of oral leukotriene inhibitors.

In Axys' collaboration with Bayer, Axys has established human proof-of-concept for tryptase as a drug target. This was achieved in previous Phase II clinical studies of APC 366, an inhaled peptide tryptase inhibitor, which showed that inhibiting tryptase resulted in improved breathing (reduction in late airway response) in asthmatics. Bayer is currently in preclinical studies with a later generation small molecule tryptase inhibitor with high oral bioavailability and circulating half-life, with the goal of developing a once-a-day oral therapeutic for the prevention and chronic treatment of asthma.

No Current Partner (Factors VIIa & Xa Inhibitors/Blood Clotting Disorders/Preclinical)

In September 1995, Axys signed a collaboration agreement with the predecessor to Pharmacia Corporation to develop oral therapeutics for blood clotting disorders, such as deep vein thrombosis, stroke, and myocardial infarction or heart attack. More specifically, Axys had been performing research on inhibitors of Factors Xa and VIIa and thrombin, all of which are serine proteases involved in the blood clotting process. These proteases have been acknowledged as targets for a host of disorders related to abnormal clotting. Annually, more than 2 million people are hospitalized in the United States for deep vein thrombosis, acute myocardial infarction and unstable angina.

In July 1998 the research support for this collaboration ended and in February 1999 Axys formally agreed to end this collaboration. Axys is currently continuing its research efforts with a focus on Factor VIIa and is actively seeking a new partner for the Factor VIIa program. At the present time, Axys is continuing to work on potent and selective compounds, which could result in the nomination of a clinical candidate.

What Does Axys' Non-Partnered Research and Development Franchise Look Like?**Proprietary Pipeline Oncology & Specialty Therapeutic Areas**

	Screening/ Proof of Concept	Preclinical	IND	Phase I Clinical Trials	Phase II Clinical Trials
Urokinase Angiogenesis/metastasis			X		
SERM-B Selective estrogen receptor modulators (Beta)			X		
Apoptosis inducers	X				
Prostate Specific Antigen Prostate cancer	X				
Cathepsin V	X				
APC 2059 Ulcerative Colitis					X(1)
APC 2059 Asthma			X(1)		

(1)

Additional trials require further preclinical testing as described below.

In early 1999, Axys implemented an initiative to focus its unpartnered resources on the development of small molecule drugs for the treatment of cancer. Axys believes that there is a significant market opportunity to meet current and future medical needs associated with many different types of cancer. One of the factors contributing to this growth is the aging of the world's population. As people live longer, their chances of developing cancer increase.

Axys' decision to focus its resources on cancer therapeutics was also partly based on the improving regulatory environment for approval of cancer therapeutics. In recent years, the Food & Drug Administration has established a regulatory "fast track" for some cancer therapeutics approved reviews. In addition, surrogate markers such as tumor shrinkage have been increasingly accepted as research endpoints. The use of surrogate markers may substantially shorten the length of the necessary clinical research studies.

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Further, Axys believes that protease inhibition may provide a treatment method for many cancers, resulting in orally delivered small molecule drugs. These include antiangiogenesis, hypoxia and metastasis inhibition. Angiogenesis is the process by which blood vessels are formed. Blood vessel formation and growth is necessary for tumor growth. Antiangiogenesis drugs are believed to be able to cut off blood vessel growth and thereby reduce the size of tumors and potentially interfere with their growth. Hypoxia is the deprivation of oxygen to tumor cells, which can lead to the inhibition of tumor cell proliferation. Metastasis is the process by which cancer spreads. Drugs that discourage metastasis are believed to be able to stop cancer from spreading throughout the body.

Axys has had research programs underway that range from a preclinical program in antiangiogenesis to screening and proof-of-concept programs in solid tumor metastasis and prostate cancer, to cancer target identification and validation research programs.

Urokinase. One of Axys' most advanced oncology programs involves the development of inhibitors of the protease urokinase to interfere with angiogenesis and metastasis processes. Using a broad range of scientific capabilities including crystallography and structural biology, Axys' scientists have extensively analyzed urokinase to identify sites on the molecule best suited for drug interaction. Using Axys' medicinal chemistry and structure-based drug design capabilities, a series of drug-like compounds have been screened to identify potential drugs and select a candidate for preclinical development.

Axys' lead series of urokinase inhibition drug candidates have been shown in preclinical testing to be potent and specific which may reduce the chance of unwanted side effects. The results to date of Axys' tests in animal models show that urokinase may be required for tumor metastasis, and preclinical studies have shown activity of a urokinase inhibitor in animal models. Axys plans to select an investigational new drug application candidate from the urokinase inhibition program in 2002, if the results obtained in animal studies in pancreatic cancer, in collaboration with the Arizona Cancer Center, are successful.

SERM- β . Axys' first in-licensed program in oncology comes from Celgene (formerly Signal Pharmaceuticals). In October 1999, Celgene granted Axys exclusive rights to its selective estrogen receptor-beta modulators (SERM- β) for the treatment of cancer. SERM- β compounds are small molecules that selectively modulate the activity of the newly discovered beta estrogen receptor found in tumors and certain hormonally sensitive tissues. Preclinical studies in animal models of prostate cancer are expected to continue throughout 2001.

Apoptosis Inducers. In early 2000, Axys entered into a collaborative agreement with Cytovia, Inc. (later acquired by Maxim Pharmaceuticals, Inc.) to discover and develop inducers of apoptosis (programmed cell death) as anticancer drugs. During 2000, the research involved the screening of Axys diversity libraries (approximately 400,000 compounds) through Maxim's proprietary assay systems designed to identify potential drug candidates. Lead compounds are expected to advance into animal studies in cancer models during 2001.

Screening/Proof-of-Concept. Particular areas of emphasis in Axys' early-stage research include hypoxia and angiogenesis. Biological targets identified in these pathways can be validated as small-molecule drug targets through additional molecular biology and eventual screening. In 2000, six cancer targets histone deacetylase, methionine aminopeptidase-2, MT1-MMP, HIF1-(Greek alpha), rho kinase and CAAX protease were entered into high throughput screening by this process. Some of these targets are no longer being pursued and other replacement targets will be entered into high throughput screening. Two additional protease targets, prostate-specific antigen (PSA) and cathepsin V, are being validated in vivo using antisense and chemical inhibitor approaches.

In addition to these programs, Axys is continuing to actively seek to license potential cancer treatment compounds from other biotechnology or pharmaceutical companies with an emphasis on early stage clinical product opportunities, as well as advanced pre-clinical compounds.

Tryptase Inhibitors/Inflammatory Ulcerative Colitis/Clinical Phase II). In July 1997, Axys modified its 1994 research and development agreement with Bayer to re-acquire the rights to develop tryptase inhibitors for the treatment of inflammatory bowel disease and psoriasis, which, like asthma, is another mast cell regulated inflammatory disease. In December 2000, Axys amended its collaborative agreement with Bayer to return exclusive rights to develop a specific tryptase inhibitor, APC 2059, for non-oral applications. Axys is investigating development of the compound as a potential inhaled therapy for asthma and as an injectable treatment for ulcerative colitis. Axys' collaboration with Bayer to develop oral tryptase inhibitors is unaffected by this amendment. The January 2001 amended agreement provided for an up front payment to Bayer and future royalty payments, based on net sales, upon commercialization.

In the fourth quarter of 2000, Axys completed a Phase II clinical trial on Axys' compound, APC 2059, in ulcerative colitis. Before moving forward to more advanced trials, Axys has recently determined that extensive safety pharmacology and dose-ranging pre-clinical research is necessary. Axys determined that it would not undertake this research and intends to seek a partner who is willing to conduct this research, as well as undertake additional clinical and commercial activities. As these clinical trials are intended to establish safety in humans, Axys cannot be certain that it will be able to initiate or complete necessary future clinical trials successfully. Axys' collaboration partner, Bayer, is moving forward with advanced pre-clinical studies of a compound developed in Axys' collaboration with them for the treatment of asthma that would be taken as a pill. Axys cannot be certain that the clinical trials of this compound will be initiated or completed successfully. Finally, Axys cannot be certain that any other drug candidates which may enter clinical trials will successfully complete those trials or that Axys or its collaborators will be able to show the safety and effectiveness of these drug candidates.

Axys is currently evaluating further development of APC 2059. To enable longer term dosing required for chronic disease therapies, Axys is currently in the process of planning additional dose-ranging safety pharmacology studies. Axys expects further human clinical testing, if any, to be delayed until these safety pharmacology studies are completed and results evaluated.

Why and How Has Axys Leveraged its Technology Platform?

If the merger is not consummated, Axys will need additional capital in order to continue its research and development efforts. One way Axys has attempted to raise additional capital is by creating new stand-alone companies using Axys' non-core technologies for purposes other than drug discovery, obtaining third-party funding for these companies and eventually selling its equity interest. Axys has created three such businesses: Advanced Technologies in combinatorial chemistry, PPGx, in pharmacogenomics, and Akkadix in agricultural biotechnology. At the same time, Axys retains the right to use Axys' intellectual property that these businesses utilize for its own drug discovery and development purposes.

Axys has sought out third parties to invest additional capital for these businesses, but retained equity ownership positions. In 2000, Axys sold its equity position in two of these businesses: Advanced Technologies, which Axys sold to Discovery Partners, and PPGx, which Axys sold to DNA Sciences.

Axys' ability to realize value from these affiliated businesses will depend on the success these companies have in executing their business strategies. As of October 1, 2001, Axys owned 7,222,000 shares of Discovery Partners common stock, 1,478,550 of Series D Preferred Stock of DNA Sciences and 108 shares of DNA Sciences common stock. Axys' Discovery Partners shares are subject to certain contractual restrictions that limit Axys' ability to liquidate its position. DNA Sciences is a privately held company and there are limited opportunities to dispose of Axys' interest. There can be no assurance that the businesses in which Axys holds these equity positions will be successful or that Axys will have the ability to sell all or a portion of its equity ownership in these businesses. In addition, there can be no assurance that the amount Axys may receive upon selling its equity ownership interest will provide

significant funding so as to postpone for a meaningful time period the need to engage in other capital raising activities.

Competition

Axys faces intense competition in the different market segments it is pursuing. There are many companies that have or are developing capabilities in drug discovery, particularly in structure-based drug design and high throughput screening, to identify new products. In addition, there are many companies focused on the development of drugs for chronic disease, such as osteoporosis, asthma, rheumatoid arthritis, ulcerative colitis, and for cancer in general. Many biotechnology companies are expanding their capabilities, using a variety of techniques, to determine gene function and to develop products based on gene function. Axys' potential competitors in the field are numerous and include major pharmaceutical and agricultural companies, diagnostic companies, specialized biotechnology companies, genomics companies and academic institutions and universities.

Many of Axys' potential competitors have significantly more financial, technical and other resources than it does, which may allow them to have a competitive advantage. Axys is aware that there are many companies focused specifically on other proprietary technologies directed at identifying product targets. In addition, pharmaceutical, biotechnology and genomics companies and academic institutions are conducting work in this field. In the future, Axys expects the field to become more competitive with companies and academic institutions seeking to develop competing technologies.

Any products that Axys may develop or discover through application of its technologies will compete in highly competitive markets. Many of Axys' potential competitors in these markets have substantially greater financial, technical and personnel resources than Axys does, and Axys cannot assure you that they will not succeed in developing technologies and products that may render Axys' technologies and products and those of Axys' collaborators obsolete or noncompetitive. In addition, many of Axys' competitors have significantly greater experience than Axys does in their respective fields.

Patents and Proprietary Rights

Axys holds 31 issued United States patents and 29 issued foreign patents relating to compositions of matter, methods of treating disease, combinatorial chemistry and computational technologies. Most of Axys' patents in combinatorial chemistry diversity library processes and compositions of matter have been assigned to Discovery Partners as part of the sale of Advanced Technologies completed in 2000. These patents expire at various dates starting in year 2013 up to the year 2018. In addition, Axys has filed and there are now pending patent applications relating to compositions of matter, methods of treating disease, assay techniques, computational technologies and novel technology for the discovery of novel protease inhibitors. Axys intends to file additional patent applications, when appropriate, relating to Axys' technology and to specific products it develops.

Axys strategically files selected patent applications to protect technology, inventions and improvements that are important to the development of Axys' business. That is Axys' policy, as well as Axys' practice. Axys also relies upon trade secrets, know-how, continuing technological innovations and licensing opportunities to develop and maintain its competitive position. Axys maintains a policy that it does not and will not knowingly violate valid claims of patents issued by the United States Patent and Trademark Office.

The patent positions of pharmaceutical and biotechnology firms, including Axys, are uncertain and involve complex legal and factual questions. In addition, the scope of the claims in a patent application can be significantly modified before the patent is issued. As a result, Axys does not know whether any of its applications will result in the issuance of patents, or if any of its issued patents will provide significant protection. Axys also does not know whether any of its issued patents will be invalidated.

Since patent applications in the United States are maintained in secrecy until patents issue, and since publication of discoveries in the scientific or patent literature often lag behind actual discoveries, Axys cannot even be certain that it was the first creator of inventions covered by its pending patent applications or that it was the first to file patent applications for such inventions.

In addition, Axys may have to participate in interference proceedings declared by the United States Patent and Trademark Office. These proceedings determine the priority of invention and the right to a patent for the technology in the United States. Such proceedings could result in substantial costs to Axys, even if Axys wins.

There can be no assurance that Axys' pending patent applications, if issued, or Axys' existing patents, will not be invalidated. An adverse outcome could subject Axys to significant liabilities to third parties, require disputed rights to be licensed from third parties or require Axys to stop or modify its use of such technology.

The development of therapeutic products for applications in the product fields Axys is pursuing is intensely competitive. A number of pharmaceutical companies, biotechnology companies, universities and research institutions have filed patent applications or received patents in the areas in which Axys is conducting research. In addition, patent applications filed by others relating to Axys' potential products or technologies may currently be pending. Some of these applications or patents may limit or hinder Axys' freedom to practice and could result in a significant reduction of the coverage of Axys' patents, or potential patents. Axys is aware of pending patent applications that have been filed by other companies that may pertain to certain of Axys' technologies. If patents are issued to these or other companies containing incompatible or conflicting claims, and such claims are ultimately determined to be valid, Axys may be required to obtain licenses to these patents or to develop or obtain alternative technology.

Furthermore, Axys has in the past been, and may again be, notified of claims that it may be infringing patents or other intellectual property rights owned by third parties. Axys has obtained licenses under several patents held by third parties. If necessary or desirable, Axys may seek additional licenses under other patents or intellectual property rights. There can be no assurance, however, that Axys will be able to obtain a license it seeks on reasonable terms or even at all. As an alternative, Axys could decide to resort to litigation to challenge a patent or patents. Such challenges can be extremely expensive and time consuming. Consequently, they could have a material adverse effect on Axys' business, financial condition and results of operations.

Much of the unpatentable know-how important to Axys' technology and many of its processes depends upon the knowledge, experience and skills of key scientific and technical personnel. To protect Axys' rights to this know-how and technology, all employees, consultants, advisors and collaborators are required to enter into confidentiality agreements with Axys that prohibit the disclosure of confidential information to any third party and require disclosure to Axys of ideas, developments, discoveries and inventions made by these individuals. There can be no assurance that these agreements will effectively prevent disclosure of Axys' confidential information or that these agreements will provide meaningful protection for Axys' confidential information if there is unauthorized use or disclosure. Axys' business could be adversely affected by competitors who develop substantially equivalent technology.

In connection with certain research, Axys entered into sponsored research agreements with various researchers and universities. Generally, under these agreements Axys funds the research of investigators in exchange for the right or an option to a license to any patentable inventions that may result in designated areas. Axys is obligated to make certain payments during the terms of certain of the agreements, to pay royalties on net sales of any licensed products and, in some cases, to negotiate in good faith the business terms of any license executed upon exercise of licensing options. There can be no assurance that these agreements will not be breached or that Axys would have adequate remedies for any breach.

Government Regulation

The manufacturing and marketing of Axys' proposed products and Axys' research and development activities are subject to regulation for safety, effectiveness and quality by many governmental authorities in the United States and other countries. In the United States, drugs are subject to stringent regulation by the United States Food and Drug Administration. The Federal Food, Drug and Cosmetic Act and Food and Drug Administration regulations, as well as other federal and state laws and regulations, govern the testing, manufacture, safety, effectiveness, package labeling, storage, record keeping, approval, advertising and promotion of Axys' proposed products. Product development and approval takes a long time and involves the expenditure of a lot of money. If Axys fails to comply with certain regulatory requirements, Axys could be subject to sanctions, such as warning letters, penalties, criminal prosecution, injunctions, product seizure, product recalls, total or partial suspension of production, and Food and Drug Administration refusal to approve pending new drug applications or costly supplements to

approved applications.

The steps required before a drug may be marketed in the United States include (1) preclinical laboratory tests, in vivo (animal model) preclinical studies and formulation studies, (2) the submission to the Food and Drug Administration of an application for human clinical testing, known as an investigational new drug application, which must be accepted by the Food and Drug Administration before human clinical trials are started, (3) adequate and well-controlled human clinical trials to establish the safety and effectiveness of the drug, (4) the submission of a new drug application to the Food and Drug Administration, and (5) Food and Drug Administration approval of the new drug application prior to any commercial sale or shipment of the drug. In addition to obtaining Food and Drug Administration approval for each product, each domestic drug manufacturing establishment must be registered with the Food and Drug Administration. Domestic drug manufacturing establishments are subject to inspections twice a year by the Food and Drug Administration and must comply with Good Manufacturing Practices. To supply products for use in the United States, foreign manufacturers must comply with Good Manufacturing Practices and are subject to periodic inspection by the Food and Drug Administration or by corresponding regulatory agencies in their country. Drug product manufacturers located in California also must be licensed by the State of California.

Preclinical tests include laboratory evaluation of what is in the product and how it was made, as well as animal studies to assess the potential safety and effectiveness of the product. Preclinical safety tests must be conducted by laboratories that comply with Food and Drug Administration regulations regarding Good Laboratory Practices. The results of the preclinical tests are submitted to the Food and Drug Administration as part of an investigational new drug application and reviewed by the Food and Drug Administration prior to the start of human clinical trials. Unless the Food and Drug Administration objects, the investigational new drug application will become effective 30 days following its receipt by the Food and Drug Administration. There can be no assurance that submission of an investigational new drug application will result in Food and Drug Administration authorization to start clinical trials. Clinical trials involve giving the investigational new drug to healthy volunteers and to patients, under the supervision of qualified investigators. Clinical trials are conducted in agreement with Good Clinical Practices under instructions that detail the objectives of the study, the limits to be used to monitor safety and the effectiveness criteria to be evaluated. Instructions must be submitted to the Food and Drug Administration as part of the investigational new drug application. Further, each clinical study must be conducted under the power of an independent institutional review board at the site where the study will be conducted. The institutional review board will consider, among other things, ethical factors, the safety of human subjects and the possible liability of the site.

Clinical trials are typically conducted in three phases that go in order, but the phases may overlap. In Phase I, in which Axys usually gives the drug to healthy subjects, the drug is tested to determine its metabolism (how the drug is absorbed by the body), pharmacokinetics (what the body does to the drug) and pharmacological actions (biological effects) in humans, the side effects associated with increasing

doses and early evidence of how effective the drug is, if possible. Phase II involves studies in a limited patient population to (1) determine the effectiveness of the drug for specific, targeted indications, (2) determine what amount of the drug works best and how much of the drug can be tolerated, and (3) identify possible adverse effects and safety risks. If a compound is found to be effective and to have an acceptable safety profile in Phase II evaluations, Phase III trials further evaluate the effectiveness of the drug and further test for safety in a larger group of people at many different locations.

There can be no assurance that Phase I, Phase II or Phase III testing will be completed successfully within any specific time period, if at all, for any of Axys' proposed products. Furthermore, the Food and Drug Administration or Axys may suspend or cancel clinical trials at any time if it is felt that the patients are being exposed to an unacceptable health risk or the Food and Drug Administration finds errors or incorrect information in the investigational new drug application or due to the conduct of the investigation. Further, Food and Drug Administration regulations state that sponsors of clinical investigations must meet numerous regulatory requirements, including, selection of qualified investigators, proper monitoring of the investigations, recordkeeping and record retention, and ensuring that Food and Drug Administration and all investigators are promptly informed of significant new adverse effects or risks with respect to the drug.

The results of the drug development, preclinical studies and clinical studies are submitted to the Food and Drug Administration in the form of a new drug application, which, if accepted, would clear the way for marketing and commercial shipment of the drug. There can be no assurance that any approval will be granted by the Food and Drug Administration at all or, if granted, will be granted on a timely basis. The Food and Drug Administration may deny a new drug application if certain regulatory criteria are not satisfied, may require additional testing or information, or may require post-marketing testing and surveillance to monitor the safety of Axys' products if the Food and Drug Administration does not view the new drug application as containing enough evidence of the safety and effectiveness of the drug. Even if Axys submits additional data, the Food and Drug Administration may still decide that the application does not satisfy its regulatory criteria for approval. In addition, even if regulatory clearance of a drug is granted, such approval may limit the uses for which it may be marketed. Finally, product approvals may be taken away if regulatory standards are not maintained or if problems occur following initial marketing.

Among the typical conditions for new drug application approval is the requirement that the proposed manufacturer's quality control and manufacturing procedures conform to good manufacturing practices, which must be followed at all times. To comply with these standards, Axys

will have to spend a large amount of time, money and effort in the area of production and quality control to ensure full technical compliance.

In addition to regulations enforced by the Food and Drug Administration, Axys will also be subject to regulation under the Occupational Safety and Health Act, the Environmental Protection Act, the Toxic Substances Control Act, the Resource Conservation and Recovery Act and other present and potential future federal, state or local regulations. Axys' research and development involves the controlled use of hazardous materials, chemicals and various radioactive compounds, all of which are regulated. Although Axys believes that Axys' safety procedures for handling and disposing of these materials comply with the standards set by state and federal regulations, the risk of accidental contamination or injury from these materials is possible. In the event of an accident, Axys could be sued for any damages that result and any such lawsuit could exceed the insurance and resources of Axys.

For clinical investigation and marketing outside the United States, Axys is also subject to foreign regulatory requirements governing human clinical trials and marketing approval for drugs. These requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary widely for European countries both within, and outside, the European Union. Axys plans to comply with the European regulatory process by identifying and using clinical investigators in the member states of the European Union and other European countries to conduct clinical studies. Further, Axys intends to design Axys' studies to meet Food and Drug Administration, European Union and other European countries' standards.

Within the European Union, while marketing authorizations must be supported by clinical trial data of a type and to the extent set out by European Union directives and guidelines, the approval process for the commencement of clinical trials is not currently harmonized by European Union law and varies from country to country. As far as possible, Axys intends to design Axys' studies so as to develop a regulatory package sufficient for multi-country approval in Axys' European target markets, without the need to duplicate studies for individual country approvals.

Outside the United States, Axys' ability to market a product is based upon receiving a marketing authorization from the appropriate regulatory authority. Currently, foreign marketing authorizations are applied for at a national level, although within the European Union certain registration procedures are available to companies wishing to market the product in more than one European Union member state. If the regulatory authority is satisfied that enough evidence of safety, quality and effectiveness has been presented, a marketing authorization will be granted. The system for obtaining marketing authorizations within the European Union changed on January 1, 1995. The current European Union registration system is a dual one in which certain products, such as biotechnology and high technology products and those containing new active substances, will have access to a central regulatory system that provides registration throughout the entire European Union. Other products will be registered by national authorities in individual European Union member states, operating on a principle of mutual recognition. This foreign regulatory approval process includes all of the same risks involved in the Food and Drug Administration approval process described above.

Employees

As of October 1, 2001, Axys employed 171 individuals, of whom 58 held Ph.D. or M.D. degrees and 41 held other advanced degrees. Approximately 137 of Axys' employees are involved in research and development activities, including a variety of disciplines within the areas of molecular biology and other biological sciences, medicinal chemistry, information technology, computer sciences pharmacology, safety assessment and clinical development. Approximately 34 of Axys' employees are employed in finance, business development and general administrative activities. None of Axys' employees are covered by collective bargaining agreements, and Axys' management considers relations with its employees to be good. Axys also enters into consulting arrangements with experienced, professional scientists and managers to supplement Axys' work force.

Recent Developments

In November 2000, the Financial Accounting Standards Board issued Emerging Issues Task Force Issue No. 00-27, "Application of EITF Issue No. 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios, to Certain Convertible Instruments." This established new accounting rules that were applicable immediately to Axys' \$26 million convertible debt instrument Axys issued in September 2000. The new accounting rule required Axys to record a \$4 million beneficial conversion feature charge during the fourth quarter of fiscal 2000.

On March 8, 2001, Axys issued a press release that announced Axys' unaudited financial results for the fiscal year ended December 31, 2000. Axys' March 8, 2001 reported results did not recognize the entire \$4 million non-cash charge for the beneficial conversion feature as Axys was amortizing the beneficial conversion feature over the four year term of the debt. The immediate charge resulting from this accounting rule, which applies to transactions entered into prior to November 16, 2000, does not impact Axys' reported operating loss, but results in a one-time,

non-cash charge to interest expense in connection with the issuance of the convertible debt. As a result, Axys reported in the press release, for the fiscal year ended December 31, 2000, basic and diluted net loss per share from continuing operations and basic and diluted net (loss) income per share of (\$1.18) and \$0.39, respectively. After recognizing the entire \$4 million beneficial conversion feature, Axys' basic and diluted net loss per share from continuing operations and basic and diluted net (loss) income per share, for the fiscal year ended December 31, 2000, was (\$1.29) and \$0.28, respectively. Axys does not believe that this change will have any material impact on Axys' operations or financial condition.

Properties

Axys currently leases approximately 170,000 square feet and occupies approximately 111,000 square feet of laboratory, support and administrative space in South San Francisco, California. Leases expire on these facilities on November 30, 2003 with respect to approximately 52,000 square feet; on July 31, 2005 with respect to approximately 33,000 square feet; on August 4, 2006 with respect to approximately 83,000 square feet; and on a month-to-month arrangement with respect to approximately 2,000 square feet. Most of these leases have additional options for extensions. In 2000, Axys converted a warehouse lease into a ground lease for 25 years with options to extend for two additional 10-year periods. Axys is constructing a medicinal chemistry building on this lot that will include approximately 43,500 square feet of laboratory and office space. Construction is expected to be completed in the second half of 2001. Axys is subleasing approximately 33,000 square feet to an unrelated third party, with the lease and sublease expiring on July 31, 2005. In addition, Axys is subleasing approximately 25,000 square feet to Discovery Partners, with the lease and sublease expiring on November 30, 2003. Axys expects to sublease 52,000 square feet of adjacent space to Discovery Partners when Axys occupies the new medicinal chemistry facility. Discovery Partners also has the right of first refusal to sublease the remainder of that 52,000 square foot facility or approximately 25,000 square feet upon the opening of the new medicinal chemistry facility. Axys' existing and planned facilities are believed to be adequate to meet Axys' present requirements, and Axys currently believes that suitable additional space will be available to Axys, when needed, on commercially reasonable terms.

Legal Proceedings

From time to time, Axys is subject to legal proceedings or claims arising in the ordinary course of its business. While the outcome of any such proceedings or claims cannot be predicted with certainty, Axys' management does not believe that the outcome of any of these legal matters will have a material adverse effect on Axys' results of operations or financial position.

Selected Financial Data

Selected financial data of Axys appears on page 15 of this proxy statement/prospectus. The data should be read in conjunction with " Management's Discussion and Analysis of Financial Condition and Results of Operations" which is included beginning on page 95 of this proxy statement/prospectus.

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Axys Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of the financial condition and results of operations in conjunction with Axys' financial statements and its notes located elsewhere in this proxy statement/prospectus. The following discussion contains both historical information and forward-looking statements that involve risks and uncertainties. Forward-looking statements include projections and other statements of events that may occur at some point in the future. Axys' actual results could differ significantly from those described in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this section as well as under "Information About Axys" and "Risk Factors" in this proxy statement/prospectus.

Overview

Axys is a biopharmaceutical company focused on the discovery, design and development of therapeutic drugs that address significant markets with major unmet medical needs. Axys collaborates with large pharmaceutical companies in discovering therapeutics for chronic diseases for which there are large markets. Axys also selectively focuses its own resources on discovering and developing therapeutics for the treatment of various types of cancer and other specialty market therapeutics. Axys has on-going programs in the treatment of autoimmune, inflammatory diseases, and cancer. Axys' drug design platform integrates advanced biology, chemistry, biophysics and information technologies to optimize the potency, selectivity and physical properties of new drugs, making the drug discovery process more efficient and productive.

In February 2001, Axys received a non-refundable, non-creditable research milestone payment from Merck & Co. for meeting a pre-agreed milestone in the development of a compound being studied for use in the treatment of osteoporosis, a disease that affects an estimated 40 percent of women over the age of 50. The compound selected by Merck is a potent and selective inhibitor of cathepsin K, a cysteine protease that has been demonstrated to play a key role in bone resorption.

In March 2001, two investors in Akkadix Corporation exercised their options, granted to them by Axys, to exchange their 2.7 million shares of Series A Preferred Stock of Akkadix for approximately 2.5 million shares of Axys common stock. The fair market value of Axys common stock exchanged for Akkadix preferred stock was approximately \$9.0 million. As a result of the exercise of these options, Axys' ownership of Akkadix voting stock increased from 31% to approximately 44%. During the first quarter of 2001, Akkadix sharply reduced their operations because of diminished financial resources. A substantial percentage of its employees were terminated, and Akkadix vacated its office/laboratory space. Axys has concluded that the future viability of the Akkadix business is highly uncertain. Accordingly, Axys incurred a non-cash charge of \$9.0 million during the first quarter recognizing a permanent impairment in the value of its investment in Akkadix. On September 24, 2001, Akkadix filed a voluntary petition for relief under Chapter 7 of the United States Bankruptcy Code with the United States Bankruptcy Court for the Southern District of California. Axys does not anticipate any future benefit from this investment.

In March 2001, Axys earned a non-refundable, non-creditable research milestone from Aventis for successfully completing a pivotal *in vivo* proof-of-concept study which confirmed the mechanism of action for orally administered inhibitors of cathepsin S, another human cysteine protease. The collaboration with Aventis is focused on development of cathepsin S inhibitors for potential applications in treating inflammation and autoimmune disease, including rheumatoid arthritis, asthma, atherosclerosis, chronic obstructive pulmonary disease and rhinitis.

In May 2001, Axys established a single asset company, known as Axys 468 Littlefield LLC, for the sole purpose of constructing, financing and housing its 45,000 square foot medicinal chemistry building. This company is owned 100% by Axys. Construction is expected to be completed in the fourth quarter of 2001. In June 2001, this LLC secured a construction loan for \$11.0 million for a twelve-month

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period of time, with permanent financing to follow. There were no draws on the construction loan as of June 30, 2001 and the single asset entity is consolidated into Axys' financial statements.

On June 12, 2001, Axys entered into a definitive agreement with Applera to merge with the Celera Genomics Group. Celera Genomics' concentration in the areas of genomics, proteomics, or the study of proteins expressed by genes, information technology and high throughput computation, combined with Axys' complementary strengths in the areas of medicinal, structural and combinatorial chemistry and biology should enable the combined company to more effectively pursue the research and development of innovative small molecule drugs than the two companies can individually. Information about the merger and the merger agreement is being provided to the holders of Axys common stock in this proxy statement/prospectus.

To date, Axys has not generated any product revenue from its drug discovery programs and does not expect to generate product revenue for at least several years. As of June 30, 2001, Axys had an accumulated deficit of \$299 million. Axys expects that losses will fluctuate from quarter to quarter, that such fluctuations may be substantial, and that results from prior quarters may not be indicative of future operating results. Included in Axys' accumulated deficit at June 30, 2001 was approximately \$147 million of acquired in-process research and development from the acquisitions of Khepri Pharmaceuticals, Inc. in 1995 and Sequana Therapeutics, Inc. in January 1998. Axys expects its sources of revenue, if any, for the next several years to consist of payments under corporate partnerships. The process of developing its products will require significant additional research and development, preclinical testing and clinical trials, as well as regulatory approval. These activities, together with its general and administrative expenses are expected to result in significant operating losses for the foreseeable future. Axys will not receive product revenues or royalties from its collaborative partners before completing clinical trials and successfully commercializing these products.

Axys is subject to risks common to biopharmaceutical companies, including risks inherent in its research and development efforts and clinical trials, reliance on collaborative partners, enforcement of patent and proprietary rights, the need for future capital, potential competition and uncertainty of regulatory approvals. In order for a product to be commercialized, it will be necessary for Axys, and in some cases, its collaborators, to conduct preclinical tests and clinical trials to demonstrate the efficacy and safety of Axys' product candidates, obtain regulatory clearances and enter into manufacturing, distribution and marketing arrangements as well as obtain market acceptance. There can be no assurance that Axys will generate revenues or achieve and sustain profitability in the future.

Results of Operations

Three and Six months ended June 30, 2001 and June 30, 2000

Collaboration and Licensing Revenues

Axys' collaboration and licensing revenues were \$0.8 million and \$3.9 million for the three and six months ended June 30, 2001, respectively, compared to \$1.5 million and \$2.9 million for the comparable period in 2000. The year-to-date increase was primarily due to milestones earned from corporate collaborations with both Merck and Aventis offset by the reduction of support from the cathepsin S program in 2000.

Research and Development

Axys' research and development expenses were \$8.3 million and \$17.0 million for the three and six months ended June 30, 2001, respectively, compared to \$8.0 million and \$15.9 million for the comparable period in 2000. The overall increase for the first six months of 2001 was primarily due to clinical development expenses incurred in connection with clinical studies for APC 2059. Included in

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research and development expense is non-cash compensation income of \$344,000 for the six months ended June 30, 2001, relating to the changes in fair value of Axys' Key Employee Stock Option Plan.

General and Administrative

Axys' general and administrative expenses were \$4.2 million and \$6.6 million for the three and six months ended June 30, 2001, respectively, compared to \$2.9 million and \$5.7 million for the comparable period in 2000. The increase was primarily due to \$1.4 million in costs associated with the proposed merger with Applera in the second quarter and upgrading information systems and network infrastructure in the first quarter of 2001. Included in general and administrative expenses is non-cash compensation income of \$1.1 million for the six months ended June 30, 2001, relating to the changes in fair value of its Key Employee Stock Option Plan. Axys recorded a credit as a result of the decline in fair value of the company's liability under the Key Stock Option Employee Plan. Under this plan, certain employees of Axys have been granted contractual options to purchase shares of its investment of Discovery Partners.

Interest Income and Interest Expense

Interest income was \$382,000 and \$913,000 for the three and six months ended June 30, 2001, respectively, compared to \$585,000 and \$726,000 for the comparable period in 2000. The year-to-date increase was primarily due to the increase in average cash investment balances during the first quarter of 2001, compared to the first quarter of 2000. Interest expense was \$1.1 million and \$2.6 million for the three and six months ended June 30, 2001, respectively, compared to \$110,000 and \$286,000 for the comparable period in 2000. The increase is primarily due to the interest expense on the subordinated notes payable. Interest expense on these notes consists of the 8% face value interest rate and the amortization of debt issuance costs.

Equity Interest in Loss of Equity-Method Investee

Net equity interest in loss of equity-method investee consists of Axys' proportionate share of losses from DPI and the write-off of its investment in Akkadix. These amounts were offset by the recording of deferred gain from the sale of Axys Advanced Technologies to Discovery Partners in April of 2000. As Axys' ownership percentage in Discovery Partners is reduced, deferred gain amounts are recognized.

Other Income/Expense

Other income and expense consists of the change in fair value of the warrants received as part of Axys' investment in Discovery Partners in conformity with current derivative accounting rules, adopted in January 2001, and a decline in market value of Discovery Partners stock for a period of six months, which reflects a deemed impairment in the market value of Axys' common stock investments.

Years Ended December 31, 2000 and 1999

1999 Events Which Affected Comparability with 2000:

In December 1999, Axys closed its La Jolla operations, which primarily represented the Sequana business acquired in 1998, and relocated Axys' cancer genomics research activities to its South San Francisco headquarters. As a result of this action, a one-time restructuring charge of \$5.2 million was recorded in 1999. At the time of the Sequana acquisition, the following research programs were in progress: Asthma, partnered with Boehringer Ingelheim GmbH; Osteoporosis, partnered with Corange International Ltd. (currently F. Hoffmann La Roche Ltd.); Non-Insulin Dependent Diabetes Mellitus, partnered with GlaxoWellcome (currently Glaxo SmithKline, Inc.); Schizophrenia/Bipolar, partnered with Parke-Davis (currently Pfizer, Inc.) Pharmaceutical Research division of Warner-Lambert Company; and the unpartnered programs in Obesity, Alzheimer's and Pharmacogenomics. As of

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December 31, 1999, the Schizophrenia/Bipolar program was transferred to Parke-Davis and the Pharmacogenomics program was spun off into the PPGx subsidiary with PPD. All other programs have ended.

In September 1999, Akkadix completed its acquisition of Global Agro, Inc. The acquisition resulted in Axys' equity ownership interest in Akkadix falling below 50% and thereafter Akkadix is accounted for under the equity method.

In February 1999, Axys formed a majority owned subsidiary, PPGx, which was engaged in the business of providing pharmacogenomic (the science of how genetic variations among individuals affects drug safety and efficacy) products and services to the pharmaceutical industry. In connection with the formation of PPGx, Axys contributed certain assets and technology in exchange for an 82% ownership interest in PPGx. PPD, Inc. acquired an 18% equity interest in PPGx, in exchange for contributing certain assets, technology, cash and loan guarantees and the exclusive, worldwide right to market the pharmacogenomic products and services of PPGx.

2000 Events Which Affected Axys' Operations:

During 2000, Axys completed the sale of two of its three non-core subsidiary businesses created several years ago from Axys' technology. Axys obtained equity from the acquiring companies in consideration for the sale of these entities. Axys plans to liquidate these equity shares over time to fund Axys' future research and development. The transactions involved are:

the sale of Advanced Technologies to Discovery Partners, resulting in consideration to Axys of 7,425,000 shares of Discovery Partners common stock; and

the sale of PPGx to DNA Sciences, resulting in consideration to Axys of 1,478,550 shares of Series D preferred stock and 108 shares of common stock.

Events That Happened Subsequent to 2000, Which Will Affect Axys in the Future:

Akkadix (formerly known as Xyris) focuses its business on agricultural biotechnology. In 1999, The Bay City Capital Fund I, L.P. and an affiliated fund, North American Nutrition & Agribusiness Fund, L.P., became a primary source of funding for Akkadix. In 2000, Axys and Bay City Capital each provided Akkadix with bridge loan financing of \$2.5 million, which Axys subsequently increased by another \$100,000. In accordance with the equity method of accounting, Axys recorded a charge of approximately \$2.8 million in 2000, representing Axys' share of Akkadix's losses and substantially all of Axys' investment in Akkadix.

In March 2001, Bay City Capital and North American Nutrition & Agribusiness Fund each exercised its option to exchange its shares of Akkadix preferred stock for shares of Axys common stock. These option exercises increased Axys' ownership interest in Akkadix from 23% at December 31, 2000 to 44% in March 2001. Axys does not expect to receive any future value, nor is it planning to make future investments in Akkadix and its future viability as a business is very uncertain. As a result of Axys' ownership interest in Akkadix, Axys recorded a non-cash charge of \$9 million in the first quarter of 2001.

Collaboration and Licensing Revenues for 2000 Compared to 1999

Axys' collaborative research programs generally contain one or more of the following sources of revenue to Axys:

Research Support: payments that are generally based on the number of researchers Axys is committing to a particular program. These revenues are recorded when earned through the performance of the required research by Axys.

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License Fees: payments that are generally received when the collaboration agreement is signed. These revenues are amortized over the term of the agreement.

Milestone Payments: Milestone payments consist of payments that are based on the achievement of certain technical or regulatory milestones in the collaboration. Milestone payments are recorded as revenue upon the achievement of mutually agreed upon milestones in the absence of any performance obligations associated with the milestone provided that (i) the

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milestone event is substantive and its achievement was not reasonably assured at its inception of the agreement, and (ii) Axys' performance obligations after the milestone achievement will continue to be funded by the collaborator at a level comparable to the level before the milestone achievement.

Axys' collaboration and licensing revenues decreased to \$7.0 million for the year ended December 31, 2000, from \$24.1 million in 1999. Collaboration and licensing revenues (which generally consist of research support and license fees) declined in 2000 as a result of Axys' early 1999 strategic decision to pursue proprietary programs in drug discovery rather than seek partners for these programs that would have provided immediate revenues to Axys.

For the year ended December 31, 2000 collaboration and licensing revenues were attributable to collaborative research agreements with:

Aventis Pharmaceutical Products, Inc. for the development of small molecule drugs that inhibit cathepsin S, associated with certain inflammatory diseases and

Merck & Co., Inc. for the development of small molecule inhibitors of proteases involved in osteoporosis.

The following collaborative research programs were concluded during 1999:

the Boehringer Ingelheim International GmbH gene identification program in asthma

the Parke-Davis (currently known as Pfizer, Inc.) gene identification program in schizophrenia and bipolar disorder, and

the Bristol-Myers Squibb Company collaboration for the development of protease inhibitors involved in hepatitis C infection.

Research and Development Expenses for 2000 Compared to 1999

Axys' research and development expenses decreased to \$36.6 million for the year ended December 31, 2000, from \$55.2 million in 1999. The decrease was primarily due to lower expenses as a result of the 1999 shutdown of Axys' La Jolla operation and lower headcount in 2000 from 1999 levels.

General and Administrative Expenses for 2000 Compared to 1999

Axys' general and administrative expenses were \$10.0 million for the year ended December 31, 2000, compared to \$10.9 million in 1999. The decrease was primarily due to lower expenses as a result of the shut down of Axys' La Jolla operation in 1999.

Interest Income and Interest Expense for 2000 Compared to 1999

Interest income decreased to \$1.8 million for the year ended December 31, 2000, from \$2.3 million in 1999. The decrease was primarily due to the decrease in average cash and investment balances between the periods. Interest expense increased to \$5.9 million for the year ended December 31, 2000, from \$2.0 million in 1999. The increase was due primarily to an embedded beneficial conversion charge of \$4 million recorded in the fourth quarter of 2000.

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Equity in Losses of Equity-Method Investee for 2000 Compared to 1999

Equity in losses of equity-method investee increased to \$3.2 million for the year ended December 31, 2000 as compared to \$0.8 million in 1999. The increase was primarily due to Axys expensing its \$2.8 million investment in Akkadix during the fourth quarter of 2000.

Restructuring Charge in 2000 Compared to 1999

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In December 1999, Axys completed the closing of Axys' La Jolla operations and relocated the oncology genomics research activities to the South San Francisco headquarters. At December 31, 1999, \$1.9 million remained in an accrual relating to this restructuring charge. During 2000, Axys revised its restructuring charge and reversed approximately \$592,000 of this accrual as a result of assigning the La Jolla facility lease to a third party.

Other Income/Expense in 2000 Compared to 1999

For the year 2000, Axys reported \$0.9 million in other income related to the gain on sale of a portion of the common stock held as short term marketable investments. This is an increase of \$1.7 million from the \$0.9 million other expenses that Axys reported in 1999 that was due to the write-off of Axys' 50% interest in Genos Biosciences.

Years Ended December 31, 1999 And 1998

Collaboration and Licensing Revenues for 1999 Compared to 1998

Axys' collaboration and licensing revenues decreased to \$24.1 million for the year ended December 31, 1999, from \$35.8 million in 1998. Collaboration and licensing revenues (which generally consist of research support and license fees), for the year ended December 31, 1999 were attributable to the collaborative research agreements with: Parke-Davis in the gene identification program in schizophrenia and bipolar disorder; Bristol-Myers Squibb for the development of protease inhibitors involved in hepatitis C infection; Aventis for the development of small molecule drugs that inhibit cathepsin S, associated with certain inflammatory diseases; and Merck for the development of small molecule inhibitors of proteases involved in osteoporosis. 1999 revenues decreased when compared to 1998 due to lower revenues recognized under the following agreements: the end of research support in June 1999 under the Boehringer Ingelheim International GmbH agreement for the gene identification program in asthma; the winding-down of the Parke-Davis gene identification program for schizophrenia and bipolar disorder; and the conclusion in mid-1998 of the Pharmacia Corporation agreement for the development of inhibitors of Factor Xa.

Research and Development Expenses for 1999 Compared to 1998

Axys' research and development expenses decreased to \$55.2 million for the year ended December 31, 1999, from \$57.5 million in 1998. The decrease is primarily due to reduced headcount in 1999. Research and development expenses in 1999 reflect a partial year of Akkadix activity.

General and Administrative Expenses for 1999 Compared to 1998

Axys' general and administrative expenses decreased to \$10.9 million for the year ended December 31, 1999, from \$13.4 million in 1998. The decrease is primarily due to lower expenses as a result of the winding down of activities in Axys' La Jolla operation in 1999.

Interest Income and Interest Expense for 1999 Compared to 1998

Interest income decreased to \$2.3 million for the year ended December 31, 1999, from \$4.7 million in 1998. The decrease was primarily due to the decrease in average cash and investment balances

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between the periods. Interest expense decreased to \$2.0 million for the year ended December 31, 1999, from \$2.4 million in 1998. The decrease was primarily due to the lower debt balances from Axys' lines of credit and existing leasing arrangements in 1999.

Equity in Losses of Equity Method Investee for 1999 Compared to 1998

Equity in losses of equity method investee decreased to \$0.8 million for the year ended December 31, 1999 as compared to \$2.4 million in 1998, and was due to the decrease in the loss for Genos Biosciences, Inc, Axys' joint venture with Memorial Sloan Kettering Cancer Center. This amount represents Axys' 50% portion of Genos Biosciences' loss for 1999. The decrease is primarily due to the winding down of operations of Genos Biosciences in May 1999. In the third quarter of 1999, Axys wrote off the balance of the investment in Genos Biosciences.

Restructuring Charge for 1999 Compared to 1998

In December 1999, Axys completed the closing of its La Jolla operations and relocated its oncology genomics research activities to its South San Francisco headquarters. As a result of this action, a one-time charge of \$7.0 million was taken during the third quarter of 1999, of which \$2.2 million related to severance and other employee-related costs, \$1.7 million related to facilities costs, \$1.8 million related to the disposal of

assets, and \$1.3 million related to other costs associated with the restructuring. In the fourth quarter of 1999, the restructuring charge was reduced by \$1.8 million, to \$5.2 million due to a change in estimates resulting from the additional subleases of the La Jolla facility, and from proceeds from the disposal of equipment and other assets associated with closing down the La Jolla facility. The facilities costs include lease payments in La Jolla net of proceeds from existing subleases. As a result of closing the facility, Axys eliminated 120 positions of which 93 were included in the severance calculation and 27 positions were eliminated through attrition and cancellation of open requisitions. At December 31, 1999, the remaining accrual relating to the restructuring was approximately \$1.9 million.

1999 Compared to 1998 Acquired In-Process Research and Development

Acquired in-process research and development expense was \$124.9 million for the year ended December 31, 1998 due to the company's acquisition of Sequana Therapeutics on January 8, 1998. That acquisition was accounted for using the purchase method of accounting and the \$174.1 million purchase price was allocated to the various tangible and intangible assets acquired based on their respective estimated fair values. As a result, \$124.9 million was allocated to acquired in-process research and development. The \$124.9 million was expensed as a non-recurring charge on the acquisition date because the acquired in-process technology had not yet reached technological feasibility, had no future alternative uses, and all programs were still in the research phase.

At the date of the acquisition, Sequana Therapeutics had ongoing programs in the following areas:

Asthma: The study of the genetic causes of asthma in collaboration with Boehringer Ingelheim.

Osteoporosis: The study of the genetic causes of osteoporosis in collaboration with Corange International.

Non-insulin Dependent Diabetes Mellitus: The study of the genetic causes of non-insulin dependent diabetes mellitus (or also Type II diabetes) in collaboration with Glaxo Wellcome.

Schiz/Bipolar: The study of the genetic causes of schizophrenia and bipolar disorder (manic depressive illness) in collaboration with Parke-Davis.

Obesity: This unpartnered program was set up to study the genetic causes of obesity.

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Alzheimer's: This unpartnered program is the study of the function of genes identified with Alzheimer's disease.

Pharmacogenomics: A program generally involved in the development of patient data, software tools and processes in the pursuit of pharmacogenomics activities. This program was spun out into the majority owned subsidiary, PPGx in 1999.

Other: Smaller studies of the genetic causes of other diseases (inflammatory bowel disease, type I diabetes, and diseases associated with genetic variations in certain biological signaling processes potassium channels).

Subsequent to the date of acquisition, as part of Axys' ongoing assessment of allocating resources to projects, the obesity and Alzheimers programs were suspended. In addition, the partnered programs have had the following changes: (i) Glaxo in the non-insulin dependent diabetes mellitus program exercised its option for early termination upon Sequana Therapeutics' change in control and terminated the research funding in May 1998; (ii) Corange International in the osteoporosis program, changed its priorities following Roche Group's acquisition of Corange International, and exercised its right to end this program in February 1999; (iii) Boehringer International in the asthma program, reduced the amount of research support in January 1999, and exercised its right to terminate the program; and (iv) the schizophrenia/biopolar program with Parke-Davis was transferred to Parke-Davis pursuant to the terms of a transfer agreement, and effective December 31, 1999, Axys had no further involvement in this program. As a result of Axys' on-going assessment of allocating resources to projects, Axys terminated the balance of the remaining programs and closed down the La Jolla facility (see "Restructuring Charge" above), and there will be no future impact on operating results and financial condition from these programs.

Other Income/Expense for 1999 Compared to 1998

Other expense reported in 1999 was \$0.9 million compared to none reported in 1998. The difference is primarily due to the write-off of Axys' 50% interest in Genos Biosystems.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities," which was required to be adopted in years beginning after June 15, 2000. Axys adopted the new Statement effective January 1, 2001. The Statement requires Axys to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

Based on Axys' derivative positions at December 31, 2000, which are limited to warrants to purchase common shares of Discovery Partners stock (see Note 2 to Axys' financial statements commencing on page F-1 of the proxy statement/prospectus) and certain key employee contracts to acquire investments held by Axys (see Note 11 to Axys' financial statements commencing on page F-1 of this proxy statement/prospectus), Axys recorded a cumulative effect of an accounting change of approximately \$972,000 recognized in the statement of operations in the first quarter of 2001.

Liquidity and Capital Resources

Axys has financed its operations since inception primarily through private and public offerings of capital stock, through corporate collaborative research and from a secured convertible note. As of

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June 30, 2001, Axys has accumulated approximately \$229 million in net proceeds from offerings of its capital stock. In addition, Axys has received approximately \$184 million as of June 30, 2001 from its collaborative research agreements.

Axys' principal sources of liquidity are its cash and investments, which totaled \$16.8 million on June 30, 2001. Not included in this amount is a total of \$4 million in restricted cash, which is held as collateral to the construction loan for Axys 468 Littlefield, LLC.

In 2000, Axys sold its Axys Advanced Technologies subsidiary to Discovery Partners for approximately 7.4 million shares of Discovery Partners common stock. Later in 2000, Axys sold its interest in PPGx to DNA Sciences, Inc. for approximately 1.5 million shares of Series D Preferred Stock.

Axys used cash and cash equivalents of \$22.8 million in its operations during the first half of 2001 compared to \$18.9 million in the same period in 2000.

Axys purchased approximately \$4.0 million of property and equipment during the first half of 2001, primarily related to the construction, new equipment and furniture needed for the new medicinal chemistry building. Axys expects to acquire or lease additional equipment in connection with future research and development activities.

The drug development process is expensive and will require that Axys raise money in the future until Axys begins to generate substantial product or royalty revenues, if ever. However, under the existing merger agreement with Applera, Axys is required to obtain consent prior to raising additional capital or liquidating any of its equity investments. Accordingly, were the merger not be completed, it would be necessary for Axys to begin an aggressive cash conservation program and immediately engage in fund raising activities. On October 8, 2001, Axys and Applera entered into a financing arrangement under which Applera is funding some operational and capital needs of Axys. This arrangement is described under "The Merger Agreement Financing Arrangement between Axys and Applera" in this proxy statement/prospectus.

In its current condition as a stand-alone company, Axys believes that existing cash, short-term investments, revenues from existing collaborations, potential proceeds from the liquidation of its equity investments in Discovery Partners and/or DNA Sciences, and potential additional licensing revenues will enable it to continue current and planned operations through June 30, 2002. Axys will continue to actively evaluate a variety of financing alternatives in the event the merger is not completed. There can be no assurances that Axys can liquidate its investments in a timely manner, or that the proceeds from these investments will be adequate to meet Axys' requirements to fund operations. Finally, the senior secured convertible notes are collateralized by approximately 6.7 million shares of the Discovery Partners stock Axys owns;

accordingly, at such time that the Discovery Partners shares are liquidated, a substantial portion of the proceeds may be used to retire the debt. Without the ability to liquidate its equity investments in Discovery Partners and/or DNA Sciences or obtain additional licensing revenues Axys would have to pursue cost cutting measures in order to continue operations through June 30, 2002.

If Axys remains as a stand-alone company, it expects that it will need to continue to raise money for a number of years until it achieves, if it ever achieves, substantial product or royalty revenues. Axys expects to seek additional funding through new collaborations, the extension of existing collaborations, through sale of its interests in Discovery Partners and DNA Sciences, or through public or private equity or debt financing. Axys cannot be certain that additional funding will be available or that the terms will be acceptable. Existing stockholders will experience dilution of their investment if Axys raises additional funds by issuing equity. If adequate funds are not available, Axys may delay, reduce or eliminate any of its research or development programs. Furthermore, Axys may obtain funds through

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arrangements with collaborative partners or others that require Axys to give up rights to technologies or products that it would otherwise seek to develop or commercialize itself.

Quantitative and Qualitative Disclosure About Market Risk

Axys' exposure to market risk is principally limited to its cash equivalents and investments that have maturities of less than one year. Axys maintains a non-trading investment portfolio of investment grade, liquid debt securities that limits the amount of credit exposure to any one issue, issuer or type of instrument. The securities in Axys' investment portfolio are not leveraged, are classified as available-for-sale and are therefore subject to interest rate risk. Axys currently does not hedge interest rate exposure.

Axys is subject to market rate risks due to fluctuations in interest rates and equity markets. All of Axys' long-term debt is in the form of fixed-rate notes with original maturities ranging over four years. Accordingly, fluctuations in interest rates can lead to fluctuations in the fair value of such instruments. Axys has not entered into financial derivatives to reduce its exposure to interest rate risks.

As a matter of policy, Axys has not entered into derivative transactions for trading or speculative purposes. Axys' derivative instruments consist of a warrant from Discovery Partners and the Key Employee Stock Option Plan, both of which derived from its transaction with Discovery Partners. Fluctuations in market conditions will result in gains or losses on these instruments as the fair value of the underlying stock of Discovery Partners changes. A 20% adverse change in the value of the underlying stock of Discovery Partners would result in a decrease in the fair values of the warrant and Key Employee Stock Option Plan of approximately \$132,000 and \$390,000, respectively.

Holders

As of October 1, 2001 there were approximately 503 stockholders of record of Axys' common stock.

Dividends

Since inception, Axys has not paid dividends on Axys' common stock. Axys currently intends to retain all future earnings, if any, for use in Axys' business and currently does not plan to pay any cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of the Axys board of directors.

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MANAGEMENT OF AXYS

Executive Officers Of Axys

Listed below is biographical information on executive officers of Axys as of June 1, 2001.

Name	Age	Position With Axys
Paul J. Hastings	41	

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Name	Age	Position With Axys
		President and Chief Executive Officer, and a member of the Board of Directors
Daniel F. Hoth, M.D.	55	Senior Vice President, Chief Medical Officer
William J. Newell	43	Senior Vice President, Corporate and Business Development and Secretary
David E. Riggs	49	Senior Vice President, Chief Financial Officer
Michael C. Venuti, Ph.D.	47	Senior Vice President, Research and Preclinical Development, and Chief Technical Officer
Douglas H. Altschuler PAUL J. HASTINGS	44	Vice President, General Counsel and Assistant Secretary

Mr. Hastings joined Axys in January 2001, from Chiron Corporation of Emeryville, CA where he was President of Chiron Bio-Pharmaceuticals from 1999-2000. Before Chiron, from 1998-1999, Mr. Hastings served as the President and Chief Executive Officer of LXR Biotechnology, a company focused on the role of apoptosis in cardiovascular disease and oncology. From 1994-1998, Mr. Hastings held a series of management positions at Genzyme Corporation of Cambridge, MA, the last of which was President of Genzyme Therapeutics worldwide. From 1989-1994, Mr. Hastings was at Synergen, in Boulder, CO, as Vice President of Marketing and Sales and General Manager, Synergen Europe, and from 1984-1989, was with Hoffmann-La Roche, Nutley, NJ, in marketing and sales management positions. Mr. Hastings holds a B.S. in Pharmacy from the University of Rhode Island.

DANIEL F. HOTH, M.D.

Dr. Hoth joined Axys in June 1999 as Senior Vice President and Chief Medical Officer. Prior to joining Axys, Dr. Hoth was principal of an independent consulting practice to pharmaceutical and life science firms, and the National Institutes of Health. Previously, from 1993 to 1997, Dr. Hoth served as Senior Vice President and Chief Medical Officer at Cell Genesys, where he was responsible for trials of gene therapy in cancer and HIV. From 1987 to 1993, he was Director, Division of Acquired Immunodeficiency Syndrome at the NIH, heading all activities under the NIAID's AIDS program. Dr. Hoth's tenure at the National Cancer Institute (1980 to 1987) included Chief of the Investigational Drug Branch, as well as the head of the Cancer Therapy Evaluation Program. Dr. Hoth also served as an instructor and Assistant Professor of Medicine at Georgetown University School of Medicine. He received his medical degree at Georgetown University School of Medicine, and completed his fellowship in medical oncology at Georgetown University Hospital.

WILLIAM J. NEWELL

Mr. Newell joined Axys in August 1998. He has responsibility for all of Axys' corporate development and business development activities. He was previously responsible for Axys' legal affairs. Previously, Mr. Newell practiced at the firm of McCutchen, Doyle, Brown & Enersen, LLP (Palo Alto office) where he had been a partner since 1990. He received his J.D. from the University of Michigan Law School and holds an A.B. from Dartmouth College.

DAVID E. RIGGS

Mr. Riggs joined Axys in September 2000 from Unimed Pharmaceuticals, Inc. where he was Senior Vice President, Business Operations from September 1999 to September 2000, and Chief Financial

Officer from 1992 to September 1999. At Unimed from 1992-1999, Mr. Riggs was responsible both for building Unimed's commercial platform, its integration as a specialty drug company, product licensing and acquisition activities as well as the financial management of Unimed. While at Unimed, Mr. Riggs concurrently held the CFO position at NeoPharm, Inc. He has a B.S. in Accounting from the University of Illinois, and a M.B.A. in finance and quantitative methods from DePaul University in Chicago, IL.

MICHAEL C. VENUTI, PH.D.

Dr. Venuti has been Axys' Senior Vice President, Research and Preclinical Development since November 1998, and had previously served as Senior Vice President, Research, South San Francisco, Vice President, Research and Chief Technical Officer since January 1998, February 1997 and July 1996, respectively. Dr. Venuti joined Axys in November 1994 as Director of Chemistry and was promoted to Vice President of Chemistry in July 1995, where he served until February 1997. From 1993 until he joined Axys, he was at Parnassus Pharmaceuticals, a start-up biotechnology company where he was Vice President, Chief Scientific Officer and a founder. From 1988 to 1993, Dr. Venuti was at

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Genentech, Inc., a biotechnology company, where he was Director of Bioorganic Chemistry, a program that he helped establish. From 1979 to 1988, Dr. Venuti was employed at Syntex as a chemistry group leader. Dr. Venuti received an A.B. in chemistry from Dartmouth College, a Ph.D. in organic chemistry from the Massachusetts Institute of Technology and was a postdoctoral fellow at the Syntex Institute of Organic Chemistry.

DOUGLAS H. ALTSCHULER

Mr. Altschuler joined Axys in December 2000 from Mentor Corporation where he was Vice President/General Counsel and Compliance Officer from 1996 to 2000. At Mentor, Mr. Altschuler was responsible for all aspects of Mentor's legal and compliance issues. Previously, from 1994 to 1996, Mr. Altschuler was an attorney with the law firm of Bleacher & Collins; from 1988 to 1993, he was an attorney in the Los Angeles office of Jones, Day, Reavis & Pogue. Mr. Altschuler received his J.D. from the University of Arizona School of Law and a B.S. in Chemistry and Biology from the University of Arizona.

Compensation of Executive Officers

The following table sets forth certain information regarding the annual and long-term compensation for services in all capacities to Axys for the fiscal years ended December 31, 1998, December 31, 1999 and December 31, 2000 of those persons who were either (1) the chief executive officer of Axys during the fiscal year ended December 31, 2000, (2) up to four most highly compensated executive officers of Axys whose annual salary and bonuses exceeded \$100,000 who were serving as an executive officer at December 31, 2000 or (3) up to two other executive officers who would have qualified under sections (1) or (2) of this paragraph but for the fact that the individual was not serving as an executive officer of Axys at the end of the 2000 fiscal year.

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SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards		All Other Annual Compensation (\$)(2)
		Salary(\$)	Bonus(\$)	Other(\$)	Restricted Stock Awards(\$)	Securities Underlying Options(#)(1)	
John P. Walker(3)	2000	425,015	138,125	909,540(4)		268,322(5)	19,927(6)
Chairman and Chief Executive Officer	1999	410,000		247,250(7)		85,000	7,979
Michael C. Venuti, Ph.D.	1998	390,000	135,000	261,252(7)		435,000(8)	6,150
Senior Vice President, Research and Preclinical Development, Chief Technical Officer	2000	262,510	57,093			246,823(9)	911(10)
	1999	250,000			112,375(11)	103,000	1,188
	1998	235,000	47,000			197,000(8)	696
Daniel F. Hoth, M.D.(12)	2000	288,503	62,748			209,323(13)	6,335(14)
Senior Vice President, Clinical Development, Chief Medical Officer	1999	151,666			76,125(11)	150,000	5,327
William J. Newell(15)	2000	255,000	61,200			211,823(16)	414(17)
Senior Vice President, Corporate and Business Development, General Counsel & Secretary	1999	238,417			88,812(11)	115,000	5,703
	1998	102,404	22,559			75,000	

(1) Includes options to acquire Axys' common stock and options to acquire capital stock of certain of Axys' affiliated companies under the 1999 Key Personnel Stock Option Plan.

(2)

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Consists of Axys matching contributions under Axys' 401(k) retirement plan and life insurance premiums.

- (3) Mr. Walker was Chief Executive Officer of Axys until December 31, 2000 and chairman of the board of directors until May 14, 2001. Mr. Hastings became the President and Chief Executive Officer of Axys on January 2, 2001. See "The Merger Interests of Certain Persons in the Merger" in this proxy statement/prospectus for a description of Mr. Hastings employment agreement.
- (4) Consists of the forgiveness of principal and interest due on one promissory note in the aggregate amount of \$685,540 and a tax gross-up in the aggregate amount of \$224,000 under Mr. Walker's amended and restated employment agreement. See "The Merger Interests of Certain Persons in the Merger" in this proxy statement/prospectus for a description of Mr. Walkers' amended and restated employment agreement.
- (5) Includes options to acquire 100,000 shares of Axys' common stock and the following options to acquire stock in Axys' affiliated companies granted to Mr. Walker under the 1999 Key Personnel Stock Option Plan: (i) options to acquire 50,000 shares of preferred stock of Akkadix at an exercise price of \$3.33 per share, (ii) options to acquire 114,800 shares of series A preferred stock of PPGx at an exercise price of \$6.11 per share (following the acquisition of PPGx by DNA Sciences in December 2000 these options became fully vested options to acquire 33,947 shares of series D preferred stock of DNA Sciences at an exercise price of \$20.66 per share, which options to acquire preferred stock of DNA Sciences are included above) and (iii) options to acquire 112,500 shares of common stock of Advanced Technologies at an exercise price of \$1.00 (following the acquisition of Advanced Technologies by Discovery Partners in April 2000 these options became fully vested options to acquire 84,375 shares of common stock of Discovery Partners at an exercise price of \$1.33 per share, which options to acquire common stock of Discovery Partners are included above).
- (6) In 2000, Axys paid a total of \$14,677 in life insurance premiums for Mr. Walker and \$5,250 in matching contributions to Mr. Walker's 401(k) retirement plan.
- (7) Consists of the forgiveness of principal and interest due and an interest rate reduction under one promissory note.
-
- (8) Includes stock options which were canceled and regranted in connection with Axys' stock option repricing in 1998, as follows: Mr. Walker, 375,000 shares; and Dr. Venuti, 147,000 shares.
- (9) Includes options to acquire 110,000 shares of Axys' common stock and the following options to acquire stock in Axys' affiliated companies granted to Dr. Venuti under the 1999 Key Personnel Stock Option Plan: (i) options to acquire 40,000 shares of preferred stock of Akkadix at an exercise price of \$3.33 per share, (ii) options to acquire 73,800 shares of series A preferred stock of PPGx at an exercise price of \$6.11 per share (following the acquisition of PPGx, Inc. by DNA Sciences in December 2000 these options became fully vested options to acquire 21,823 shares of series D preferred stock of DNA Sciences at an exercise price of \$20.66 per share, which options to acquire preferred stock of DNA Sciences are included above) and (iii) options to acquire 100,000 shares of common stock of Advanced Technologies, Inc. at an exercise price of \$1.00 (following the acquisition of Advanced Technologies by Discovery Partners in April 2000 these options became fully vested options to acquire 75,000 shares of common stock of Discovery Partners at an exercise price of \$1.33 per share, which options to acquire common stock of Discovery Partners are included above).
- (10) In 2000, Axys paid a total of \$911 in life insurance premiums for Dr. Venuti.
- (11) Fair market value of restricted stock bonus at the time of grant was \$7.25 per share of common stock. These officers voluntarily agreed to receive restricted shares, which may not be sold for one year after grant except in limited circumstances, in lieu of a cash bonus that they otherwise would have been entitled to receive. Dr. Hoth received 10,500 shares, Mr. Newell received 12,250 shares and Dr. Venuti received 15,500 shares.
- (12) Dr. Hoth joined Axys in June 1999.

- (13) Includes options to acquire 110,000 shares of Axys' common stock and the following options to acquire stock in Axys' affiliated companies granted to Dr. Hoth under the 1999 Key Personnel Stock Option Plan: (i) options to acquire 40,000 shares of preferred stock of Akkadix at an exercise price of \$3.33 per share, (ii) options to acquire 73,800 shares of series A preferred stock of PPGx at an exercise price of \$6.11 per share (following the acquisition of PPGx, Inc. by DNA Sciences in December 2000 these options became fully vested options to acquire 21,823 shares of series D preferred stock of DNA Sciences at an exercise price of \$20.66 per share, which options to acquire preferred stock of DNA Sciences are included above) and (iii) options to acquire 50,000 shares of common stock of Advanced Technologies at an exercise price of \$1.00 (following the acquisition of Advanced Technologies by Discovery Partners in April 2000 these options became fully vested options to acquire 37,500 shares of common stock of Discovery Partners at an exercise price of \$1.33 per share, which options to acquire common stock of Discovery Partners are included above).
- (14) In 2000, Axys paid a total of \$1,091 in life insurance premiums for Dr. Hoth and \$5,250 in matching contributions to Dr. Hoth's 401(k) retirement plan.
- (15) Mr. Newell joined Axys in July 1998. Mr. Altschuler became General Counsel of Axys in December 2000.
- (16) Includes options to acquire 75,000 shares of Axys' common stock and the following options to acquire stock in Axys' affiliated companies granted to Mr. Newell under the 1999 Key Personnel Stock Option Plan: (i) options to acquire 40,000 shares of preferred stock of Akkadix at an exercise price of \$3.33 per share, (ii) options to acquire 73,800 shares of series A preferred stock of PPGx at an exercise price of \$6.11 per share (following the acquisition of PPGx, Inc. by DNA Sciences in December 2000 these options became fully vested options to acquire 21,823 shares of series D preferred stock of DNA Sciences at an exercise price of \$20.66 per share, which options to acquire preferred stock of DNA Sciences are included above) and (iii) options to acquire 100,000 shares of common stock of Advanced Technologies at an exercise price of \$1.00 (following the acquisition of Advanced Technologies by Discovery Partners in April 2000 these options became fully vested options to acquire 75,000 shares of common stock of Discovery Partners at an exercise price of \$1.33 per share, which options to acquire common stock of Discovery Partners are included above).
- (17) In 2000, Axys paid a total of \$414 in life insurance premiums for Mr. Newell.

The following table sets forth certain information with respect to grants of stock options during fiscal 2000 to the Axys executive officers under Axys' 1997 Equity Incentive Plan, as amended, and the 1999 Key Personnel Option Plan.

Option Grants In Last Fiscal Year

Name	Number of Securities Underlying Options Granted	Percentage of Total Options Granted to Employees in Fiscal Year(2)	Per Share Exercise Price (3)(4)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(1)	
					5%	10%
John P. Walker	100,000(5)	4.5%	\$ 7.25	01/28/10	\$ 455,949	\$ 1,155,463
	50,000(7)	20.0	3.33	12/14/10	104,711	265,358
	84,375(8)	22.5	1.33	2/11/10	70,574	178,848
	33,947(9)	28.0	20.66	12/14/10	441,072	1,117,763
Michael C. Venuti, Ph.D.	50,000(5)	2.3	7.25	01/28/10	227,974	577,732
	60,000(5)	2.7	4.875	12/14/10	183,952	466,170
	40,000(7)	16.0	3.33	12/14/10	83,769	212,286
	75,000(8)	20.0	1.33	2/11/10	62,732	158,976
	21,823(9)	18.0	20.66	12/14/10	283,545	718,560

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					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(1)	
Daniel F. Hoth, M.D.	50,000(6)	2.3	7.25	01/28/10	227,974	577,732
	60,000(6)	2.7	4.875	12/14/10	183,952	466,170
	40,000(7)	16.0	3.33	12/14/10	83,769	212,286
	37,500(8)	10.0	1.33	2/11/10	31,366	79,488
	21,823(9)	18.0	20.66	12/14/10	283,545	718,560
William J. Newell	25,000(5)	1.1	7.25	01/28/10	113,987	288,866
	50,000(5)	2.3	4.875	12/14/10	153,293	388,475
	40,000(7)	16.0	3.33	12/14/10	83,769	212,286
	75,000(8)	20.0	1.33	2/11/10	62,732	158,976
	21,823(9)	18.0	20.66	12/14/10	283,545	718,560

- (1) Potential realizable value is based on the assumption that the common stock of Axys or the capital stock of the affiliated companies appreciates at the annual rate shown (compounded annually) from the date of grant until the expiration of the ten-year option term. The 5% and 10% assumed rates of appreciation are mandated by the rules of the Securities and Exchange Commission and do not reflect Axys' estimate or projection of the future stock prices.
- (2) For options to acquire shares of Axys' common stock, the percentage refers to the percentage of the total options to acquire Axys' common stock granted to employees in 2000. For options to acquire shares of capital stock of certain of Axys' affiliated companies, the percentage refers to the percentage of the total options to acquire the capital stock of each respective affiliated company granted to employees in 2000.
- (3) Options to acquire shares of Axys' common stock were granted at a price equal to the fair market value of Axys' common stock on the date of grant. Fair market value is determined by reference to the closing sale price of the common stock on the Nasdaq National Market.
- (4) Options to acquire capital stock of certain of Axys' affiliated companies at a price equal to the fair market value of capital stock of the respective affiliated companies on the date of grant. Fair market value was determined by the board of directors at the time of grant.
- (5) Options to acquire shares of Axys' common stock that vest in equal monthly installments over four years from the date of grant.
- (6) Options to acquire shares of Axys' common stock. One-eighth of the shares vest after six months, the remaining shares vest in equal monthly installments over the following three and one half years.

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- (7) Options to acquire shares of preferred stock of Akkadix that vest in equal monthly installments over four years from the date of grant.
- (8) Fully vested options to acquire shares of common stock of Discovery Partners. At the time of grant, these were options to acquire shares of common stock of Axys' subsidiary Advanced Technologies. Following the acquisition of Advanced Technologies, these became fully vested options to acquire shares of common stock of Discovery Partners.
- (9) Fully vested options to acquire shares of preferred stock of DNA Sciences. At the time of grant, these were options to acquire shares of preferred stock of Axys' subsidiary, PPGx. Following the acquisition of PPGx by DNA Sciences, these became fully vested options to acquire shares of preferred stock of DNA Sciences.

The following table sets forth certain information with respect to options exercised during fiscal 2000 and exercisable and unexercisable options held by the Axys executive officers as of December 31, 2000.

**Aggregated Option Exercises In Last Fiscal Year
And Year-End Option Value**

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	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-The-Money Options at Fiscal Year End(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
John P. Walker			348,409(2)	211,591	\$ 218,042	\$ 101,333
			0(3)	50,000		0
			84,375(4)	0	910,828	
			33,947(5)	0	0	
Michael C. Venuti, Ph.D.			162,748(2)	212,752	117,432	202,093
			0(3)	40,000		0
			75,000(4)	0	809,625	
			21,823(5)	0	0	
Daniel F. Hoth, M.D.			77,333(2)	193,167	115,988	238,313
			0(3)	40,000		0
			37,500(4)	0	404,813	
			21,823(5)	0	0	
William J. Newell			99,353(2)	177,897	56,996	175,155
			0(3)	40,000		0
			75,000(4)	0	809,625	
			21,823(5)	0	0	

- (1) Based on the fair market value of the securities underlying the option on December 31, 2000, minus the exercise price of the option, multiplied by the number of shares to which the option relates. The fair market value of Axys' common stock is based on the closing price of the common stock (\$5.625) on December 29, 2000. The fair market value of the shares of preferred stock of Akkadix is based on Axys' determination of such fair market value (\$3.33) on December 31, 2000. The fair market value of the common stock of Discovery Partners is based on the closing price of such common stock (\$12.125) on December 29, 2000. The fair market value of the shares of preferred stock of DNA Sciences is based on Axys' determination of such fair market value (\$10.15) on December 31, 2000.
- (2) Options to acquire shares of Axys' common stock.
- (3) Options to acquire shares of preferred stock of Akkadix.
- (4) Options to acquire shares of common stock of Discovery Partners.
- (5) Options to acquire shares of preferred stock of DNA Sciences

Management Agreements

Certain officers of Axys have employment agreement with Axys. For a description of the terms of Axys' employment agreements with Mr. Hastings, Mr. Newell, Dr. Venuti, Dr. Hoth, Mr. Altschuler and Mr. Walker, see "The Merger Interests of Certain Persons in the Merger."

Stock Ownership Of Beneficial Owners, Directors And Management

The following table sets forth, as of October 1, 2001, the amount and percentage of the outstanding shares of Axys common stock which, according to the information supplied to Axys, are beneficially owned by (1) each person or entity who, to the knowledge of Axys, is the beneficial owner of more than 5% of the outstanding common stock, (2) each person who is currently a director of Axys, (3) each Axys executive officer and (4) all current directors and executive officers of Axys as a group. Except to the extent indicated in the footnotes to the following table, the person or entity listed has sole voting or dispositive power with respect to the shares that are deemed beneficially owned by such person or entity.

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The information in the table is based on reports that have been filed with the Securities and Exchange Commission pursuant to the Exchange Act, and information furnished to Axys by certain holders of Axys common stock. As of October 1, 2001, there were 40,486,750 shares of Axys common stock outstanding. In accordance with regulations promulgated by the Securities and Exchange Commission, the table reflects for each beneficial owner the exercise of warrants or options or the conversion of convertible securities (exercisable or convertible within 60 days after October 1, 2001) owned by such beneficial owner, but, in determining the percentage ownership and general voting power of such person, does not assume the exercise of warrants or options or the conversion of securities owned by any other person.

Name and Address of Beneficial Owner	Outstanding Common Stock	Options/Warrants Exercisable Within 60 Days	Total Outstanding Common Stock Beneficially Owned	Percent of Outstanding Shares of Common Stock
Directors and Named Executive Officers				
Ann M. Arvin, M.D.	0	37,500	37,500	*
Paul J. Hastings(1)	0	104,166	104,166	*
Daniel F. Hoth, M.D.	12,874(2)	127,292	140,166	*
Vaughn M. Kailian	2,500(3)	34,074	36,574	*
Irwin Lerner	69,225(4)	47,500	116,925	*
Alan C. Mendelson(5)	5,329(3)	34,376	39,704	*
William J. Newell	30,786(6)	148,854	179,640	*
J. Leighton Read, M.D.	3,000	30,000	33,000	*
Michael C. Venuti, Ph.D.	25,975(7)	210,688	236,663	*
John P. Walker	193,001(8)	430,437	623,438	1.5%
All directors and executive officers as a group (12 persons)(9)	342,690	1,293,429	1,636,119	4.0%
5% Beneficial Holders				
Wellington Management Company, LLP(10) 75 State Street Boston, Massachusetts 02109	3,835,400	0	3,835,400	9.5%
Bay City Capital LLC(11) 750 Battery Street San Francisco, CA 94111	2,482,758	0	2,482,758	6.2%

*
Less than one percent.

- (1) Mr. Hastings became a Director of Axys in December 2000 and the President and Chief Executive Officer of Axys in January 2001.
- (2) Includes 10,500 shares acquired pursuant to a restricted stock grant.
- (3) Includes 2,500 shares acquired as consideration for services provided on Axys' Chief Executive Officer Search Committee.
- (4) Includes 1,350 shares beneficially owned by Mr. Lerner's wife and 1,500 shares acquired as consideration for services provided on Axys' Chief Executive Officer Search Committee.
- (5) Includes 2,500 shares held by Latham & Watkins. In addition, all shares subject to options held by Mr. Mendelson are held for the benefit of Latham & Watkins. Mr. Mendelson disclaims beneficial ownership of these shares and the 2,500 shares held directly by Latham & Watkins except to the extent of his partnership interest in Latham & Watkins.

- (6) Includes 12,250 shares acquired pursuant to a restricted stock grant.
- (7) Includes 15,500 shares acquired pursuant to a restricted stock grant.
- (8) Includes 9,987 shares held in the Walker Living Trust and 8,571 shares beneficially owned by Mr. Walker's wife as trustee of educational trusts for his children. Mr. Walker disclaims beneficial ownership of the 8,571 shares held in educational trusts for his children.
- (9) Includes David E. Riggs who became the Senior Vice President and Chief Financial Officer of Axys in September 2000 and Douglas H. Altschuler who became the Vice President and General Counsel of Axys in December 2000.
- (10) Information regarding the ownership of common stock by Wellington Management Company, LLP was obtained from a Schedule 13G, dated February 28, 2001. Wellington Management reports shared dispositive power for all 3,835,400 shares and shared voting power over 3,029,100 shares.
- (11) Information regarding the ownership of common stock by Bay City Capital LLC was obtained from a Schedule 13G, dated March 15, 2001. Bay City Capital shared voting and dispositive power over these shares.

Compensation of Non-Employee Directors of Axys

Compensation. In 2000, compensation for non-employee members of the Axys board of directors was \$15,000 per year, plus reimbursement of expenses. In addition, Mr. Lerner achieved an additional \$30,000 as compensation for consulting services he provided to Axys during 2000. Mr. Walker, who was an employee of Axys during 2000, received no compensation for his services during 2000 as a director of Axys. Mr. Hastings was appointed to the Axys board of directors in December 2000 and became an employee in January 2001. Mr. Hastings received no compensation for his services on the Axys board of directors in 2000. Directors of Axys do not receive any additional compensation for their services on committees.

Stock Options. Under the Axys Non-Employee Directors' Stock Option Plan established in 1994, non-employee directors of Axys receive annual automatic stock option grants. The terms of the Non-Employee Directors' Stock Option Plan provide that each non-employee elected for the first time to the Axys board of directors will be granted an option to purchase 30,000 shares of common stock upon the date of his or her initial election or appointment. On the date of each annual meeting, each non-employee member of the Axys board of directors who has served for at least three months, and is re-elected to the Axys board of directors, is automatically granted a non-qualified stock option to purchase 5,000 shares of Axys common stock. No other options may be granted at any time under this plan. The exercise price of the options that are granted is 100% of the fair market value of the common stock on the date of the option grant. Options granted under the plan generally vest at a rate of 25% per year for four years. The term of the options is ten years. In the event of a

change-in-control of Axys, such as a merger with or into another corporation or a consolidation, the unvested options will accelerate and become fully-vested immediately prior to consummation of the change of control. At that time, the holders of these options may exercise the options to purchase shares of Axys common stock, and the options will expire if not exercised prior to consummation of the change-in-control. Following their election at the 2000 annual meeting, Dr. Arvin, Dr. Kennedy, Dr. Read, Mr. Mendelson, Mr. Kailian, and Mr. Lerner each received options to acquire 5,000 shares of common stock at an exercise price of \$4.063 per share. As of June 30, 2001, none of the options granted under the plan had been exercised. Following their election at the 2001 annual meeting, Dr. Arvin, Dr. Read, Mr. Mendelson, Mr. Kailian and Mr. Lerner each received options to acquire 5,000 shares of common stock at an exercise price of \$3.14.

Stock Grants. In December 2000, the Axys board of directors resolved to make grants of common stock to Mr. Kailian, Mr. Lerner and Mr. Mendelson in the amounts of 2,500 shares, 1,500 shares and 2,500 shares, respectively. These stock grants were made for service on the Chief Executive Officer Search Committee of the Axys board of directors by Mr. Kailian, Mr. Lerner and Mr. Mendelson following Mr. Walker's announcement of his intent to resign as the Chief Executive Officer of Axys upon the appointment of his successor. Mr. Walker resigned from the positions of Chief Executive Officer of Axys on January 1, 2001 and Chairman of the Board on May 14, 2001.

Relationships And Transactions You Should Know About

In 1997, Axys advanced \$750,000 in a note receivable to Mr. Walker. The note, when it was outstanding, bore interest at the rate of 6.02% per year until 1999 when the interest rate was reduced to 4.71% per year. The note was full recourse and secured by shares of Axys common stock owned by Mr. Walker. In December 2000, Axys amended its employment agreement with Mr. Walker. Under the terms of the agreement, Mr. Walker will receive approximately one-half of his former salary and bonus, forgiveness of his note receivable plus accrued interest at December 31, 2000, in exchange for three years of continued service and an agreement not to compete. The agreement is in effect through December 31, 2003. Axys charged compensation expense in 2000 for the forgiveness of the note receivable.

In August 2000, Axys advanced \$300,000 in a note receivable to Dr. Venuti for housing assistance. The note earns interest at 6.37% per year and interest is due annually. The note plus accrued interest is forgivable over five years, subject to Dr. Venuti's continued employment with Axys.

In January 2000, Axys advanced \$300,000 in a note receivable to Mr. Hastings. The note earns interest at 5.61% per annum. The note is due and payable on January 2, 2004, is full-recourse and is secured by shares of common stock that Mr. Hastings acquires upon the exercise of any stock options. The entire note will be forgiven by Axys if Mr. Hastings continues to provide his services to Axys through January 2, 2004.

For a more detailed discussion of the employment agreements of Mr. Walker, Dr. Venuti and Mr. Hastings with Axys, see the section of this proxy statement/prospectus entitled "The Merger Interests of Certain Persons in the Merger."

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INFORMATION ABOUT APPLERA AND ANGEL ACQUISITION

Applera

Applera was incorporated in Delaware in 1998 and succeeded by recapitalization to the business of PE Corporation (NY) (formerly The Perkin-Elmer Corporation) in May 1999. Applera conducts its business through two operating groups: the Celera Genomics group and Applied Biosystems group. Applera has two classes of common stock, Applera Celera stock and Applera Applied Biosystems stock, that are intended to reflect the relative performance of these groups. For more information about the capital stock of Applera, see "Description of Applera Capital Stock" and "Risk Factors Risks Related to a Capital Structure with Two Separate Classes of Common Stock" in this proxy statement/prospectus.

The Celera Genomics group is engaged principally in integrating advanced technologies to create therapeutic discovery and development capabilities for internal use and for its customers and collaborators. The Celera Genomics group's businesses are its online information business and its therapeutics discovery business. The online information business is a leading provider of information based on the human genome and related biological and medical information. Pharmaceutical, biotechnology, and academic customers use this information, along with customized information technology solutions provided by the Celera Genomics group, to enhance their capabilities in the fields of life science research and pharmaceutical and diagnostic discovery and development. The Celera Genomics group recently expanded its focus to include therapeutic discovery and development. The Celera Genomics group intends to leverage its capabilities in the study of genes and proteins and their relationship to diseases, both in internal programs and through collaborations, to identify drug targets and diagnostic markers, and to discover and develop novel therapeutic candidates. Initially, the Celera Genomics group intends to focus its therapeutic discovery efforts in the field of oncology.

The Applied Biosystems group is a world leader in the development, manufacture, sale, and service of instrument systems and associated consumable products for life science research and related applications. Its products are used in various applications including the synthesis, amplification, purification, isolation, analysis, and sequencing of nucleic acids, proteins, and other biological molecules.

Applera has formed Celera Diagnostics as a joint venture between the Celera Genomics group and the Applied Biosystems group in the field of diagnostics. Applera expects that Celera Diagnostics will be focused on the discovery, development, and commercialization of novel diagnostic tests.

Applera's principal executive offices are located at 301 Merrit 7, Norwalk, Connecticut 06851-1070 and its telephone number is (203) 840-2000.

Angel Acquisition

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Angel Acquisition is a wholly owned subsidiary of Applera, which was incorporated in Delaware for the sole purpose of effecting the merger by merging with and into Axys. It engages in no other business. Its principal executive offices are c/o Applera Corporation at 301 Merritt 7, Norwalk, Connecticut 06851-1070 and its telephone number is (203) 840-2000.

Management Following the Acquisition

Following the merger, Axys will continue its operations as a wholly owned subsidiary of Applera. At the effective time of the merger, the current officers of Axys will remain the officers of Axys. See "Management of Axys" in this proxy statement/prospectus for information about the current officers of Axys. Following the merger, the board of directors of Axys will consist of one or more officers of Applera.

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UNAUDITED PRO FORMA CONSOLIDATED AND CONSOLIDATING FINANCIAL STATEMENTS

The following unaudited pro forma consolidated and consolidating financial statements are presented to illustrate the effects of the merger on the historical financial position and operating results of Applera, the Celera Genomics group and Axys. Because Applera and the Celera Genomics group have different fiscal years than Axys, and the combined company will adopt the fiscal year-end of Applera and the Celera Genomics group, pro forma operating results are presented on a June 30 fiscal-year basis.

The unaudited pro forma consolidated and consolidating balance sheets of Applera at June 30, 2001 give effect to the merger as if it occurred as of that date. The pro forma consolidated and consolidating statements of operations of Applera for the year ended June 30, 2001 give effect to the merger as if it occurred as of July 1, 2000.

The pro forma financial statements have been derived from, and should be read in conjunction with, the historical consolidated and combined financial statements, including the notes thereto, of Applera, the Celera Genomics group, and Axys. For Applera and the Celera Genomics group, those financial statements are included in Applera's Annual Report on Form 10-K for the year ended June 30, 2001, which is incorporated in this proxy statement/prospectus by reference. For Axys, those financial statements are included in this proxy statement/prospectus beginning on page F-1.

The pro forma condensed consolidated and consolidating financial statements are presented for informational purposes only and are not necessarily indicative of the financial position or results of operations of Applera and the Celera Genomics group that would have occurred had the merger been consummated as of the dates indicated. In addition, the pro forma consolidated and consolidating financial statements are not necessarily indicative of the future financial condition or operating results of Applera and the Celera Genomics group.

For accounting purposes, Applera will be deemed to be the surviving corporation in the merger and the cost of the acquisition as well as the net assets and operations of Axys will be allocated to the Celera Genomics group. The pro forma adjustments are based upon currently available information and upon assumptions that management believes are reasonable. Applera will account for the merger based upon the estimated fair market values of the net tangible and identifiable intangible assets acquired and liabilities assumed at the date of acquisition. The adjustments included in the unaudited pro forma consolidated and consolidating financial statements represent the preliminary determination of these adjustments based upon available information. While Applera cannot assure you that the actual adjustments will not differ from the pro forma adjustments reflected in the pro forma financial information, management does not believe that any such differences would be significant.

The merger is structured so that holders of Axys common stock will receive shares of Applera Celera stock as consideration in the merger, as described under the "The Merger Consideration to be Received in the Merger" in this proxy statement/prospectus. Under the terms of the transaction, the number of shares of Applera Celera stock to be received for each share of Axys common stock is determined by an exchange ratio, which is subject to a maximum and a minimum as described under "The Merger Consideration to be Received in the Merger" in this proxy statement/prospectus. For the purposes of the pro forma financial statements, it has been assumed that each share of Axys common stock would receive the equivalent of \$4.21 in Applera Celera stock which has been calculated assuming a measurement date of July 17, 2001. This date represents the first date on which the application of the formula to determine the exchange ratio resulted in the Applera Celera Stock average closing price approximating the lower end of the exchange ratio range. The purchase accounting must use the July 17, 2001 measurement date as this represents the first date on which the number of shares became known based on current accounting rules, specifically, Emerging Issues Task Force Issue No. 99-12, "Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination." If the share price recovers above the equivalent

D>(1.6) (20.9) (18.6)

Free Cash Flow

\$(176.0) \$61.8 \$(46.5)

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The GAAP measures of cash flows from financing activities for the period presented above are presented in our Combined and Consolidated Statements of Cash Flows and are as follows:

	Year Ended December 31		
	2011	2010	2009
	(Dollars in millions)		
Net cash provided by (used in) in financing activities	\$ 261.8	\$ (45.3)	\$ 7.6

Below is a reconciliation of 2012 Estimated Free Cash Flow:

Net cash provided by operating activities	In excess of	2012 \$ 204
Net cash used in investing activities		(150)
Distributions to noncontrolling interest		(4)
Free Cash Flow	In excess of	\$ 50

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this Annual Report on Form 10-K, including, among others, in the sections entitled *Business*, *Risk Factors* and *Management's Discussion and Analysis of Financial Condition and Results of Operations*. Such forward-looking statements are based on management's beliefs and assumptions and on information currently available. Forward-looking statements include the information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance improvements, benefits resulting from our separation from Sunoco, the effects of competition and the effects of future legislation or regulations. Forward-looking statements include all statements that are not historical facts and may be identified by the use of forward-looking terminology such as the words *believe*, *expect*, *plan*, *intend*, *anticipate*, *estimate*, *predict*, *potentially*, *continue*, *may*, *will*, *should* or the negative of these terms or similar expressions. In particular, statements in this Annual Report on Form 10-K concerning future dividend declarations are subject to approval by our board of directors and will be based upon circumstances then existing.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. You should not put undue reliance on any forward-looking statements. We do not have any intention or obligation to update any forward-looking statement (or its associated cautionary language), whether as a result of new information or future events, after the date of this Annual Report on Form 10-K, except as required by applicable law.

The risk factors discussed in *Risk Factors* could cause our results to differ materially from those expressed in forward-looking statements. There may also be other risks that we are unable to predict at this time. Such risks and uncertainties include, without limitation:

changes in levels of production, production capacity, pricing and/or margins for metallurgical coal and coke;

variation in availability, quality and supply of metallurgical coal used in the cokemaking process, including as a result of non-performance by our suppliers;

effects of railroad, barge, truck and other transportation performance and costs, including any transportation disruptions;

changes in the marketplace that may affect supply and demand for our metallurgical coal and/or coke products;

our relationships with, and other conditions affecting, our customers;

the deferral of contracted shipments of coal, or coke, by our customers;

severe financial hardship or bankruptcy of one or more of our major customers, or the occurrence of other events affecting our ability to collect payments from our customers;

volatility and cyclical downturns in the carbon steel industry and other industries in which our customers operate;

our ability to secure new coal supply agreements or to renew existing coal supply agreements;

our ability to enter into new, or renew existing, long-term agreements upon favorable terms, for the supply of metallurgical coke to domestic and/or foreign steel producers;

our ability to acquire or develop coal reserves in an economically feasible manner;

defects in title or the loss of one or more mineral leasehold interests;

effects of geologic conditions, weather, natural disasters and other inherent risks beyond our control;

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age of, and changes in the reliability, efficiency and capacity of the various equipment and operating facilities used in our coal mining and/or cokemaking operations, and in the operations of our major customers, business partners and/or suppliers;

changes in the expected operating levels of our assets;

our ability to meet minimum volume requirements, coal-to-coke yield standards and coke quality requirements in our coke sales agreements;

disruptions in the quantities of coal produced by our contract mine operators;

our ability to obtain and renew mining permits, and the availability and cost of surety bonds needed in our coal mining operations;

availability of skilled employees for our coal mining and/or cokemaking operations, and other workplace factors;

changes in the level of capital expenditures or operating expenses, including any changes in the level of environmental capital, operating or remediation expenditures;

effects of adverse events relating to the operation of our facilities and to the transportation and storage of hazardous materials (including equipment malfunction, explosions, fires, spills, and the effects of severe weather conditions);

changes in product specifications for either the coals or coke that we produce;

ability to identify acquisitions, execute them under favorable terms and integrate them into our existing businesses and have them perform at anticipated levels;

ability to enter into joint ventures and other similar arrangements under favorable terms;

changes in the availability and cost of equity and debt financing;

our ability to service our outstanding indebtedness;

our ability to comply with the restrictions imposed by our financing arrangements;

impact on our liquidity and ability to raise capital as a result of changes in the credit ratings assigned to our indebtedness;

changes in credit terms required by our suppliers;

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changes in insurance markets impacting costs and the level and types of coverage available, and the financial ability of our insurers to meet their obligations;

changes in accounting rules and/or tax laws or their interpretations, including the method of accounting for inventories, leases and/or pensions;

changes in financial markets impacting pension expense and funding requirements;

risks related to labor relations and workplace safety;

nonperformance or force majeure by, or disputes with or changes in contract terms with, major customers, suppliers, dealers, distributors or other business partners;

changes in, or new, statutes, regulations, governmental policies and taxes, or their interpretations, including those relating to the environment and global warming;

the accuracy of our estimates of reclamation and other mine closure obligations;

the existence of hazardous substances or other environmental contamination on property owned or used by us;

the availability of future permits authorizing the disposition of certain mining waste;

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claims of our noncompliance with any statutory and regulatory requirements;

changes in the status of, or initiation of new litigation, arbitration, or other proceedings to which we are a party or liability resulting from such litigation, arbitration, or other proceedings;

historical combined and consolidated financial data may not be reliable indicator of future results;

effects resulting from our separation from Sunoco, Inc.;

incremental costs as a stand-alone public company;

our substantial indebtedness; and

certain covenants in our debt documents.

The factors identified above are believed to be important factors, but not necessarily all of the important factors, that could cause actual results to differ materially from those expressed in any forward-looking statement made by us. Other factors not discussed herein could also have material adverse effects on us. All forward-looking statements included in this Annual Report on Form 10-K are expressly qualified in their entirety by the foregoing cautionary statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our primary areas of market risk include changes in: (1) the price of coal, which is the key raw material for our cokemaking business and a product of our coal mining business; (2) interest rates; and (3) foreign currency exchange rates.

In our Coal Mining segment, we expect to sell approximately 1.8 million tons of coal in 2012 (including transfers to our cokemaking operations). Although we have historically had limited third-party sales from our coal mining operations, we generally sell coal pursuant to contracts with terms similar to the terms of the contracts pursuant to which we buy coal from third parties, including pricing. For 2012, approximately 79 percent of our projected sales are committed at established selling prices. Accordingly, increases and decreases in the market price of metallurgical coal can significantly impact our Coal Mining results.

For our Other Domestic Coke segment, the largest component of the price of our metallurgical coke is coal cost. However, under the coke sales agreements at all of our Other Domestic Coke cokemaking facilities, coal costs are a pass-through component of the coke price, provided that we are able to realize certain targeted coal-to-coke yields. As such, when targeted coal-to-coke yields are achieved, the price of coal is not a significant determining factor in the profitability of these facilities.

Beginning January 1, 2011, as a result of a settlement agreement with ArcelorMittal, the coal component of the price of coke under the Jewell coke sales agreement was amended. The coal component of the Jewell coke price will now be fixed annually for each calendar year based on the weighted-average contract price of third-party coal purchases at our Haverhill facility applicable to ArcelorMittal coke sales. To the extent that contracts for third-party coal purchases at our Haverhill facility convert to pricing mechanisms of less than a year, then the Jewell coke price will be adjusted accordingly during that year. The fixed adjustment factor has been eliminated, and as a result, coal prices will no longer significantly affect the financial results of the Jewell Coke segment.

The provisions of our coke sales agreements require us to meet minimum production levels and generally require us to secure replacement coke supplies at the prevailing contract price if we do not meet contractual minimum volumes. Because market prices for coke are generally highly correlated to market prices for metallurgical coal, to the extent any of our facilities are unable to produce their contractual minimum volumes, we are subject to market risk related to the procurement of replacement supplies.

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We do not use derivatives to hedge any of our coal purchases or sales. In addition, although we have not previously done so, we may enter into derivative financial instruments from time to time in the future to economically manage our exposure related to these market risks.

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We are exposed to changes in interest rates as a result of our borrowing activities and our cash balances. Concurrently with the IPO, SunCoke Energy entered into the Credit Agreement which provides for a seven-year term loan in a principal amount of \$300 million. The Credit Agreement also provides for up to \$75.0 million of Incremental Facilities (Incremental Facilities) that are available subject to the satisfaction of certain conditions. Borrowings under the Term Loan and Incremental Facilities bear interest, at our option, at either (i) base rate plus an applicable margin or (ii) the greater of 1.00 percent or the London Interbank Offered Rate (LIBOR) plus an applicable margin. Borrowings under the Revolving Facility bear interest either (i) base rate plus an applicable margin or (ii) at LIBOR plus an applicable margin. Additionally, the Company issued \$400 million aggregate principal amount of fixed rate senior notes. After the impact of the related interest rate derivative instruments (described in Note 24 to our Combined and Consolidated Financial Statements), approximately 27.9 percent of our debt portfolio represented variable rate obligations. For the Term Loan, our variable rate exposure relates to changes in LIBOR, only when LIBOR is greater than 1.00 percent. During 2011, LIBOR was below the 1.00 percent floor that was established in the Credit Agreement. Therefore, the Company's interest rate on Term Loan borrowings was fixed and as such the Company was not subject to changes in interest rates for Term Loan borrowings. For the Revolving Facility, the daily average outstanding balance was \$2.3 million during the year ended December 31, 2011. Assuming a 50 basis point change in LIBOR, interest expense on the Term Loan and the Revolving Facility would not have changed by a significant amount for the full year 2011. As of December 31, 2011, there were no outstanding borrowings under the Revolving Facility.

At December 31, 2011, we had cash and cash equivalents of \$127.5 million, which accrues interest at various rates. Assuming a 50 basis point change in the rate of interest associated with our cash and cash equivalents, interest income would not have changed by a significant amount for the year ended 2011.

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Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

SunCoke Energy, Inc.

We have audited the accompanying combined and consolidated balance sheets of SunCoke Energy, Inc. (the Company) as of December 31, 2011 and 2010, and the related combined and consolidated statements of income, cash flows and comprehensive income and equity for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined and consolidated financial position of SunCoke Energy, Inc. at December 31, 2011 and 2010, and the combined and consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania

February 29, 2012

Table of Contents**SunCoke Energy, Inc.****Combined and Consolidated Statements of Income**

	Years Ended December 31		
	2011	2010	2009
	(Dollars and shares in millions, except per share amounts)		
Revenues			
Sales and other operating revenue	\$ 1,527.6	\$ 1,316.5	\$ 1,124.0
Other income, net	11.3	10.0	21.0
Total revenues	1,538.9	1,326.5	1,145.0
Costs and operating expenses			
Cost of products sold and operating expenses	1,305.8	1,036.9	860.9
Loss on firm purchase commitments	18.5		
Selling, general and administrative expenses	88.7	67.2	40.2
Depreciation, depletion, and amortization	58.4	48.2	32.3
Total costs and operating expenses	1,471.4	1,152.3	933.4
Operating income	67.5	174.2	211.6
Interest income affiliate	12.5	23.7	24.1
Interest income	0.4		0.4
Interest cost affiliate	(3.5)	(5.4)	(5.7)
Interest cost	(20.6)		
Capitalized interest	9.8	0.7	1.5
Total financing (expense) income, net	(1.4)	19.0	20.3
Income before income tax expense	66.1	193.2	231.9
Income tax expense	7.2	46.9	20.7
Net income	58.9	146.3	211.2
Less: Net (loss) income attributable to noncontrolling interests	(1.7)	7.1	21.6
Net income attributable to SunCoke Energy, Inc. / net parent investment	\$ 60.6	\$ 139.2	\$ 189.6
Earnings attributable to SunCoke Energy, Inc. / net parent investment per common share:			
Basic	\$ 0.87	\$ 1.99	\$ 2.71
Diluted	\$ 0.87	\$ 1.99	\$ 2.71
Weighted average number of common shares outstanding:			
Basic	70.0	70.0	70.0
Diluted	70.0	70.0	70.0

(See Accompanying Notes)

Table of Contents**SunCoke Energy, Inc.****Combined and Consolidated Balance Sheets**

	December 31	
	2011	2010
	(Dollars in millions, except per share amounts)	
Assets		
Cash and cash equivalents	\$ 127.5	\$ 40.1
Accounts receivable	66.2	44.6
Inventories	219.7	106.6
Deferred income taxes	0.6	1.1
Total current assets	414.0	192.4
Notes receivable from affiliate		289.0
Investment in Brazilian cokemaking operations	41.0	41.0
Properties, plants and equipment, net	1,391.8	1,173.5
Lease and mineral rights, net	53.2	6.7
Goodwill	9.4	3.4
Deferred charges and other assets	32.4	12.4
Total assets	\$ 1,941.8	\$ 1,718.4
Liabilities and Equity		
Advances from affiliate	\$	\$ 888.5
Accounts payable	181.9	106.4
Current portion of long-term debt	3.3	
Accrued liabilities	85.7	53.1
Taxes payable	10.6	7.7
Total current liabilities	281.5	1,055.7
Long-term debt	723.1	
Payable to affiliate		55.8
Accrual for black lung benefits	33.5	26.6
Retirement benefit liabilities	50.6	42.9
Deferred income taxes	261.1	85.9
Asset retirement obligations	12.5	11.0
Other deferred credits and liabilities	19.6	11.2
Commitments and contingent liabilities		
Total liabilities	1,381.9	1,289.1
Equity		
Preferred stock, \$0.01 par value. Authorized 50,000,000 shares; no issued and outstanding shares at December 31, 2011 and 2010		
Common stock, \$0.01 par value. Authorized 300,000,000 shares; issued and outstanding 70,012,702 shares at December 31, 2011 and no shares outstanding at December 31, 2010	0.7	
Additional paid-in capital	511.3	
Accumulated other comprehensive loss	(6.5)	
Retained earnings	20.0	
Net parent investment		369.5

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Total SunCoke Energy, Inc. stockholders equity / net parent investment	525.5	369.5
Noncontrolling interests	34.4	59.8
Total equity	559.9	429.3
Total liabilities and equity	\$ 1,941.8	\$ 1,718.4

(See Accompanying Notes)

Table of Contents**SunCoke Energy, Inc.****Combined and Consolidated Statements of Cash Flows**

	Years ended December 31		
	2011	2010	2009
(Dollars in millions)			
Cash Flows from Operating Activities:			
Net income	\$ 58.9	\$ 146.3	\$ 211.2
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss on firm purchase commitment	18.5		
Depreciation, depletion and amortization	58.4	48.2	32.3
Deferred income tax expense	24.0	15.4	15.2
Payments (in excess of) less than expense for retirement plans	5.8	(6.0)	3.3
Changes in working capital pertaining to operating activities:			
Accounts receivable	(18.3)	34.7	(38.6)
Inventories	(110.1)		(27.1)
Accounts payable and accrued liabilities	84.2	54.2	(8.3)
Taxes payable	(16.9)	1.9	(0.2)
Other	(3.2)	1.9	(0.6)
Net cash provided by operating activities	101.3	296.6	187.2
Cash Flows from Investing Activities:			
Capital expenditures	(238.1)	(215.6)	(215.2)
Acquisition of business, net of cash received	(37.6)		
Proceeds from sale of assets		1.7	0.1
Net cash used in investing activities	(275.7)	(213.9)	(215.1)
Cash Flows from Financing Activities:			
Proceeds from issuance of long-term debt	727.9		
Debt issuance costs	(19.1)		
Repayment of long-term debt	(1.6)		
Purchase of noncontrolling interest in Indiana Harbor facility	(34.0)		
Net (decrease) increase in advances from affiliate	(412.8)	(56.2)	25.5
Repayments of notes payable assumed in acquisition	(2.3)		
Contribution from parent		1.0	
Increase in payable to affiliate	5.3	30.8	0.7
Cash distributions to noncontrolling interests in cokemaking operations	(1.6)	(20.9)	(18.6)
Net cash provided by (used in) financing activities	261.8	(45.3)	7.6
Net increase (decrease) in cash and cash equivalents	87.4	37.4	(20.3)
Cash and cash equivalents at beginning of year	40.1	2.7	23.0
Cash and cash equivalents at end of year	\$ 127.5	\$ 40.1	\$ 2.7

(See Accompanying Notes)

Table of Contents**SunCoke Energy, Inc.****Combined and Consolidated Statements of Comprehensive Income and Equity**

	Common Shares	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Net Parent Investment	Total SunCoke Energy, Inc. or Parent Equity	Noncontrolling Interests	Total Equity
	(Dollars in millions)							
At December 31, 2008	\$	\$	\$	\$	\$ 552.4	\$ 552.4	\$ 70.7	\$ 623.1
Net income (loss) from January 1, 2009 to December 31, 2009					189.7	189.7	21.5	211.2
Other Comprehensive income(loss)(net of related tax benefit of \$1.4):								
Reclassifications of prior service benefit and actuarial loss amortization to earnings					0.4	0.4		0.4
Retirement benefit plans funded status adjustment					(2.7)	(2.7)		(2.7)
Currency translation adjustment					2.2	2.2		2.2
Comprehensive income (loss)						189.6	21.5	211.1
Cash distributions to noncontrolling interests							(18.6)	(18.6)
At December 31, 2009	\$	\$	\$	\$	\$ 742.0	\$ 742.0	\$ 73.6	\$ 815.6
Net income from January 1, 2009 to December 31, 2010					139.2	139.2	7.1	146.3
Other Comprehensive income(loss)(net of related tax benefit of \$13.8):								
Reclassifications of prior service benefit and actuarial loss amortization to earnings					(1.7)	(1.7)		(1.7)
Retirement benefit plans funded status adjustment					24.1	24.1		24.1
Currency translation adjustment					0.4	0.4		0.4
Comprehensive income (loss)						162.0	7.1	169.1
Capital contribution from Sunoco, Inc.					1.0	1.0		1.0
Noncash distribution to affiliates.					(535.5)	(535.5)		(535.5)
Cash distributions to noncontrolling interests							(20.9)	(20.9)
At December 31, 2010	\$	\$	\$	\$	\$ 369.5	\$ 369.5	\$ 59.8	\$ 429.3

Table of Contents**SunCoke Energy, Inc.****Combined and Consolidated Statements of Comprehensive Income and Equity (Continued)**

	Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Net Parent Investment	Total SunCoke Energy, Inc. or Parent Equity	Noncontrolling Interests	Total Equity
				(Dollars in millions)					
At December 31, 2010		\$	\$	\$	\$	\$ 369.5	\$ 369.5	\$ 59.8	\$ 429.3
Net income (loss) from January 1, 2011 to July 18, 2011						40.6	40.6	(5.0)	35.6
Net income from July 19, 2011 to December 31, 2011					20.0		20.0	3.3	23.3
Other Comprehensive income(loss)(net of related tax benefit of \$5.5):									
Reclassifications of prior service benefit and actuarial loss amortization to earnings				(1.1)		(1.1)	(2.2)		(2.2)
Retirement benefit plans funded status adjustment				(6.3)			(6.3)		(6.3)
Currency translation adjustment				(2.0)		0.6	(1.4)		(1.4)
Comprehensive income (loss)							50.7	(1.7)	49.0
Capital contribution from Sunoco, Inc. in connection with contribution of business						156.5	156.5		156.5
Noncash distribution to Sunoco under Tax Sharing Agreement			(45.3)				(45.3)		(45.3)
Issuance of common stock in exchange for cokemaking and coal mining operations of Sunoco, Inc.	70,000,000	0.7	562.5	2.9		(566.1)			
Share-based compensation expense			2.1				2.1		2.1
Cash distributions to noncontrolling interests			(0.2)				(0.2)	(1.4)	(1.6)
Purchase of noncontrolling interests, net of related tax benefit of \$4.1			(7.8)				(7.8)	(22.3)	(30.1)
Shares issued to directors	12,702								
At December 31, 2011	70,012,702	\$ 0.7	\$ 511.3	\$ (6.5)	\$ 20.0	\$	\$ 525.5	\$ 34.4	\$ 559.9

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SunCoke Energy, Inc.

Notes to Combined and Consolidated Financial Statements

1. General

Description of Business and Basis of Presentation

SunCoke Energy, Inc. (SunCoke Energy or the Company) is an independent owner and operator of five metallurgical cokemaking facilities in the eastern and midwestern regions of the United States and operator of a cokemaking facility for a project company in Brazil in which it has a preferred stock investment. The cokemaking operations include blast furnace coke manufacturing at the Company's Jewell Coke Company, L.P. (Jewell) facility in Vansant, VA; Indiana Harbor Coke Company, L.P. (Indiana Harbor) facility in East Chicago, IN; Haverhill North Coke Company (Haverhill) facility in Franklin Furnace, OH; Gateway Energy & Coke Company, LLC (Granite City) facility in Granite City, IL; and Middletown Coke Company, Inc. (Middletown) in Middletown, OH, which commenced operations in October 2011.

In addition to its cokemaking operations, the Company has metallurgical coal mining operations in the eastern United States. The metallurgical coal produced from underground mines in Virginia and West Virginia is used primarily at the Jewell cokemaking facility. In January 2011, the Company acquired Harold Keene Coal Company, Inc. and its affiliated companies (HKCC or the HKCC Companies), for approximately \$52.0 million, exclusive of contingent consideration (Note 4).

On January 17, 2012 (the Distribution Date), we became an independent, publicly-traded company following our separation from Sunoco, Inc. (Sunoco). Our separation from Sunoco occurred in two steps:

We were formed as a wholly-owned subsidiary of Sunoco. On July 18, 2011 (the Separation Date), Sunoco contributed the subsidiaries, assets and liabilities that were primarily related to its cokemaking and coal mining operations to us in exchange for shares of our common stock. As of such date, Sunoco owned 100% of our common stock. On July 26, 2011, we completed an initial public offering (IPO) of 13,340,000 shares of our common stock, or 19.1% of our outstanding common stock. Following the IPO, Sunoco continued to own 56,660,000 shares of our common stock, or 80.9% of our outstanding common stock.

On the Distribution Date, Sunoco made a pro-rata, tax free distribution (the Distribution) of the remaining shares of our common stock that it owned in the form of a special stock dividend to Sunoco shareholders. Sunoco shareholders received 0.53046456 of a share of common stock for every share of Sunoco common stock held as of the close of business on the January 5, 2012, the record date for the Distribution. After the Distribution, Sunoco ceased to own any shares of our common stock.

Concurrent with the reorganization just prior to the IPO, substantially all related party balances were settled in connection with the issuance of common stock to Sunoco, with the exception of \$575 million, which was repaid on July 26, 2011 in cash with a portion of the proceeds from SunCoke Energy's debt issuance.

The historical Combined Financial Statements for periods prior to the Separation Date include the accounts of all operations that comprised the cokemaking and coal mining operations of Sunoco, after elimination of all intercompany balances and transactions within the combined group of companies. The historical Combined Financial Statements also include allocations of certain Sunoco corporate expenses. SunCoke Energy management believes the assumptions and methodologies underlying the allocation of general corporate overhead expenses are reasonable. However, such expenses may not be indicative of the actual level of expense that would have been incurred by SunCoke Energy if it had operated as an independent, publicly-traded company during the periods prior to the IPO or of the costs expected to be incurred in the future. See Note 6 for further information regarding allocated expenses. Because a direct ownership relationship did not exist among all the various entities comprising the Company, Sunoco's net investment in the Company is presented as net parent investment, rather than stockholders' equity, in the combined balance sheets for periods prior to the Separation Date. The Consolidated Financial Statements for the period after the Separation Date pertains to the operations of SunCoke Energy.

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A variable interest entity (VIE) is a legal entity in which equity investors do not have sufficient equity at risk for the legal entity to finance its activities without additional subordinated financial support or, as a group, the holders of the equity investment at risk lack any one of the following three characteristics: (1) the power, through voting rights or similar rights, to direct the activities of a legal entity that most significantly impact the entity's economic performance; (2) the obligation to absorb the expected losses of the legal entity; or (3) the right to receive the expected residual returns of the legal entity. A company with a variable interest or interests in a VIE is required to consolidate that VIE if it has a controlling financial interest, which will have both of the following characteristics: (1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance; and (2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company entered into an agreement in March 1997 with Lakeshore Coal Handling Corporation (Lakeshore), which provides coal handling services at the Indiana Harbor cokemaking facility. Under accounting principles generally accepted in the United States (GAAP), it is possible that Lakeshore would be a VIE and that the Company should be considered Lakeshore's primary beneficiary. However, Lakeshore has declined to provide the Company with the financial information to make this determination. Accordingly, the Company does not include Lakeshore's accounts in its Combined and Consolidated Financial Statements as permitted by a transition provision of the VIE accounting guidance. In addition, the Company has no obligations to Lakeshore under the agreement other than the amounts payable for the coal handling services (Note 17). The Company will continue to make efforts to obtain this information.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Combined and Consolidated Financial Statements and accompanying notes. Actual amounts could differ from these estimates.

Reclassifications

Certain amounts in the prior period Combined and Consolidated Financial Statements have been reclassified to conform to the current year presentation.

Currency Translation

The functional currency of the Company's Brazilian operations is the Brazilian real. The Company's Brazilian operations translate their assets and liabilities into U.S. dollars at the current exchange rates in effect at the end of the fiscal period. The gains or losses that result from this process is shown as cumulative translation adjustments within accumulated other comprehensive loss in the Combined and Consolidated Balance Sheets. The revenue and expense accounts of foreign subsidiaries are translated into U.S. dollars at the average exchange rates that prevailed during the period.

Some transactions of the Company's Brazilian operations are conducted in currencies different from their functional currency. Gains and losses from these foreign currency transactions are included in income as they occur and were not material to the results of operations during the years ended December 31, 2011, 2010 and 2009.

Revenue Recognition

The Company sells metallurgical coal and coke as well as steam and electricity to third-party customers. The Company also receives fees for operating the cokemaking plant in Brazil and for the licensing of its proprietary technology for use at this facility as well as reimbursement of substantially all of its operating costs.

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Revenues related to the sale of products are recognized when title passes, while service revenues are recognized when services are provided. Licensing fees, which are determined on a per ton basis, are recognized when coke is produced in accordance with the contract terms. Title passage generally occurs when products are shipped or delivered in accordance with the terms of the respective sales agreements. Revenues are not recognized until sales prices are fixed or determinable and collectability is reasonably assured.

As discussed in Note 7, substantially all of the metallurgical coke produced by the Company is sold pursuant to long-term contracts with its customers. The Company evaluates each of its contracts to determine whether the arrangement contains a lease under the applicable accounting standards. If the specific facts and circumstances indicate that it is remote that parties other than the contracted customer will take more than a minor amount of the coke that will be produced by the property, plant and equipment during the term of the coke supply agreement, and the price that the customer is paying for the coke is neither contractually fixed per unit nor equal to the current market price per unit at the time of delivery, then the long-term contract is deemed to contain a lease. The lease component of the price of coke represents the rental payment for the use of the property, plant and equipment, and all such payments are accounted for as contingent rentals as they are only earned by the Company when the coke is delivered and title passes to the customer. The total amount of revenue recognized by the Company for these contingent rentals represents less than 10 percent of combined sales and other operating revenues for each of the years ended December 31, 2011, 2010 and 2009.

Cash Equivalents

The Company considers all highly liquid investments with a remaining maturity of three months or less at the time of purchase to be cash equivalents. These cash equivalents consist principally of time deposits and money market investments.

Inventories

Inventories are valued at the lower of cost or market. Cost is determined using the first-in, first-out method, except for the cost of coal inventory in our Coal Mining segment and the Company's materials and supplies inventory, which are determined using the average-cost method.

The Company utilizes the selling prices under its long-term coke supply contracts (Note 7) to record lower of cost or market inventory adjustments.

Properties, Plants and Equipment

Plants and equipment and capitalized coal mine development costs are depreciated on a straight-line basis over their estimated useful lives. Coke and energy plant, machinery and equipment are depreciated over 25 to 30 years. All depreciation, depletion and amortization is excluded from cost of products sold and operating expenses and presented separately in the Combined and Consolidated Statements of Income. Gains and losses on the disposal or retirement of fixed assets are reflected in earnings when the assets are sold or retired. Amounts incurred that extend an asset's useful life, increase its productivity or add production capacity are capitalized. Direct costs, such as outside labor, materials, internal payroll and benefits costs, incurred during the construction of a new facility are capitalized; indirect costs are not capitalized. Normal repairs and maintenance costs are expensed as incurred.

The Company's coal mining operations lease small parcels of land, mineral rights and coal mining rights. Substantially all of the leases are life-of-mine agreements that extend the Company's mining rights until all reserves have been recovered. These leases convey mining rights to the Company in exchange for payment of certain royalties and/or fixed fees. The lease and mineral rights are capitalized and amortized as depletion expense using the units-of-production method. Only proven and probable coal reserves are included in the depletion base.

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Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An asset, or group of assets, is considered to be impaired when the undiscounted estimated net cash flows expected to be generated by the asset, or group of assets, are less than its carrying amount. The impairment recognized is the amount by which the carrying amount exceeds the fair market value of the impaired asset, or group of assets.

Goodwill and Intangibles

Goodwill, which represents the excess of the purchase price over the fair value of net assets acquired, is tested for impairment at least annually. There was no impairment of goodwill or intangibles during the periods presented. Intangible assets with finite useful lives are amortized over their useful lives in a manner that reflects the pattern in which the economic benefit of the intangible asset is consumed.

Investment in Brazilian Cokemaking Operations

SunCoke Energy's investment in preferred shares of the company that owns the cokemaking facility in Vitória, Brazil, that SunCoke Energy operates under licensing and operating agreements, is accounted for at cost. Income received by SunCoke Energy from this investment, which is in the form of a dividend, is contingent upon achieving certain minimum production levels at the facility and payment is guaranteed by the parent company of the plant's owner, which is a lessee of the facility. Accordingly, the Company recognizes income from this investment when certain required production levels have been met and the amount is deemed collectible, typically in the fourth quarter.

Derivative Financial Instruments

The Company utilizes derivative financial instruments to hedge against the risk of adverse movements in interest rates. Our corporate policy prohibits the use of derivative instruments for trading or speculative purposes, and we have procedures in place to monitor and control their use. See Note 24 to the Combined and Consolidated Financial Statements.

Cash received or paid upon settlement of derivative financial instruments are classified in the same category as the cash flows from items being hedged in the Combined and Consolidated Statements of Cash Flows.

Income Taxes

Prior to the Distribution Date, SunCoke Energy and certain subsidiaries of Sunoco were included in the consolidated federal and certain consolidated, combined or unitary state income tax returns filed by Sunoco. However, SunCoke Energy's provision for income taxes and the deferred income tax amounts reflected in the Combined and Consolidated Financial Statements have been determined on a theoretical separate-return basis. Prior to the Separation Date, any current federal and state income tax amounts were settled with Sunoco under a previous tax sharing arrangement. Under this previous tax sharing arrangement, net operating losses and tax credit carryforwards generated on a theoretical separate-return basis could be used to offset future taxable income determined on a similar basis. Such benefits were reflected in the Company's deferred tax assets, notwithstanding the fact that such net operating losses and tax credits may actually have been realized on Sunoco's consolidated income tax returns, or may be realized in future consolidated income tax returns covering the period through the Distribution Date.

On the Separation Date, SunCoke Energy and Sunoco entered into a new tax sharing agreement that governs the parties' respective rights, responsibilities and obligations with respect to tax liabilities and benefits, tax attributes, the preparation and filing of tax returns, the control of audits and other tax proceedings and other

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matters regarding taxes. Under the new tax sharing agreement, we do not expect to retain any of the federal income tax credits or net operating loss carryforwards that the Company has recognized as deferred income tax assets or that may be generated prior to the Distribution Date. However, the Company may retain certain state tax credits or net operating loss carryforwards, which have been recognized as deferred tax assets on our Combined and Consolidated Balance Sheet and that may be used to reduce the Company's future income tax liabilities. These benefits will continue to be reflected in SunCoke Energy's balance sheet until it is determined pursuant to the terms of the new tax sharing agreement that such benefits are not subject to allocation to SunCoke Energy and hence will not be realizable in its standalone tax filings. To the extent any tax assets or liabilities computed on this basis differ from amounts actually payable or realizable under the provisions of the new tax sharing agreement, adjustments to the tax assets and liabilities will be reflected as a dividend to, or capital contribution from, Sunoco when such amounts have been effectively settled under the terms of the new tax sharing agreement.

The Company recognizes uncertain tax positions in its financial statements when minimum recognition threshold and measurement attributes are met in accordance with current accounting guidance. Unrecognized tax benefits and accruals for interest and penalties are included in other deferred credits and liabilities in the Combined and Consolidated Balance Sheets. The Company recognizes interest related to unrecognized tax benefits in interest cost and penalties in income tax expense in the Combined and Consolidated Statements of Income.

Deferred tax asset and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those differences are projected to be recovered or settled.

Retirement Benefit Liabilities

The funded status of defined benefit and postretirement benefit plans is fully recognized on the Combined and Consolidated Balance Sheets. It is determined by the difference between the fair value of plan assets and the benefit obligation, with the benefit obligation represented by the projected benefit obligation for defined benefit plans and the accumulated postretirement benefit obligation for postretirement benefit plans. Actuarial gains (losses) and prior service (benefits) costs which have not yet been recognized in net income are recognized as a credit (charge) to accumulated other comprehensive loss. The credit (charge) to accumulated other comprehensive loss, which is reflected net of related tax effects, is subsequently recognized in net income when amortized as a component of defined benefit plans and postretirement benefit plans expense. In addition, the credit (charge) may also be recognized in net income as a result of a plan curtailment or settlement.

Asset Retirement Obligations

The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the asset and depreciated over its remaining estimated useful life. The Company's asset retirement obligations primarily relate to costs associated with restoring land to its original state.

Shipping and Handling Costs

Shipping and handling costs are included in cost of products sold and operating expenses.

Stock-based Compensation

We measure the cost of employee services in exchange for an award of equity instruments based on the grant-date fair value of the award. The total cost is reduced by estimated forfeitures over the awards' vesting period and the cost is recognized over the requisite service period. Forfeiture estimates are reviewed on an annual basis.

Table of Contents**Fair Value Measurements**

The Company determines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As required, the Company utilizes valuation techniques that maximize the use of observable inputs (levels 1 and 2) and minimize the use of unobservable inputs (level 3) within the fair value hierarchy included in current accounting guidance. The Company generally applies the market approach to determine fair value. This method uses pricing and other information generated by market transactions for identical or comparable assets and liabilities. Assets and liabilities are classified within the fair value hierarchy based on the lowest level (least observable) input that is significant to the measurement in its entirety.

Recently Issued Pronouncements

There are no recently issued accounting standards which are not yet effective that we believe would materially impact our Combined and Consolidated Financial Statements.

Labor Concentrations

As of December 31, 2011, the Company has approximately 1,160 employees in the United States. Approximately 320, or 28 percent, of the Company's domestic employees, principally at the Company's cokemaking operations, are currently represented by the United Steelworkers under various contracts. The collective bargaining agreements with respect to the Company's Indiana Harbor and Haverhill cokemaking facilities expire on September 1, 2012 and November 1, 2012, respectively. As of December 31, 2011, the Company has approximately 210 employees at the cokemaking facility in Vitória, Brazil, all of whom are represented by a union under an agreement that expires on October 31, 2012.

3. Arrangements Between Sunoco and SunCoke Energy, Inc.

In connection with the IPO, SunCoke Energy and Sunoco entered into certain agreements that effected the separation of SunCoke Energy's business from Sunoco (the Separation), provided a framework for its relationship with Sunoco after the separation and provided for the allocation between SunCoke Energy and Sunoco of Sunoco's assets, employees, liabilities and obligations attributable to periods prior to, at and after SunCoke Energy's Separation from Sunoco.

Separation and Distribution Agreement. On the Separation Date, SunCoke Energy and Sunoco entered into the separation and distribution agreement, which set forth the agreements between SunCoke Energy and Sunoco regarding the principal corporate transactions required to effect SunCoke Energy's separation from Sunoco, the IPO and the Distribution, if any, of SunCoke Energy's shares to Sunoco's shareholders, and other agreements governing the relationship between Sunoco and SunCoke Energy.

The separation and distribution agreement identified assets to be transferred, liabilities to be assumed and contracts to be assigned to each of SunCoke Energy and Sunoco as part of the separation of Sunoco into two companies. Except as expressly provided, all assets were transferred on an as is, where is basis. In general, each party to the separation and distribution agreement assumed liability for all pending, threatened and unasserted legal matters related to its own business or its assumed or retained liabilities and will indemnify the other party for any liability to the extent arising out of or resulting from such assumed or retained legal matters. In addition, the separation and distribution agreement provides for cross-indemnities principally designed to place financial responsibility for the obligations and liabilities of SunCoke Energy's business with SunCoke Energy and financial responsibility for the obligations and liabilities of Sunoco's business with Sunoco.

The separation and distribution agreement allocates responsibility with respect to certain employee related matters, particularly with respect to Sunoco employee benefit plans in which any SunCoke Energy employees participate or SunCoke Energy employee benefit plans which hold assets in joint trusts with Sunoco. In addition, the separation and distribution agreement provided for certain adjustments with respect to Sunoco equity compensation awards that occurred when Sunoco completed the Distribution.

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Tax Sharing Agreement. On the Separation Date, SunCoke Energy and Sunoco entered into a tax sharing agreement that governs the parties' respective rights, responsibilities and obligations with respect to tax liabilities and benefits, tax attributes, the preparation and filing of tax returns, the control of audits and other tax proceedings and other matters regarding taxes. For a detailed discussion of the tax sharing agreement, see Note 8.

Transition Services Agreement. On the Separation Date, SunCoke Energy and Sunoco entered into a transition services agreement in connection with the separation. Pursuant to the transition services agreement, Sunoco provides certain support services to SunCoke Energy, including, among others, information technology, treasury, risk management and insurance, tax, internal audit and various other corporate services, in each case consistent with the services provided by Sunoco to SunCoke Energy before the Separation. The charges for the transition services generally are intended to allow Sunoco to fully recover the costs directly associated with providing the services, plus all out-of-pocket costs and expenses, generally without profit. The services provided under the transition services agreement will terminate at various times specified in the agreement (generally terminating upon completion of the Distribution on January 17, 2012). SunCoke Energy may terminate certain specified services by giving prior written notice to Sunoco of such services and paying any applicable termination charge.

Guaranty, Keep Well, and Indemnification Agreement. On the Separation Date, SunCoke Energy and Sunoco entered into a guaranty, keep well, and indemnification agreement. Under this agreement, SunCoke Energy: (1) guarantees the performance of certain obligations of its subsidiaries, prior to the date that Sunoco or its affiliates may become obligated to pay or perform such obligations, including the repayment of a loan from Indiana Harbor Coke Company L.P.; (2) indemnifies, defends, and holds Sunoco and its affiliates harmless against all liabilities relating to these obligations; and (3) restricts the assets, debts, liabilities and business activities of one of its wholly owned subsidiaries, so long as certain obligations of such subsidiary remain unpaid or unperformed. In addition, SunCoke Energy releases Sunoco from its guaranty of payment of a promissory note owed by one of its subsidiaries to another of its subsidiaries.

4. Acquisition

Harold Keene Coal Company, Inc.

On January 14, 2011, the Company acquired 100% of the outstanding common shares of HKCC for approximately \$52.0 million, including working capital and contingent consideration. The results of HKCC have been included in the Consolidated Financial Statements since that date and are included in the Coal Mining segment. HKCC engages in the business of coal mining and owns, leases, and operates mines in Russell County, Virginia. The operations of the HKCC Companies produce high volatile A and high volatile B metallurgical coals, which complement the coal produced by the Company's existing coal mining operations, and high quality thermal coal. This acquisition adds between 250 thousand and 300 thousand tons of coal production annually, with the potential to expand production in the future. HKCC has approximately 20 million tons of proven and probable coal reserves located in Russell and Buchanan Counties in Virginia, contiguous to the Company's existing metallurgical coal mining operations. The acquisition is part of the Company's strategy to expand its domestic coal production and pursue selective reserve acquisitions. The goodwill of \$6.0 million arising from the acquisition consists largely of synergies and cost reductions.

The aggregate noncontingent portion of the purchase price was \$41.1 million, of which \$37.6 million was paid in cash, net of cash received of \$0.8 million. The remaining amount relates to a purchase price holdback of \$3.5 million that is expected to be paid in June 2012.

The purchase price includes a contingent consideration arrangement that requires the Company to pay the former owners of HKCC \$2.00 per ton of coal for each ton produced from the real property or leased property if production levels exceed 150 thousand tons in a calendar year for a period of 20 years or until full exhaustion, whichever comes sooner. The potential undiscounted amount of all future payments that could be required to be

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paid under the contingent consideration arrangement is between \$0 and \$42 million. The fair value of the contingent consideration at the acquisition date was \$10.9 million, and was based on significant inputs that are not observable in the market, or Level 3 inputs. Key assumptions include (a) a risk-adjusted discount rate range of 0.895 percent to 6.027 percent, which reflects the credit spread adjustment for each period, and (b) probability adjusted production levels of HKCC operations between 300 thousand and 475 thousand tons per year.

The following table summarizes the consideration paid for HKCC and the fair value of the assets acquired and liabilities assumed at the acquisition date (dollars in millions):

Consideration:	
Cash, net of cash received	\$ 37.6
Working capital adjustment and purchase price hold back	3.5
Contingent consideration arrangement	10.9
Fair value of total consideration transferred	\$ 52.0
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Current assets	\$ 7.3
Property and equipment	15.5
Mineral rights	48.1
Other assets	2.4
Current liabilities	(1.5)
Deferred tax liabilities, net	(22.7)
Notes payable	(2.3)
Asset retirement obligations	(0.8)
Total identifiable net assets assumed	46.0
Goodwill	6.0
Total	\$ 52.0

The fair value of the acquired intangible assets, representing mineral rights, of \$47.3 million, net of asset retirement obligations of \$0.8 million, was determined by applying the income approach, and is based on significant inputs that are not observable in the market, or Level 3 inputs. The acquired mineral rights will be depleted as they are extracted, which is estimated to be over a period of 31 years.

Immediately upon acquisition, \$2.3 million of notes payable were repaid.

The acquisition of HKCC increased revenues and gross margin by \$19.4 million and \$2.7 million, respectively in 2011. The acquisition of HKCC is not material to the Company's combined and consolidated results of operations. Therefore, pro forma information has not been presented.

5. Purchase of Noncontrolling Interest

On September 30, 2011, the Company acquired the entire 19% ownership interest in the partnership that owns the Indiana Harbor cokemaking facility held by an affiliate of GE Capital for \$34.0 million. As a result of this transaction, the Company now holds an 85% interest in the partnership. The remaining 15% interest in the partnership is owned by an affiliate of DTE Energy Company.

The Company accounted for the increase in ownership as an equity transaction, which resulted in a \$22.3 million decrease in noncontrolling interest and a \$7.8 million decrease in additional paid-in capital, net of income taxes. Direct costs of \$0.2 million related to the increase in ownership were also accounted for as part of the equity transaction.

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6. Related Party Transactions

The related party transactions with Sunoco and its affiliates are described below.

Advances from/to Affiliate

Prior to the Separation Date, Sunoco, Inc. (R&M), a wholly-owned subsidiary of Sunoco, served as a lender and borrower of funds and a clearinghouse for the settlement of receivables and payables for the Company and Sunoco and its affiliates. Amounts due to Sunoco, Inc. (R&M) for the settlement of payables, which included advances to fund capital expenditures, amounted to \$864.3 million at December 31, 2010. Interest on such advances was based on short-term money market rates. The weighted-average annual interest rates used to determine interest expense for these amounts due were 1.6 percent at December 31, 2010 and 2009. As described in Note 1, on July 26, 2011, proceeds from debt issuances were used to repay \$575 million of the advances from affiliate, and the remaining balance was treated as a contribution from Sunoco and capitalized to net parent investment.

Indiana Harbor had a \$30.0 million revolving credit agreement with Sunoco, Inc. (R&M) (the Indiana Harbor Revolver), which was terminated in conjunction with the Separation. Borrowings amounted to \$24.2 million at December 31, 2010. The interest rates for advances under the Indiana Harbor Revolver were based on the one-month London Inter-Bank Offered Rate, as quoted by Bloomberg, L.P., plus 1 percent (1.26 percent at December 31, 2010).

Interest income on advances to affiliate generated by the investment of idle funds under the clearinghouse activities described above is included in interest income affiliate in the Combined and Consolidated Statements of Income and totaled \$0.5 million, \$1.5 million, and \$1.8 million in 2011, 2010, and 2009 respectively. Interest paid to affiliates under the above borrowing arrangements is classified as interest cost affiliate in the Combined and Consolidated Statements of Income and totaled \$3.6 million, \$5.4 million, and \$5.7 million in 2011, 2010 and 2009, respectively.

Receivables/Payable from/to Affiliate

During 2002, in connection with an investment in the partnership by a third-party investor, Indiana Harbor loaned \$200.0 million of excess cash to The Claymont Investment Company (Claymont), a then wholly owned subsidiary of Sunoco. The loan was evidenced by a note with an interest rate of 7.44 percent per annum. Interest income related to the note, which was paid quarterly, is included in interest income affiliate in the Combined and Consolidated Statements of Income and amounted to \$8.0 million, \$14.9 million and \$14.9 million in 2011, 2010 and 2009, respectively.

During 2000, in connection with an investment in the partnership by a third-party investor, Jewell loaned \$89.0 million of excess cash to Claymont. The loan was evidenced by a note with an interest rate of 8.24 percent per annum. Interest income related to the note, which was paid annually, is included in interest income affiliate in the Combined and Consolidated Statements of Income and amounted to \$4.0 million, \$7.3 million, and \$7.3 million in 2011, 2010, and 2009, respectively.

In connection with the Separation, Sunoco contributed Claymont to SunCoke Energy primarily to transfer certain intercompany receivables from and intercompany payables to SunCoke Energy, including the notes payable to Indiana Harbor and Jewell. Accordingly, these notes receivable are now receivables and payables of SunCoke Energy's subsidiaries and the balances and related interest income are now eliminated in consolidation.

The Company had a non-interest bearing payable to affiliate totaling \$55.8 million at December 31, 2010. This intercompany balance represented the difference between the taxes allocated to the Company by Sunoco under a tax-sharing arrangement and the taxes recognized by the Company on a separate-return basis as reflected in the combined financial statements. In connection with the Separation, the payable to affiliate at the Separation Date was capitalized to net parent investment as discussed in the Net Parent Investment/SunCoke Energy, Inc. Stockholders' Equity section below.

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The flue gas produced during the Haverhill cokemaking process is being utilized to generate low-pressure steam, which is sold to the adjacent chemical manufacturing complex formerly owned and operated by Sunoco's chemicals business. In 2011, Sunoco sold this facility to Goradia Capital LLC (Goradia). Under this agreement, Goradia has assumed Sunoco's obligations under the agreement. Steam sales to Sunoco's chemicals business totaled \$7.7 million, \$9.6 million and \$7.8 million in 2011, 2010 and 2009, respectively.

Allocated Expenses

Prior to the Separation, amounts were allocated from subsidiaries of Sunoco for employee benefit costs of certain executives of the Company as well as for the cost associated with the participation of such executives in Sunoco's principal management incentive plans. The employee benefit costs were allocated as a percentage of the executives' actual pay, while the incentive plan costs represented the actual costs associated to the executives. Indirect corporate overhead attributable to the operations of the Company was also allocated from Sunoco. These overhead expenses incurred by Sunoco include costs of centralized corporate functions such as legal, accounting, tax, treasury, engineering, information technology, insurance and other corporate services. The allocation methods for these costs include estimates of the costs and level of support attributable to SunCoke Energy for legal, accounting, tax, treasury and engineering, usage and headcount for information technology and prior years' claims information and historical cost of insured assets for insurance.

Concurrent with the Separation, SunCoke Energy entered into a transition services agreement with Sunoco. Under this agreement, Sunoco provides certain services, the use of facilities and other assistance on a transitional basis to SunCoke Energy for fees which approximate Sunoco's cost of providing these services (Note 3).

The above allocations and transition services fee are included in cost of products sold and operating expenses and selling, general and administrative expenses in the Combined and Consolidated Statements of Income and totaled \$7.0 million, 7.1 million, and \$6.3 million in 2011, 2010, and 2009, respectively.

Net Parent Investment/SunCoke Energy, Inc. Stockholders' Equity

Prior to the contribution of the cokemaking and coal mining operations to SunCoke Energy, the net parent investment represented Sunoco's equity investment in the Company and reflected capital contributions and returns of capital, net income attributable to Sunoco's ownership and accumulated other comprehensive loss, which was all attributable to Sunoco's ownership.

In connection with the Separation, Sunoco made a capital contribution to SunCoke Energy under the terms of the separation and distribution agreement which eliminated certain assets and obligations of SunCoke Energy previously reflected in its combined balance sheet. The following summarizes the impact on SunCoke Energy's Combined and Consolidated Balance Sheet:

Increase (decrease) in capital contribution (dollars in millions):

Interest receivable from affiliate	\$ 4.8
Notes receivable from affiliate	289.0
Advances from affiliate	(487.3)
Payable to affiliate	(61.1)
Deferred income taxes (Note 8)	98.1
Net capital contribution from Sunoco	\$ 156.5

In connection with the contribution of assets for shares of SunCoke Energy common stock, the appropriate components of the total net parent investment were capitalized to stockholders' equity.

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Post Separation, SunCoke Energy made noncash distributions of \$45.3 million related to the settlement of tax attributes under the new tax sharing agreement with Sunoco. A corresponding reduction was made to SunCoke Energy's equity account. See Note 8 for additional information.

During 2010, certain entities which are part of the Company made noncash distributions comprised of \$535.5 million of amounts receivable from Sunoco, Inc. (R&M) as a distribution of prior years' earnings of such subsidiaries to Sunoco. The receivables, which had been offset against amounts due to Sunoco, Inc. (R&M) in the combined balance sheet, were established by prior cash deposits to Sunoco, Inc. (R&M) resulting primarily from the subsidiaries' earnings. This transaction was treated as a noncash increase in advances from affiliate and a decrease in net parent investment. Accordingly, it is not reflected in the Combined Statement of Cash Flows for the year ended December 31, 2010.

Guarantees and Indemnifications

For a discussion of certain guarantees that Sunoco, Inc. is providing to the current and former third-party investors of the Indiana Harbor cokemaking operations and the former third-party investors of the Jewell cokemaking facility on behalf of the Company, see Note 17.

7. Customer Concentrations

In 2011, the Company sold approximately 3.8 million tons of metallurgical coke per year to its three primary customers in the United States: ArcelorMittal, U.S. Steel, and AK Steel. Substantially all of the production from the Jewell and Indiana Harbor facilities and approximately one-half of the production from the Haverhill facility is sold pursuant to long-term contracts with affiliates of ArcelorMittal. The remaining balance of coke sales produced at the Haverhill facility, which commenced operations in 2008 and became fully operational in 2009, were initially sold to affiliates of OAO Severstal and then to AK Steel under long-term contracts. All coke sales from the Granite City cokemaking facility, which commenced operations in the fourth quarter of 2009, are made pursuant to a long-term contract with U.S. Steel. All coke sales from the Middletown cokemaking facility, which commenced operations in the fourth quarter of 2011, are made pursuant to a long-term contract with AK Steel. In addition, the licensing and operating fees, as well as preferred dividends pertaining to the Brazilian cokemaking operations, are payable to the Company under long-term contracts with a Brazilian subsidiary of ArcelorMittal.

The Company generally does not require any collateral with respect to its accounts receivable. At December 31, 2011, the Company's accounts receivable balances were primarily due from ArcelorMittal, U.S. Steel and AK Steel.

Substantially all of the coke production from the Jewell operations is sold to ArcelorMittal. Under the coke sales agreement, the Company is required to provide ArcelorMittal with up to 710 thousand tons of coke annually. Prior to the restructuring of this contract described below, the term of that agreement ran through September 2020 (concurrent with the term of the Haverhill agreement with ArcelorMittal). Under the agreement, coke was being supplied on a take-or-pay basis through October 2012, and thereafter was to be adjusted annually and based upon the projected annual coke requirements of ArcelorMittal above certain fixed thresholds.

Production from the Indiana Harbor facility is sold and delivered principally to ArcelorMittal's Indiana Harbor Works steel plant, which is adjacent to the Indiana Harbor cokemaking facility. The coke sales agreement, which expires in 2013, requires the Company to provide ArcelorMittal with 1.22 million tons of coke annually on a take-or-pay basis.

The Company is supplying approximately 550 thousand tons per year of coke from its Haverhill plant to affiliates of ArcelorMittal. Prior to the restructuring of this contract, described below, coke was being supplied to affiliates of ArcelorMittal on a take-or-pay basis through September 2012, and thereafter was to be adjusted annually and based upon the projected annual coke requirements of ArcelorMittal above certain fixed thresholds.

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through October 2020. The coke price under the coke agreement at Haverhill with affiliates of ArcelorMittal reflects the pass through of coal and transportation costs, all applicable taxes (excluding property and income taxes), and coke transportation costs, as well as an operating cost component and fixed cost component. ArcelorMittal is entitled to receive under the Haverhill agreement, as a credit to the price of coke, an amount representing a percentage of the realized value of certain applicable nonconventional fuels tax credits, to the extent such credits are available.

Beginning in July 2009, ArcelorMittal initiated legal proceedings challenging the prices charged to ArcelorMittal under the Jewell coke purchase agreement. In August 2010, ArcelorMittal presented the Company with additional bases for challenging the prices charged for coke produced at the Jewell facility as well as its Haverhill facility and also presented its notice of intent to arbitrate outstanding issues relating to the Indiana Harbor facility, including, among other things, the prices charged for coke produced at that facility. The Company and ArcelorMittal participated in court ordered mediation in January 2011, which resulted in a commercial resolution of the litigation. The parties agreed to amend the Jewell and Haverhill coke supply agreements effective January 1, 2011 to eliminate the fixed coal cost adjustment factor in the Jewell agreement and increase the operating cost and fixed fee components payable to the Company under both agreements. The parties also agreed that the take-or-pay provisions of these coke sales agreements would remain in effect through the end of the terms of these agreements in December 2020. This extension provides the Company a guaranteed outlet for this coke production through 2020. If the amendments to the Jewell and Haverhill agreements had been in place during 2010, the Company's pretax income would have been reduced by approximately \$51 million (unaudited). ArcelorMittal and the Company also entered into a settlement agreement to resolve the Indiana Harbor arbitration claims. The settlement was effective January 1, 2011 and will not significantly impact the Company's future earnings.

The Company is the operator of a cokemaking facility in Vitória, Brazil and has a preferred stock investment of \$41.0 million in the project company that owns the Vitória facility. The Company is the sole subscriber of preferred shares. The project company is a VIE for which the Company is not the primary beneficiary. As such, the Company does not include the project company's accounts in its Combined and Consolidated Financial Statements. Originally, under a series of agreements with the local project company, in which ArcelorMittal Brasil (AMB) is the major shareholder, AMB agreed to purchase all of the coke and steam produced at the cokemaking facility under a long-term tolling agreement and the Company agreed to operate the cokemaking facility through 2023 and receive fees for operating the plant as well as for the licensing of the Company's proprietary technology. The Company is also entitled to a \$9.5 million annual dividend for its preferred stock investment until 2023. Receipt of the dividend generally requires that certain minimum production levels are achieved at the facility. Dividend income of \$9.5 million was recognized in the second quarter of 2009 when it was determined that amounts attributable to 2008 were realizable. A dividend of \$9.5 million was recognized in the fourth quarters of 2011, 2010 and 2009. These amounts are included in other income, net, in the Combined and Consolidated Statements of Income. In addition, AMB and the Company have a call and put option, respectively, on the Company's investment in the project company, which can be exercised in 2024. The option price is \$41.0 million, the amount of SunCoke Energy's investment, plus any unpaid dividends and related interest. In the fourth quarter of 2009, the commercial and investment structure was modified to allow the local project company to lease the coke facility to AMB rather than enter into a long-term tolling agreement for coke. As part of this restructuring, the long-term operating agreement with the Company was assigned and restated with AMB and AMB has guaranteed the dividend payable by the local project company to SunCoke Energy.

Coke sales to ArcelorMittal and licensing and operating fees from AMB, in total, accounted for \$989.1 million, \$899.8 million and \$937.9 million, or 64, 68 and 82 percent, for the years ended December 31, 2011, 2010 and 2009, respectively, of the Company's total revenues and are recorded in the Jewell Coke, Other Domestic Coke and International segments.

In February 2008, the Company entered into an agreement with U.S. Steel under which the Company would build, own and operate a 650 thousand tons-per-year cokemaking facility adjacent to U.S. Steel's steelmaking

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facility in Granite City, IL. Construction of this facility was completed in the fourth quarter of 2009. In connection with this agreement, U.S. Steel has agreed to purchase, over a 15-year period, such coke production as well as the steam generated from the heat recovery cokemaking process at this facility.

Coke sales to U.S. Steel, in total, accounted for \$231.4 million and \$197.3 million, or 15 percent, for the years ended December 31, 2011 and 2010, respectively, of the Company's total revenues and are recorded in the Other Domestic Coke segment.

In connection with the expansion of the Haverhill facility in 2008, the Company entered into coke purchase agreements with affiliates of OAO Severstal. Under these coke sales agreements, the affiliates of OAO Severstal agreed to purchase on a take-or-pay basis, over a 15-year period, 550 thousand tons per year from the facility. In August 2009, the Company entered into a 12-year coke sales agreement and companion energy sales agreement with AK Steel, which replaced the take-or-pay contract with the affiliates of OAO Severstal effective September 1, 2009 and January 1, 2010, respectively. Under the new agreement, AK Steel had a limited purchase obligation of 13.5 thousand tons of coke for 2009 and beginning January 1, 2010, AK Steel is required to purchase all 550 thousand tons of coke per year from this facility. In addition, under the energy sales agreement, AK Steel began purchasing 50 percent of the electricity produced at the associated cogeneration power plant in May 2010. These contracts are subject to early termination by AK Steel after November 2014, under limited circumstances, provided AK Steel has given at least two years notice of its intention to terminate and certain other conditions are met.

In March 2008, the Company entered into an agreement with AK Steel with the Company to build, own and operate a cokemaking facility and associated cogeneration power plant adjacent to AK Steel's Middletown, OH steelmaking facility. The Company completed the facility and began operations in the fourth quarter of 2011. The plant has capacity to produce approximately 550 thousand tons of coke per year and, on average, 44 megawatts of power per hour. In connection with this agreement, AK Steel has agreed to purchase, over a 20-year period, all of the coke and available electrical power from these facilities.

Coke sales to AK Steel, in total, accounted for \$215.2 million and \$176.1 million, or 14 and 13 percent, for the years ended December 31, 2011 and 2010, respectively, of the Company's total revenues and are recorded in the Other Domestic Coke segment.

8. Income Taxes

Prior to the Distribution Date, SunCoke Energy and certain subsidiaries of Sunoco were included in the consolidated federal and certain consolidated, combined or unitary state income tax returns filed by Sunoco. However, SunCoke Energy's provision for income taxes and the deferred income tax amounts reflected in the Combined and Consolidated Financial Statements have been determined on a theoretical separate-return basis. Prior to the Separation Date, any current federal and state income tax amounts were settled with Sunoco under a previous tax sharing arrangement. Under this previous tax sharing arrangement, net operating losses and tax credit carryforwards generated on a theoretical separate-return basis could be used to offset future taxable income determined on a similar basis. Such benefits were reflected in the Company's deferred tax assets, notwithstanding the fact that such net operating losses and tax credits may actually have been realized on Sunoco's consolidated income tax returns, or may be realized in future consolidated income tax returns covering the period through the Distribution Date.

On the Separation Date, SunCoke Energy and Sunoco entered into a new tax sharing agreement that governs the parties' respective rights, responsibilities and obligations with respect to tax liabilities and benefits, tax attributes, the preparation and filing of tax returns, the control of audits and other tax proceedings and other matters regarding taxes. In general, under the tax sharing agreement:

With respect to any periods ending at or prior to the Distribution, SunCoke Energy is responsible for any U.S. federal income taxes and any U.S. state or local income taxes reportable on a consolidated, combined or unitary return, in each case, as would be applicable to SunCoke Energy as if it filed tax

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returns on a standalone basis. With respect to any periods beginning after the Distribution, SunCoke Energy will be responsible for any U.S. federal, state or local income taxes of it or any of its subsidiaries.

Sunoco is responsible for any income taxes reportable on returns that include only Sunoco and its subsidiaries (excluding SunCoke Energy and its subsidiaries), and SunCoke Energy is responsible for any income taxes filed on returns that include only it and its subsidiaries.

Sunoco is responsible for any non-income taxes reportable on returns that include only Sunoco and its subsidiaries (excluding SunCoke Energy and its subsidiaries), and SunCoke Energy is responsible for any non-income taxes filed on returns that include only it and its subsidiaries.

SunCoke Energy is generally not entitled to receive payment from Sunoco in respect of any of SunCoke Energy's tax attributes or tax benefits or any reduction of taxes of Sunoco. Moreover, Sunoco is generally entitled to refunds of income taxes with respect to periods ending at or prior to the Distribution. If SunCoke Energy realizes any refund, credit or other reduction in otherwise required tax payments in any period beginning after the Distribution Date as a result of an audit adjustment resulting in taxes for which Sunoco would otherwise be responsible, then, subject to certain exceptions, SunCoke Energy must pay Sunoco the amount of any such taxes for which Sunoco would otherwise be responsible. Further, if any taxes result to Sunoco as a result of a reduction in SunCoke Energy's tax attributes for a period ending at or prior to the Distribution Date pursuant to an audit adjustment (relative to the amount of such tax attribute reflected on Sunoco's tax return as originally filed), then, subject to certain exceptions, SunCoke Energy is generally responsible to pay Sunoco the amount of any such taxes.

SunCoke Energy has also agreed to certain restrictions that are intended to preserve the tax-free status of the contribution and the Distribution. These covenants include restrictions on SunCoke Energy's issuance or sale of stock or other securities (including securities convertible into our stock but excluding certain compensatory arrangements), and sales of assets outside the ordinary course of business and entering into any other corporate transaction which would cause SunCoke Energy to undergo a 50 percent or greater change in its stock ownership.

SunCoke Energy has generally agreed to indemnify Sunoco and its affiliates against any and all tax-related liabilities incurred by them relating to the contribution or the Distribution to the extent caused by an acquisition of SunCoke Energy's stock or assets, or other of its actions. This indemnification applies even if Sunoco has permitted SunCoke Energy to take an action that would otherwise have been prohibited under the tax-related covenants as described above.

Under the new tax sharing agreement, certain deferred tax assets attributable to net operating losses and credit carry forwards, which had been reflected in SunCoke Energy's balance sheets prior to the Separation Date on a theoretical separate-return basis, are no longer realizable by SunCoke Energy. Accordingly, current and deferred tax benefits totaling \$98.1 million and \$45.3 million were eliminated from the Combined and Consolidated Balance Sheets in the third and fourth quarter of 2011, respectively, with a corresponding reduction to SunCoke Energy's equity accounts.

The following table sets forth the income tax benefits which were eliminated from SunCoke Energy's income tax balances (dollars in millions):

	2011	
	Third Quarter	Fourth Quarter
Nonconventional fuel credit carryforward	\$ 54.2	\$
Gasification investment tax credit carryforward	40.7	
Federal net operating loss carryback		26.9
Federal tax credit carryforward	2.7	18.8
State tax credit carryforward, net of federal income tax effects	0.5	
Other		(0.4)
	\$ 98.1	\$ 45.3

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SunCoke Energy's tax provision continues to be determined on a theoretical separate-return basis through the Distribution Date. To the extent any tax assets or liabilities computed on this basis differ from amounts actually payable or realizable under the provisions of the new tax sharing agreement, adjustments to the tax assets and liabilities will be reflected as a dividend to or capital contribution from Sunoco when such amounts have been effectively settled under the terms of the tax sharing agreement. As of December 31, 2011, SunCoke Energy estimates that there are approximately \$64.6 million in tax benefits that may not be realized by SunCoke Energy. These benefits will continue to be reflected in SunCoke Energy's balance sheet until it is determined pursuant to the terms of the tax sharing agreement that such benefits are not subject to allocation to SunCoke Energy and hence will not be realizable in its standalone tax filings.

The components of income before income tax expense are as follows:

	Years Ended December 31		
	2011	2010	2009
	(Dollars in millions)		
Domestic	\$ 59.8	\$ 187.0	\$ 226.9
Foreign	6.3	6.2	5.0
	\$ 66.1	\$ 193.2	\$ 231.9

The components of income tax expense are as follows:

	Years Ended December 31		
	2011	2010	2009
	(Dollars in millions)		
Income taxes currently payable (receivable):			
U.S. federal	\$ (16.8)	\$ 23.7	\$ (10.3)
State	(3.2)	5.2	13.0
Foreign	3.2	2.6	2.8
	(16.8)	31.5	5.5
Deferred tax (benefit):			
U.S. federal	20.0	14.8	15.1
State	4.0	0.6	0.1
	24.0	15.4	15.2
	\$ 7.2	\$ 46.9	\$ 20.7

The reconciliation of the income tax expense at the U.S. statutory rate to the income tax expense is as follows:

	Years Ended December 31		
	2011	2010	2009
	(Dollars in millions)		
Income tax expense at U.S. statutory rate of 35 percent	\$ 23.1	\$ 67.6	\$ 81.2
Increase (reduction) in income taxes resulting from:			
Income attributable to noncontrolling interests ⁽¹⁾	0.6	(2.5)	(7.5)
Nonconventional fuel credit	(19.8)	(19.0)	(19.3)
Gasification investment tax credit ⁽²⁾			(40.7)
State and other income taxes, net of federal income tax effects	(0.8)	3.8	8.5

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Percentage depletion	(0.2)		(0.5)
Return-to-provision adjustments	(1.2)		
Change in valuation allowance	1.3		
Domestic production activity deduction	4.2	(2.8)	
Other		(0.2)	(1.0)
	\$ 7.2	\$ 46.9	\$ 20.7

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(1) No income tax expense is reflected in the Combined and Consolidated Statements of Income for partnership income attributable to noncontrolling interests.

(2) Recognized under the flow-through method of accounting for investment tax credits.

The tax effects of temporary differences that comprise the net deferred income tax liability are as follows:

	December 31	
	2011	2010
	(Dollars in millions)	
Deferred tax assets:		
Retirement benefit liabilities	\$ 22.3	\$ 17.6
Black lung benefit liabilities	12.5	10.1
Nonconventional fuel credit carryforward ⁽¹⁾	38.8	73.2
Gasification investment tax credit carryforward ⁽¹⁾		40.7
Federal net operating loss and tax credit carryforward ⁽²⁾	25.6	2.7
State tax credit carryforward, net of federal income tax effects	6.5	4.9
State net operating loss carryforward, net of federal income tax effects	2.6	
Other liabilities not yet deductible	11.3	11.6
Other	2.9	1.0
Deferred tax asset	122.5	161.8
Less valuation allowance	(1.3)	
Deferred tax asset, net	121.2	161.8
Deferred tax liabilities:		
Properties, plants and equipment	(284.3)	(245.4)
Investment in partnerships	(97.4)	(1.2)
Deferred tax liability	(381.7)	(246.6)
Net deferred tax liability	\$ (260.5)	\$ (84.8)

(1) Nonconventional fuel credit would expire on a separate-return basis from 2030 through 2031. These credits are expected to be utilized by Sunoco on its consolidated income tax return.

(2) Operating loss carryforward would expire on a separate-return basis in 2031. These credits are expected to be utilized by Sunoco on its consolidated income tax return.

The net deferred income tax liability is classified in the combined balance sheets as follows:

	December 31	
	2011	2010
	(Dollars in millions)	
Current asset	\$ 0.6	\$ 1.1
Noncurrent liability	(261.1)	(85.9)
	\$ (260.5)	\$ (84.8)

Cash payments, including settlements for income taxes as required under the tax sharing arrangement with Sunoco, amounted to \$7.3 million, \$32.4 million and \$6.1 million for the years ended December 31, 2011, 2010 and 2009, respectively.

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Sunoco's consolidated federal income tax returns, which include SunCoke Energy, have been examined by the Internal Revenue Service (IRS) for all years through 2006. Sunoco has entered into an agreement with the IRS to resolve the federal tax examination for the 2007 and 2008 tax years. State and foreign income tax returns

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are generally subject to examination for a period of three to five years after the filing of the respective returns. The state impact of any amended federal returns remains subject to examination by various states for a period of up to one year after formal notification of such amendments to the states. There are no outstanding controversies applicable to SunCoke Energy which would require recognition of a liability for unrecognized tax benefits at December 31, 2011, and the Company has recorded no liabilities for unrecognized tax benefits, interest or penalties during the years ended December 31, 2011, 2010 and 2009. The Company does not expect that any unrecognized tax benefits pertaining to income tax matters will be required in the next twelve months.

9. Inventories

The Company's inventory consists of metallurgical coal, which is the principal raw material for the Company's cokemaking operations, coke, which is the finished good sold by the Company to its customers, and materials, supplies and other.

These components of inventories were as follows:

	December 31	
	2011	2010
	(Dollars in millions)	
Coal	\$ 138.8	\$ 68.7
Coke	15.1	13.1
Materials, supplies and other	29.4	24.8
Consigned coke inventory	36.4	
	\$ 219.7	\$ 106.6

The increase in coal inventory at December 31, 2011 was due in part to a \$20.9 million increase related to the start-up of Middletown operations and a \$43.3 million increase in the Other Domestic Coke segment. The increase in coal inventory volumes in the Other Domestic Coke segment is a result of make-up purchases made in the third quarter of 2011 in response to force majeure events from multiple coal suppliers experienced in the first and second quarters of 2011. Further, coal inventory levels at December 31, 2010 were low due to weather-related issues in the prior year.

During the first quarter of 2011, the Company estimated that Indiana Harbor would fall short of its 2011 annual minimum coke production requirements by approximately 122 thousand tons. To meet this anticipated volume shortfall, the Company entered into agreements to procure approximately 133 thousand tons of coke from third parties. However, the coke prices in the purchase agreements exceeded the sales price in the Company's contract with ArcelorMittal. This resulted in an estimated loss on firm purchase commitments of \$18.5 million (\$12.2 million attributable to net parent investment and \$6.3 million attributable to noncontrolling interests), which was recorded during the first quarter of 2011. In the second quarter of 2011, the Company sold 38 thousand tons of this coke to ArcelorMittal.

Operational improvements at Indiana Harbor resulting from maintenance and repairs at this facility have increased production since the first quarter and coke production at Indiana Harbor has since met its contractual requirements with ArcelorMittal. The Company recorded lower of cost or market adjustments of \$1.9 million (\$1.4 million attributable to SunCoke Energy, Inc./net parent investment and \$0.5 million attributable to noncontrolling interests) on this purchased coke.

In the third quarter of 2011, the Company entered into an agreement to sell approximately 95 thousand tons of the purchased coke to a customer on a consignment basis that will expire on the earlier of July 31, 2012 or full consumption of, and payment for, the coke. If, after July 31, 2012, the customer has not consumed all of the consigned coke, the Company will remove any of the remaining coke from the customer's facility and will be entitled to collect a commitment removal fee. The customer did not consume any coke in fiscal 2011. In January 2012, the customer consumed 7,500 tons of coke.

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During the fourth quarter of 2011, we recorded a \$3.9 million out-of-period adjustment in our Combined and Consolidated Financial Statements for the year ended December 31, 2011. The Company identified that the inventory balance at the end of the third quarter was not properly valued at our Indiana Harbor facility. We recorded a \$3.9 million decrease to cost of products sold in the fourth quarter of 2011; however, the \$3.9 million should have been recognized as a decrease to cost of products sold in the third quarter of 2011. The adjustment had no impact on the full year 2011 financial results. Management has assessed the impact of this adjustment and does not believe the amount is quantitatively or qualitatively material, individually or in the aggregate, to the financial statements in the period in which it occurred as well as the period in which it was corrected.

10. Properties, Plants and Equipment, Net

The components of net properties, plants and equipment were as follows:

	December 31 ⁽¹⁾	
	2011	2010
	(Dollars in millions)	
Coke and energy plant, machinery and equipment	\$ 1,488.9	\$ 1,037.0
Mining plant, machinery and equipment	164.3	120.2
Land and land improvements	60.8	56.6
Construction-in-progress	26.0	263.1
Other	34.5	27.2
Gross investment, at cost	1,774.5	1,504.1
Less: Accumulated depreciation	(382.7)	(330.6)
Total properties, plants and equipment, net	\$ 1,391.8	\$ 1,173.5

(1) Includes assets, consisting mainly of coke and energy plant, machinery and equipment, with a gross investment totaling \$966.0 million and \$544.8 million and accumulated depreciation of \$140.3 million and \$118.4 million at December 31, 2011 and December 31, 2010, respectively, which are subject to long-term contracts to sell metallurgical coke and are deemed to contain operating leases.

11. Asset Retirement Obligations

The Company's asset retirement obligations arise primarily from the Federal Surface Mining Control and Reclamation Act of 1977 and similar state statutes, which require that mine property be restored in accordance with specified standards and an approved reclamation plan. The Company also has asset retirement obligations related to certain contractual obligations, including the retirement and removal of long-lived assets from certain properties. We do not have any unrecorded asset retirement obligations.

The following table provides a reconciliation of changes in the asset retirement obligation during each period (in millions):

Balance at January 1, 2010	\$ 10.3
Liabilities incurred	
Liabilities settled	
Accretion expense ⁽¹⁾	0.7
Revisions in estimated cash flows	
Balance at December 31, 2010	\$ 11.0
Liabilities incurred	0.8
Liabilities settled	(0.2)
Accretion expense ⁽¹⁾	0.8

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Revisions in estimated cash flows	0.1
Balance at December 31, 2011	\$ 12.5

(1) Included in cost of products sold and operating expenses.

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The Company had goodwill of \$9.4 million and \$3.4 million as of December 31, 2011 and 2010, respectively. During 2011, the Company recorded goodwill of \$6.0 million in connection with its acquisition of HKCC, which was allocated to the Coal Mining segment (Note 4).

13. Retirement Benefits Plans**Defined Benefit Pension Plan and Postretirement Health Care and Life Insurance Plans**

The Company has a noncontributory defined benefit pension plan (defined benefit plan), which provides retirement benefits for certain of its employees. The Company also has plans which provide health care and life insurance benefits for many of its retirees (postretirement benefit plans). The postretirement benefit plans are unfunded and the costs are borne by the Company.

Effective January 1, 2011, pension benefits under the Company's defined benefit plan were frozen for all participants in this plan. The Company also amended its postretirement benefit plans during the first quarter of 2010. Postretirement medical benefits for its future retirees were phased out or eliminated, effective January 1, 2011, for non-mining employees with less than ten years of service and employer costs for all those still eligible for such benefits were capped. As a result of these changes to its postretirement benefit plans, the Company's postretirement benefit liability declined \$36.7 million during 2010. Most of the benefit of this liability reduction is being amortized into income through 2016. At December 31, 2011, the Company's pension plan assets were invested in a trust with the assets of other pension plans of Sunoco. These plan assets were separated from the Sunoco trust in January 2012 and were transferred to a newly formed trust established for the Company's plan.

Defined benefit plan (benefit) expense consisted of the following components:

	Years Ended December 31		
	2011	2010	2009
	(Dollars in millions)		
Service cost	\$ 0.5	\$ 0.5	\$ 0.5
Interest cost on benefit obligations	1.5	1.6	1.6
Expected return on plan assets	(2.4)	(2.2)	(1.7)
Amortization of:			
Actuarial losses	0.5	0.6	0.9
	\$ (0.4)	\$ 0.5	\$ 1.3

Postretirement benefit plans (benefit) expense consisted of the following components:

	Years Ended December 31		
	2011	2010	2009
	(Dollars in millions)		
Service cost	\$ 0.3	\$ 0.7	\$ 1.6
Interest cost on benefit obligations	2.1	3.1	4.7
Amortization of:			
Actuarial losses	1.2	2.1	1.3
Prior service benefit	(5.6)	(4.8)	(1.6)
	(2.0)	1.1	6.0
Curtailment gain		(0.7)	
	\$ (2.0)	\$ 0.4	\$ 6.0

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Amortization of actuarial losses for 2012 is estimated at \$0.9 million for the defined benefit plan. Amortization of actuarial losses and prior service benefit for 2012 is estimated to be \$1.4 and \$(5.6) million, respectively, for postretirement benefit plans.

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Defined benefit plan and postretirement benefit plans expense (benefit) is determined using actuarial assumptions as of the beginning of the year or using weighted-average assumptions when curtailments, settlements, and/or other events require a plan remeasurement. The following assumptions were used to determine defined benefit plan and postretirement benefit plans expense (benefit):

	Defined Benefit Plan			Postretirement Benefit Plans		
	2011	2010	2009	2011	2010	2009
Discount Rate	5.00%	5.60%	6.00%	4.60%	5.30%	6.05%
Long-term expected rate of return on plan assets	8.25%	8.25%	8.25%			

For the years ended December 31, 2011, 2010 and 2009, the long-term expected rate of return on plan assets was estimated based on a variety of factors, including the historical investment return achieved over a long-term period, the targeted allocation of plan assets and expectations concerning future returns in the marketplace for both equity and fixed income securities.

The following amounts were recognized as components of other comprehensive income (loss) for the years ended December 31, 2011, 2010 and 2009:

	Defined Benefit Plan			Postretirement Benefit Plans		
	2011	2010	2009	2011	2010	2009
	(Dollars in millions)					
Reclassifications to earnings of:						
Actuarial loss amortization	\$ 0.5	\$ 0.6	\$ 0.9	\$ 1.2	\$ 1.9	\$ 1.3
Prior service benefit amortization				(5.6)	(5.3)	(1.6)
Retirement benefit plan funded status adjustments:						
Actuarial gains (losses)	(6.0)	0.2	2.2	(3.9)	7.4	(6.5)
Prior service benefit					31.3	
	\$ (5.5)	\$ 0.8	\$ 3.1	(8.3)	35.3	\$ (6.8)

The following tables set forth the components of the changes in benefit obligations and fair value of plan assets during 2011 and 2010, as well as the funded status at December 31, 2011 and 2010:

	Defined Benefit Plan		Postretirement Benefit Plans	
	2011	2010	2011	2010
	(Dollars in millions)			
Benefit obligations at beginning of year ⁽¹⁾	\$ 30.9	\$ 29.0	\$ 46.8	\$ 85.1
Service cost		0.5	0.3	0.7
Interest cost	1.5	1.6	2.1	3.1
Actuarial losses (gains)	5.4	1.8	3.9	(5.6)
Plan amendments				(31.3)
Curtailments				(1.8)
Benefits paid	(2.0)	(2.0)	(3.4)	(3.4)
Benefit obligations at end of year ⁽¹⁾	\$ 35.8	\$ 30.9	\$ 49.7	\$ 46.8
Fair value of plan assets at beginning of year ⁽²⁾	\$ 30.4	\$ 24.6		
Actual income on plan assets	1.7	4.3		
Employer contribution		3.5		
Benefits paid from plan assets	(2.0)	(2.0)		
Fair value of plan assets at end of year ⁽²⁾	\$ 30.1	\$ 30.4		

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Funded status at end of year ⁽³⁾	\$ (5.7)	\$ (0.5)	\$ (49.7)	\$ (46.8)
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- (1) Represents both the accumulated benefit obligation and the projected benefit obligation for the defined benefit plan and the accumulated postretirement benefit obligations (APBO) for the postretirement benefit plans.
- (2) There are no plan assets invested in Sunoco, Inc. common stock at December 31, 2011 (see below).
- (3) Represents retirement benefit liabilities (including current portion) in the combined balance sheets. The current portion of retirement liabilities, which totaled \$4.8 and \$4.4 million at December 31, 2011 and 2010, respectively, is classified in accrued liabilities in the combined balance sheets.

In 2010, the Company contributed \$3.5 million to its defined benefit plan consisting of \$1.0 million in cash and approximately 99 thousand shares of Sunoco common stock which was purchased from Sunoco.

The following table sets forth the cumulative amounts not yet recognized in net income at December 31, 2011 and 2010:

	Defined Benefit Plan		Postretirement Benefit Plans	
	2011	2010	2011	2010
(Dollars in millions)				
Cumulative amounts not yet recognized in net income:				
Actuarial losses	\$ 15.6	\$ 10.2	\$ 18.7	\$ 16.0
Prior service benefits			(24.0)	(29.6)
Accumulated other comprehensive (income) loss (before related tax benefit)	\$ 15.6	\$ 10.2	\$ (5.3)	\$ (13.6)

The following table sets forth the plan assets in the funded defined benefit plan measured at fair value, by input level, at December 31, 2011 and 2010:

	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
(Dollars in millions)								
Equity securities:								
Sunoco, Inc. common stock	\$	\$ 2.0	\$	\$	\$	\$	\$	\$ 2.0
Domestic		2.4						2.4
International		0.2						0.2
Fixed income securities:								
Government and Federal-sponsored agency obligations		2.0	2.1				2.1	2.0
Corporate and other debt			9.5	7.6			9.5	7.6
Mutual and collective trust funds:								
Equity securities:								
Domestic		1.2	6.8	4.5			6.8	5.7
International		1.4	4.7	4.0			4.7	5.4
Fixed income securities:								
Government and Federal-sponsored agency obligations								
Corporate and other debt instruments			2.7	1.8			2.7	1.8
Private equity investments					3.0	2.3	3.0	2.3
Cash and cash equivalents ⁽¹⁾	1.3	1.0					1.3	1.0
	\$ 1.3	\$ 10.2	\$ 25.8	\$ 17.9	\$ 3.0	\$ 2.3	\$ 30.1	\$ 30.4

- (1) Substantially all of these funds are held in connection with fixed income investment strategies.

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The following table sets forth the change in fair value for plan assets measured using significant unobservable inputs (level 3):

	2011	2010
	(Dollars in millions)	
Balance at the beginning of the year	\$ 2.3	\$ 1.7
Actual gain on plan assets:		
Assets held at end of year	0.7	0.4
Assets sold during the year		
Investments	0.4	0.5
Return on Capital	(0.4)	(0.3)
Balance at the end of the year	\$ 3.0	\$ 2.3

Investments in equity and fixed income securities that are publicly traded are valued at the closing market prices on the last business day of the year. Other equity and fixed income securities are generally valued using other observable inputs to estimate fair value on the last business day of the year. Investments in mutual funds and collective trust funds are primarily based on the closing market price of the assets held in the funds on the last business day of the year.

The asset allocations attributable to the defined benefit plan at December 31, 2011 and 2010 and the target allocation of plan assets for 2012 (excluding the Sunoco common stock contributed in early 2010), by asset category, are as follows (in percentages):

	2012 Target	December 31	
		2011	2010
Asset category:			
Equity securities	%	38%	52%
Fixed income securities ⁽¹⁾	100%	52%	41%
Private equity investments	%	10%	7%
Total	100%	100%	100%

(1) Includes cash and cash equivalents which are held to manage duration in connection with fixed income investment strategies. For fiscal 2012, the target asset allocation and strategy was modified to implement a 100% allocation to a portfolio of investment grade fixed income securities with a weighted average duration approximately equal to the duration of the pension plan's benefit obligation. The objective of this strategy change is to reduce the volatility of investment returns, funded status of the plan and required contributions.

The expected benefit payments through 2021 for the defined benefit plan and postretirement benefit plans are as follows:

	Defined Benefit Plan	Postretirement Benefit Plans ⁽¹⁾
	(Dollars in millions)	
Year ending December 31:		
2012	\$ 2.2	\$ 5.0
2013	\$ 2.2	\$ 5.2
2014	\$ 2.2	\$ 5.1
2015	\$ 2.3	\$ 4.7
2016	\$ 2.3	\$ 4.4
2017 through 2021	\$ 11.3	\$ 18.4

- (1) Net of premiums paid by participants and before total expected reimbursements of \$2.4 million from 2011 through 2020 under the Medicare Prescription Drug Act of 2003.

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The measurement date for the Company's defined benefit plan and postretirement benefit plans is December 31. The following discount rates were used at December 31, 2011 and 2010 to determine benefit obligations for the plans (in percentages):

	Defined Benefit Plan		Postretirement Benefit Plans	
	2011	2010	2011	2010
Discount rate	4.25%	5.00%	3.90%	4.60%

The health care cost trend assumption used at December 31, 2011 to compute the APBO for the postretirement benefit plans was an increase of 9.00 percent (7.75 percent at December 31, 2010), which is assumed to decline gradually to 5.00 percent in 2020 and to remain at that level thereafter. A one-percentage point change each year in assumed health care cost trend rates would have an impact of less than \$0.1 million on the total of service and interest cost components of postretirement benefits expense and APBO as of December 31, 2011 and 2010.

Defined Contribution Plans

The Company has defined contribution plans which provide retirement benefits for certain of its employees. The Company's contributions, which are principally based on the Company's pretax income and the aggregate compensation levels of participating employees and are charged against income as incurred, amounted to \$4.4 million, \$1.8 million and \$2.1 million in 2011, 2010 and 2009, respectively.

14. Accrued Liabilities

Accrued liabilities consist of following:

	2011	2010
	(Dollars in millions)	
Interest payable	\$ 15.9	\$
Accrued sales discounts	\$ 24.9	\$ 12.1
Other	\$ 44.9	\$ 41.0
Total	\$ 85.7	\$ 53.1

15. Debt*Credit Facilities*

On July 26, 2011, SunCoke Energy entered into a Credit Agreement which provides for a seven-year term loan in a principal amount of \$300.0 million (the Term Loan), repayable in equal quarterly installments at a rate of 1.00% of the original principal amount per year, with the balance payable on the final maturity date. Additionally, the Credit Agreement provides for up to \$75.0 million of Incremental Facilities (Incremental Facilities) that are available subject to the satisfaction of certain conditions. On December 15, 2011, SunCoke Energy borrowed an additional \$30.0 million Term Loan as part of the Incremental Facilities. As of December 31, 2011 there was \$45.0 million of capacity remaining under the Incremental Facilities. SunCoke Energy has \$328.4 million outstanding under the Term Loan and Incremental Facilities as of December 31, 2011. The proceeds from the Term Loan and Incremental Facilities were used to repay certain intercompany indebtedness to Sunoco, to pay related fees and expenses and for general corporate purposes.

The Credit Agreement also provides for a five-year \$150 million revolving facility (the Revolving Facility). The proceeds of any loans made under the Revolving Facility can be used to finance capital expenditures, acquisitions, working capital needs and for other general corporate purposes. SunCoke Energy does not have any outstanding borrowings under the Revolving Facility as of December 31, 2011.

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Borrowings under the Term Loan bear interest, at SunCoke Energy's option, at either (i) base rate plus an applicable margin or (ii) the greater of 1.00% or LIBOR plus an applicable margin. The applicable margin on the Term Loan is (i) in the case of base rate loans, 2.00% per annum and (ii) in the case of LIBOR loans, 3.00% per annum. Borrowings under the Revolving Facility bear interest, at SunCoke Energy's option, at either (i) base rate plus an applicable margin or (ii) LIBOR plus an applicable margin. The applicable margin on loans made under the Revolving Facility is determined by reference to a consolidated leverage ratio based pricing grid. The weighted-average interest rate for borrowings outstanding under the Credit Agreement during 2011 was 4.14 percent.

The Credit Agreement contains certain covenants, restrictions and events of default including, but not limited to, maintaining a maximum consolidated leverage ratio and a minimum consolidated interest coverage ratio and limitations on the ability of the Company and certain of the Company's subsidiaries to (i) incur indebtedness, (ii) pay dividends or make other distributions, (iii) prepay, redeem or repurchase certain debt, (iv) make loans and investments, (v) sell assets, (vi) incur liens, (vii) enter into transactions with affiliates and (viii) consolidate or merge. In addition, under certain circumstances, the Term Loan is subject to mandatory principal prepayments.

The obligations under the Credit Agreement are guaranteed by certain of the Company's subsidiaries and secured by liens on substantially all of the Company's and the guarantors' assets pursuant to a Guarantee and Collateral Agreement, dated as of July 26, 2011, among the Company, the subsidiaries of the Company party thereto and JPMorgan Chase Bank, N.A., as administrative agent.

Senior Notes

On July 26, 2011, SunCoke Energy issued \$400 million aggregate principal of senior notes (the "Notes") in a private placement. The Notes bear interest at a rate of 7.625% per annum and will mature in 2019 with all principal paid at maturity. Interest on the Notes is payable semi-annually in cash in arrears on August 1 and February 1 of each year, commencing on February 1, 2012. The proceeds from the Notes were used to repay certain intercompany indebtedness to Sunoco, to pay related fees and expenses and for general corporate purposes.

The Notes were offered in the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act, and outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act. On January 25, 2012, we completed an exchange offer for the Notes for an equal principal amount of the Notes whose sale is registered under the Securities Act.

The Notes are the Company's senior unsecured obligations and are guaranteed on a senior unsecured basis by each of the Company's existing and future subsidiaries that guarantees the Company's credit facilities (collectively, the "Notes Guarantors"). The Notes rank equally in right of payment to all of the Company's existing and future unsecured unsubordinated debt and senior in right of payment to all of the Company's existing and future debt that is by its terms expressly subordinated in right of payment to the Notes. The Notes are subordinated to indebtedness under the Credit Agreement as well as any future secured debt to the extent of the value of the assets securing such debt.

The Company may redeem some or all of the Notes prior to August 1, 2014 by paying a "make-whole" premium. The Company also may redeem some or all of the Notes on or after August 1, 2014 at specified redemption prices. In addition, prior to August 1, 2014, the Company may redeem up to 35% of the Notes using the proceeds of certain equity offerings.

The Company is obligated to offer to purchase the Notes at a price of (a) 101% of their principal amount, together with accrued and unpaid interest, if any, to the date of purchase, upon the occurrence of certain change of control events and (b) 100% of their principal amount, together with accrued and unpaid interest, if any, to the date of purchase, with the proceeds from certain asset dispositions. These restrictions and prohibitions are subject to certain qualifications and exceptions set forth in the Indenture, including without limitation, reinvestment rights with respect to the proceeds of asset dispositions.

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The Indenture contains covenants that, among other things, limit the Company's ability and the ability of certain of the Company's subsidiaries to (i) incur indebtedness, (ii) pay dividends or make other distributions, (iii) prepay, redeem or repurchase certain debt, (iv) make loans and investments, (v) sell assets, (vi) incur liens, (vii) enter into transactions with affiliates and (viii) consolidate or merge. These covenants are subject to a number of exceptions and qualifications set forth in the Indenture.

Upon issuance, the Company recorded the Notes and the Term Loan on the consolidated balance sheet of \$727.9 million, which is net of a debt discount of \$2.1 million. In addition, the Company recorded \$19.1 million of deferred financing fees related to the issuance of the Notes and Credit Facilities.

Debt maturities for each of the next five years is \$3.3 million.

Interest Rate Swaps

On August 15, 2011, the Company entered into interest rate swap agreements with an aggregate notional amount of \$125.0 million. See Note 24 for further information on the interest rate swaps.

16. Black Lung Benefit Obligations

The Company is responsible for making pneumoconiosis (black lung) benefit payments to certain of its employees and former employees and their dependents. Such payments are for claims under Title IV of the Federal Coal Mine Health and Safety Act of 1969 and subsequent amendments, as well as for black lung benefits provided in the states of Virginia, Kentucky and West Virginia pursuant to workers compensation legislation. The Company acts as a self-insurer for both state and federal black lung benefits and adjusts the Company's accrual each year based upon actuarial calculations of the Company's expected future payments for these benefits. For the years ended December 31, 2011, 2010 and 2009, the discount rate used to calculate the period end liability was 4.50, 5.00 and 6.00 percent, respectively. The estimated liability was \$33.5 and \$26.6 million at December 31, 2011 and 2010, respectively. Charges against income for black lung benefits amounted to \$8.7, \$4.8 and \$0.7 million during 2011, 2010 and 2009, respectively.

The Patient Protection and Affordable Care Act (PPACA), which was implemented in 2010, amended previous legislation related to coal workers' black lung obligations. PPACA provides for the automatic extension of awarded lifetime benefits to surviving spouses and changes the legal criteria used to assess and award claims. Our obligation related to black lung benefits is estimated based on various assumptions, including actuarial estimates, discount rates, and changes in health care costs. Changes in actuarial assumptions, including the discount rate, mortality assumptions and the expected impact of the PPACA in 2011, increased our black lung obligation by approximately \$6.0 million.

17. Commitments and Contingent Liabilities

The Company, as lessee, has noncancelable operating leases for land, office space, equipment and railcars. Total rental expense, net of sublease income, was \$5.8, \$4.6 and \$3.9 million in 2011, 2010 and 2009, respectively. Sublease income is generated from our former corporate headquarters located in Knoxville, Tennessee. Beginning in the second quarter of 2011, concurrent with our move to Lisle, Illinois, this space was subleased to another tenant for the remainder of the lease term, although we remain directly liable to the landlord under the original lease.

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The aggregate amount of future minimum annual rentals applicable to noncancelable operating leases and related subleases is as follows:

	Minimum Rental Payments	Sublease Income (Dollars in millions)	Net Lease Expense
Year ending December 31:			
2012	\$ 3.2	\$ 0.6	\$ 2.6
2013	3.3	0.6	2.7
2014	3.4	0.7	2.7
2015	3.0	0.7	2.3
2016	2.2	0.7	1.5
2017-Thereafter	4.7	0.3	4.4
Total	\$ 19.8	\$ 3.6	\$ 16.2

As discussed in Note 1, the Company has an agreement with Lakeshore which provides coal handling services. The fixed and determinable amounts of the Company's obligation under this agreement are as follows (dollars in millions):

Year ending December 31:	
2012	\$ 4.7
2013	2.3
Total	7.0
Less: Amount representing interest	(0.3)
Total at present value	\$ 6.7

Payments under this agreement, including variable components, totaled \$11.2, \$10.0 and \$10.8 million in 2011, 2010 and 2009, respectively.

The Company is subject to indemnity agreements with current and former third-party investors of Indiana Harbor and Jewell related to certain tax benefits that they earned as limited partners. Based on the partnership's statute of limitations, as well as published filings of the limited partners, the Company believes that tax audits for years 2006 and 2007, relating to tax credits of approximately \$53 million, may be still open for the limited partners and subject to examination. As of December 31, 2011, the Company has not been notified by the limited partners that any items subject to the indemnification are under examination and further believes that the potential for any claims under the indemnity agreements is remote. Sunoco also guarantees SunCoke Energy's performance under the indemnification to the current third party investor of Indiana Harbor and the former investor at Jewell. On September 30, 2011, concurrent with SunCoke Energy's purchase of the 19 percent ownership interest from one of the Indiana Harbor limited partners, Sunoco was released of its guarantee to the former Indiana Harbor partner of SunCoke Energy's performance under this indemnification. SunCoke Energy has assumed this guarantee.

The EPA has issued Notices of Violations (NOVs) for our Haverhill and Granite City cokemaking facilities which stem from alleged violations of our air emission operating permits for these facilities. We are currently working in a cooperative manner with the United States Environmental Protection Agency (EPA) and the Illinois Environmental Protection Agency to address the allegations. Settlement may require payment of a penalty for alleged past violations as well as undertaking capital projects to improve reliability of the energy recovery systems and enhance environmental performance at the Haverhill and Granite City facilities. As a result of recent discussions with the EPA, the Company expects these projects to cost approximately \$80 million to \$100 million and to be carried out over the 2012 through 2016 time period. The majority of the spending is expected to take place from 2013 to 2016, although some spending may occur in 2012 depending on the timing

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of the settlement. The final cost of the projects will be dependent upon the ultimate outcome of discussions with regulators. At this stage, negotiations are ongoing and the Company is unable to estimate a range of reasonably possible loss. The Company does not believe any probable loss would be material to its financial position, results of operations or cash flows.

In addition, the Company has received an NOV from the EPA related to our Indiana Harbor cokemaking facility. After initial discussions with the EPA and the Indiana Department of Environmental Management (IDEM), resolution of the NOV was postponed by mutual agreement because of ongoing discussions regarding the NOVs at the Haverhill and Granite City cokemaking facilities. In January 2012, the Company began working in a cooperative manner with the EPA, the IDEM and Cokenergy, an independent power producer that owns and operates an energy facility, including heat recovery equipment, a flue gas desulfurization system and a power generation plant, that processes hot flue gas from our Indiana Harbor facility to produce steam and electricity and to reduce the sulfur and particulate content of such flue gas, to address the allegations. Settlement may require payment of a penalty for alleged past violations as well as undertaking capital projects to enhance environmental performance. At this time, the Company cannot yet assess any future injunctive relief or potential monetary penalty and any potential future citations. The Company is unable to estimate a range of probable or reasonably possible loss.

On February 9, 2010, the Ohio Department of Environmental Protection (OEPA) issued a New Source Review permit-to-install (NSR PTI) for the Middletown cokemaking facility. During the 30-day statutory appeal period ending March 11, 2010, four parties, including the City of Monroe, Ohio, Robert D. Snook, a pro se litigant, the National Resources Defense Council, and individuals affiliated with the SunCoke Watch opposition group, filed appeals at the Ohio Environmental Review Appeals Commission (ERAC), challenging OEPA's issuance of the NSR PTI. Discovery, expert discovery and depositions have concluded with respect to this matter and dispositive motions have been filed. In late 2011, ERAC agreed to a continuance of the hearing from early 2012 until May 2012 so that the parties could continue settlement negotiations. In February 2012, the Company reached an agreement in principle with the parties and are finalizing the terms of a settlement agreement. The Middletown cokemaking facility commenced operations in October 2011. The terms of the agreement are not material to the Company's financial position, results of operations or cash flows of the Company at December 31, 2011.

The Company is a party to certain other pending and threatened claims. Although the ultimate outcome of these claims cannot be ascertained at this time, it is reasonably possible that some portion of these claims could be resolved unfavorably to the Company. Management of the Company believes that any liability which may arise from claims would not be material in relation to the financial position, results of operations or cash flows of the Company at December 31, 2011.

18. Restructuring

In 2010, in connection with the Separation, the Company announced the relocation of its corporate headquarters from Knoxville, Tennessee to Lisle, Illinois, which was completed during the second quarter of 2011 and resulted in a termination of employees eligible for severance benefits upon such termination. The Company recorded restructuring charges of \$8.0 million and \$0.4 million in 2011 and 2010, respectively. These charges consist of employee-related costs, primarily related to relocation, and lease terminations and asset write-offs.

The following table presents aggregate restructuring charges related to the relocation:

	Employee- Related Costs	Asset Write-offs	Lease Terminations	Total
	(Dollars in millions)			
Year ended December 31, 2010	\$ 0.1	\$ 0.3	\$	\$ 0.4
Year ended December 31, 2011	5.4	0.6	2.0	8.0
Charges recorded through December 31, 2011	\$ 5.5	\$ 0.9	\$ 2.0	\$ 8.4

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In addition to the amounts set forth in the table above, we expect to incur an additional \$1.2 million in employee-related costs in 2012, primarily due to relocation. Employee-related costs and lease terminations are included in selling, general and administrative expenses. Asset write-offs are included in depreciation expense.

The following table presents accrued restructuring and related activity as of and for the year ended December 31, 2011 related to the relocation:

	Employee- Related Costs	Lease Terminations (Dollars in millions)	Total
Balance at December 31, 2010	\$ 0.1	\$	\$ 0.1
Charges	5.4	2.0	7.4
Cash payments	(4.7)	(0.3)	(5.0)
Balance at December 31, 2011	\$ 0.8	\$ 1.7	\$ 2.5

19. Accumulated Other Comprehensive (Loss) Income

The following table sets forth the components of accumulated other comprehensive (loss) income (net of related income taxes) at December 31, 2011 and 2010, respectively:

	December 31	
	2011	2010 ⁽¹⁾
	(Dollars in millions)	
Retirement benefits plans	\$ (6.3)	\$ 2.2
Foreign currency translation adjustment	(0.2)	1.2
	\$ (6.5)	\$ 3.4

(1) Included in net parent investment.

20. Share-Based Compensation

Effective July 13, 2011, SunCoke Energy's Board of Directors approved the SunCoke Energy, Inc. Long-Term Performance Enhancement Plan (SunCoke LTPEP). The SunCoke LTPEP provides for the grant of equity-based rewards including stock options and share units, or restricted stock, to the Company's directors, officers, and other employees, advisors, and consultants who are selected by the plan committee for participation in the SunCoke LTPEP. The plan authorizes the issuance of (i) 1,600,000 million shares of SunCoke Energy common stock issuable upon the adjustment of Sunoco equity awards in connection with the Distribution and (ii) up to 6,000,000 shares of SunCoke Energy common stock pursuant to new awards under the SunCoke LTPEP.

The Company measures the cost of employee services in exchange for an award of equity instruments based on the grant-date fair value of the award. The total cost is reduced for estimated forfeitures over the awards' vesting period and the cost is recognized over the requisite service period. Forfeiture estimates are reviewed on an annual basis at a minimum, or as deemed necessary based on actual forfeitures. Compensation expense is recorded ratably over the service period.

Stock Options

During the year ended December 31, 2011, the Company granted stock options to certain employees to acquire 1,533,312 shares of common stock. The stock options have a ten-year term and a \$17.25 per share weighted average exercise price, which was equal to the average of the high and low prices of SunCoke Energy

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common stock on the dates of grant. A total of 1,348,608 stock options will vest in three equal annual installments on the first, second and third anniversaries of the dates of grant (in each case subject to continued employment through the applicable vesting date). The Company issued 184,704 stock options that will vest in three equal annual installments beginning September 1, 2013. All awards vest immediately upon a change in control as defined by the SunCoke LTPEP.

The Company calculates the value of each employee stock option, estimated on the date of grant, using the Black-Scholes option pricing model. The weighted-average fair value of employee stock options granted during the year ended December 31, 2011 was \$6.93 using the following weighted-average assumptions:

	Year Ended December 31 2011
Risk Free Interest Rate	1.54%
Expected Term	5 years
Volatility	44%
Dividend Yield	%
Weighted-Average Exercise Price	\$ 17.25

The Company uses the average implied volatility of a peer group (comprised of related industries, including steel suppliers, industrial gas and coal) coupled with the implied volatility of the S&P 500. Since the Company does not have a stand-alone trading history or a direct peer group it believes this approach provides a reasonable implied volatility.

The risk-free interest rate assumption is based on the U.S. Treasury yield curve at the date of grant for periods which approximates the expected life of the option. The dividend yield assumption is based on the Company's future expectation of dividend payouts. The expected life of employee options represents the average contractual term adjusted by the average vesting period of each option tranche. The Company estimated a zero forfeiture rate in calculating fair value. This estimated forfeiture rate may be revised in subsequent periods if the actual forfeiture rate differs.

The following table summarizes information with respect to common stock option awards:

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at December 31, 2010			
Granted	1,533,312	\$ 17.25	
Exercised			
Forfeited	(79,293)	\$ 17.25	
Outstanding at December 31, 2011	1,454,019	\$ 17.25	\$
Exercisable at December 31, 2011			
Expected to vest at December 31, 2011	1,454,019	\$ 17.25	\$

Intrinsic value for stock options is defined as the difference between the current market value of our common stock and the exercise price of the stock options.

The Company recognized \$1.4 million, \$0.9 million net of tax, in compensation expense during the year ended December 31, 2011 related to stock options. As of December 31, 2011, there was \$8.6 million of total unrecognized compensation cost related to nonvested stock options. This compensation cost is expected to be recognized over the next 2.7 years. The weighted average remaining contractual term is 9.5 years.

Table of Contents*Restricted Stock Units*

During the year ended December 31, 2011, the Company issued a total of 288,898 restricted stock units (RSU) to certain employees for shares of the Company's common stock. A total of 146,545 RSUs will vest as follows: (1) 50% of each RSU award generally will vest in three equal annual installments, on the first, second and third anniversaries of the date of grant and (2) the remaining 50% of each RSU award will vest on the fourth anniversary of the date of grant (in each case subject to continued employment through the applicable vesting date). The Company issued 112,941 RSUs that will vest in three equal annual installments beginning on September 1, 2013. The Company also issued 29,412 RSUs that vest in 12 months. All awards vest immediately upon a change in control as defined by the SunCoke LTPEP.

The following table summarizes information with respect to RSUs:

	Number of RSUs	Weighted Average Grant- Date Fair Value
Nonvested at December 31, 2010		
Granted	288,898	\$ 17.19
Vested		
Forfeited	(13,542)	\$ 17.19
Nonvested at December 31, 2011		
	275,356	\$ 17.19

The Company recognized \$0.7 million, \$0.4 million net of tax, in compensation expense during the year ended December 31, 2011 related to RSUs. As of December 31, 2011, there was \$4.0 million of total unrecognized compensation cost related to nonvested RSUs. This compensation cost is expected to be recognized over the next 2.8 years.

In connection with the Distribution, certain Sunoco common stock awards and stock options that were held by Sunoco employees, Sunoco directors and SunCoke Energy employees were modified. In general, all Sunoco stock options held by Sunoco employees and Sunoco directors were converted into both Sunoco and SunCoke Energy stock options. Sunoco stock options held by SunCoke Energy employees were converted to SunCoke Energy stock options. All SunCoke Energy common stock issued as a result of option exercises or the vesting of common stock awards will be issued under the SunCoke LTPEP. The converted stock options for Sunoco employees and directors are fully vested and exercisable and any expense associated with the modification of these stock options will be recognized by Sunoco. At the Distribution Date, there were approximately 1.2 million SunCoke Energy stock options issued in connection with the conversion of the outstanding Sunoco stock options. The exercise price for these stock options ranges from \$4.77 and \$29.35.

Outstanding Sunoco common stock units were effectively split into two components representing the Sunoco common stock units and SunCoke Energy common stock units. The conversion of common stock units held by Sunoco employees had no impact on SunCoke Energy as these units were not converted into SunCoke Energy awards. All common stock units held by SunCoke Energy employees were converted into SunCoke Energy common stock units, which vest over the remaining term of the original award. SunCoke Energy is currently evaluating the accounting impact of these modifications on its future stock-based compensation expense.

21. Earnings per Share

The weighted average number of common shares outstanding for all periods presented includes 70.0 million shares of common stock owned by Sunoco on the Separation Date as a result of its contribution of the assets of its cokemaking and coal mining operations to SunCoke Energy and related capitalization.

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The following table sets forth the reconciliation of the weighted-average number of common shares used to compute basic earnings per share (EPS) to those used to compute diluted EPS:

	Year Ended December 31		
	2011	2010	2009
	(Shares in millions)		
Weighted-average number of common shares outstanding-basic	70.0	70.0	70.0
Add: effect of dilutive share-based compensation awards			
Weighted-average number of shares-diluted	70.0	70.0	70.0

For the year ended December 31, 2011, diluted earnings per share is calculated to give effect to share-based compensation awards granted using the treasury stock method. In 2011, the potential dilutive effect of share-based compensation awards was excluded from the computation of diluted earnings per share as the shares would have had an antidilutive effect.

22. Noncontrolling Interests

On February 19, 1998, the Company transferred an interest in its Indiana Harbor cokemaking operations to a third-party investor for \$200.0 million in cash. On July 30, 2002, the Company transferred an additional interest in Indiana Harbor for \$200.0 million and sold a portion of its interest in Indiana Harbor for \$15.0 million in cash to another third-party investor. The Company did not recognize any gain at the dates of these transactions because the third-party investors were entitled to a preferential return on their investments. The returns of the investors were equal to 98 percent of the cash flows and tax benefits from such cokemaking operations during the preferential return period, which continued until the fourth quarter of 2007 (at which time both investors had recovered their investment and achieved a cumulative annual after-tax return of approximately 10 percent).

During the third quarter of 2011, the Company purchased an additional 19% ownership interest in the partnership that owns the Indiana Harbor cokemaking facility, which decreased equity attributable to SunCoke Energy by \$7.8 million, net of \$4.1 million in deferred taxes, for the year end December 31, 2011. The remaining investor is entitled to a noncontrolling interest amounting to 15 percent of the partnership's net income through 2037, at which time the noncontrolling interest percentage declines to 5 percent.

23. Supplemental Cash Flow Information

Net cash provided by operating activities reflected cash payments for interest and income taxes as follows:

	2011	2010	2009
	(Dollars in millions)		
Interest paid	\$ 2.8	\$	\$
Income taxes paid	\$ 7.3	\$ 32.4	\$ 6.1

24. Fair Value Measurements

The Company measures certain financial and non-financial assets and liabilities at fair value on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. Fair value disclosures are reflected in a three-level hierarchy, maximizing the use of observable inputs and minimizing the use of unobservable inputs.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date. The three levels are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for an identical asset or liability in an active market.

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Level 2 inputs to the valuation methodology include quoted prices for a similar asset or liability in an active market or model-derived valuations in which all significant inputs are observable for substantially the full term of the asset or liability.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement of the asset or liability.

Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis

Certain assets and liabilities are measured at fair value on a recurring basis. The Company's cash equivalents, which amounted to \$37.8 million at December 31, 2010 were measured at fair value based on quoted prices in active markets for identical assets. These inputs are classified as Level 1 within the valuation hierarchy. There were no cash equivalents at December 31, 2011.

The Company utilizes interest rate swaps to manage the risk associated with changing interest rates and accounts for them under ASC 815 *Derivatives and Hedging*, which requires all derivatives to be marked to market (fair value). The Company does not purchase or hold any derivatives for trading purposes. On August 15, 2011, the Company entered into interest rate swap agreements with an aggregate notional amount of \$125.0 million. These agreements expire three years from the forward effective date of October 11, 2011. Under the interest rate swap agreements, the Company will pay a weighted average fixed rate of 1.322 percent in exchange for receiving floating rate payments based on the greater of 1.0 percent or three-month LIBOR. The Company did not elect hedge accounting treatment for these interest rate swaps and, therefore, the changes in the fair value of the interest rate swap agreements are recorded in interest expense. The counterparties of the interest rate swap agreements are large financial institutions which the Company believes are of high quality creditworthiness. While the Company may be exposed to potential losses due to the credit risk of nonperformance by these counterparties, such losses are not anticipated.

The fair value of the swap agreement at December 31, 2011 was a liability of approximately \$0.5 million. The mark to market impact of the swap arrangement on interest expense was an increase of approximately \$0.5 million in the year ended December 31, 2011. In estimating the fair market value of interest rate swaps, the Company utilized a present value technique which discounts future cash flows against the underlying floating rate benchmark. Derivative valuations incorporate credit risk adjustments that are necessary to reflect the probability of default by the counterparty. These inputs are not observable in the market and are classified as Level 3 within the valuation hierarchy.

Non-Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis

Contingent consideration related to the HKCC acquisition (Note 4) is measured at fair value and amounted to \$9.0 million at December 31, 2011. The estimated fair value is based on significant inputs that are not observable in the market, or Level 3 within the valuation hierarchy. Key assumptions at December 31, 2011 include (a) a risk-adjusted discount rate range of 2.400 percent to 8.665 percent, which reflects a credit spread adjustment for each period, and (b) production levels of HKCC operations between 300 thousand and 475 thousand tons per year. The fair value adjustments to contingent consideration decreased cost of products sold by \$1.9 million in the year ended December 31, 2011.

Non-Financial Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (e.g., when there is evidence of impairment). At December 31, 2011, no material fair value adjustments or fair value measurements were required for these non-financial assets or liabilities.

Table of Contents**Certain Financial Assets and Liabilities not Measured at Fair Value**

At December 31, 2011, the estimated fair value of the Company's long-term debt was estimated to be \$722.0 million, compared to a carrying amount of \$726.4 million. The fair value was estimated by management based upon estimates of debt pricing provided by financial institutions and are considered Level 3 inputs. As of December 31, 2011, the carrying value of the debt is \$726.4 million, which is net of mandatory pre-payments made since issuance.

At December 31, 2010, the estimated fair value of the Company's receivables from affiliate was \$338.4 million, compared to a carrying amount of \$289.0 million on that date. The fair value of these receivables from affiliate was estimated based upon the market interest rates applicable to Sunoco at December 31, 2010 for similar terms.

25. Business Segment Information

The Company is an independent owner and operator of five metallurgical cokemaking facilities in the eastern and midwestern regions of the United States and operator of a cokemaking facility for a project company in Brazil in which it has a preferred stock investment. In addition to its cokemaking operations, the Company has metallurgical coal mining operations in the eastern United States. The Company's cokemaking operations are reported as three segments: Jewell Coke, Other Domestic Coke and International Coke. See Note 7 for further information regarding customer concentration.

The Jewell Coke segment consists of the operations of the Company's cokemaking facilities in Vansant, VA. The Indiana Harbor cokemaking facility located in East Chicago, IN, the Haverhill cokemaking facility, located in Franklin Furnace, OH, the Granite City cokemaking facility, located in Granite City, IL, and the Middletown cokemaking facility, located in Middletown, OH are individual operating segments that have been aggregated into the Other Domestic Coke segment. Each of these facilities produces metallurgical coke and recovers waste heat which is converted to steam or electricity through a similar production process. The coke production for these facilities is sold directly to integrated steel producers under contracts which provide for the pass-through of coal costs subject to contractual coal-to-coke yields plus an operating cost component and fixed fee component received for each ton of coke sold. Accordingly, the Company's management believes that the facilities in the Other Domestic Coke segment have similar long-term economic characteristics. The Middletown cokemaking facility commenced operations in October 2011 and beginning in the fourth quarter of 2011 is included in the Other Domestic Coke segment results. Prior to the commencement of operations, all costs associated with Middletown were included in Corporate and Other.

The International Coke segment operates a cokemaking facility located in Vitória, Brazil for a project company. The International Coke segment also earns income from a dividend on its preferred stock investment assuming that certain minimum production levels are achieved at the plant.

The Company's Coal Mining segment conducts coal mining operations near the Company's Jewell cokemaking facility, centered in Vansant, VA with mines located in Virginia and West Virginia. Currently, a substantial portion of the coal production is sold to the Jewell Coke segment for conversion into metallurgical coke. Some coal is also sold to the Other Domestic Coke facilities and third-parties. Intersegment coal revenues for sales to the Jewell Coke and Other Domestic Coke segments are based on the prices that the coke customers of the Other Domestic Coke segment have agreed to pay for the internally produced coal, which approximate the market prices for this quality of metallurgical coal. In January 2011, the Company acquired the HKCC Companies (Note 4), and the results of operations from the date of acquisition forward are included in the Coal Mining segment.

Overhead expenses that can be identified with a segment have been included in determining segment results. The remainder is included in Corporate and Other. Total financing (expense) income, net, which consists principally of interest income, interest expense and interest capitalized, is also excluded from segment results. Identifiable assets are those assets that are utilized within a specific segment.

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During 2011, the Company changed its measure of segment profit or loss from operating income to Adjusted EBITDA. The following table includes Adjusted EBITDA, which is the measure of segment profit or loss reported to the chief operating decision maker for purposes of allocating resources to the segments and assessing their performance:

	Year Ended December 31, 2011					Combined
	(Dollars in millions)					
	Jewell Coke	Other Domestic Coke	International Coke	Coal Mining	Corporate and Other	
Sales and other operating revenue	\$ 257.6	\$ 1,187.5	\$ 38.0	\$ 44.5	\$	\$ 1,527.6
Intersegment sales	\$	\$	\$	\$ 172.1	\$	\$
Adjusted EBITDA	\$ 57.6	\$ 89.4	\$ 13.7	\$ 24.0	\$ (44.2)	\$ 140.5
Depreciation, depletion and amortization	\$ 4.9	\$ 38.7	\$ 0.2	\$ 12.9	\$ 1.7	\$ 58.4
Capital expenditures	\$ 1.2	\$ 197.0 ⁽¹⁾	\$ 0.6	\$ 30.7	\$ 8.6	\$ 238.1
Identifiable assets	\$ 81.6	\$ 1,440.8	\$ 62.7	\$ 182.1	\$ 174.6	\$ 1,941.8

(1) Includes \$169.4 million attributable to the Middletown facility.

	Year Ended December 31, 2010					Combined
	(Dollars in millions)					
	Jewell Coke	Other Domestic Coke	International Coke	Coal Mining	Corporate and Other	
Sales and other operating revenue	\$ 298.0	\$ 979.5	\$ 38.4	\$ 0.6	\$	\$ 1,316.5
Intersegment sales	\$ 5.8	\$	\$	\$ 132.3	\$	\$
Adjusted EBITDA	\$ 151.5	\$ 78.5	\$ 15.0	\$ (3.6)	\$ (14.1)	\$ 227.3
Depreciation, depletion and amortization	\$ 4.4	\$ 35.0	\$ 0.1	\$ 7.7	\$ 1.0	\$ 48.2
Capital expenditures	\$ 1.8	\$ 23.0	\$ 0.8	\$ 18.4	\$ 171.6 ⁽¹⁾	\$ 215.6
Identifiable assets	\$ 80.9	\$ 962.6	\$ 59.7	\$ 76.7	\$ 538.5 ⁽²⁾	\$ 1,718.4

(1) Includes \$169.7 million attributable to the Middletown facility.

(2) Includes receivables from affiliate totaling \$289.0 million and Middletown facility construction-in-progress totaling \$242.2 million.

	Year Ended December 31, 2009					Combined
	(Dollars in millions)					
	Jewell Coke	Other Domestic Coke	International Coke	Coal Mining	Corporate and Other	
Sales and other operating revenue	\$ 324.6	\$ 756.0	\$ 40.4	\$ 3.0	\$	\$ 1,124.0
Intersegment sales	\$	\$	\$	\$ 119.5	\$	\$
Adjusted EBITDA	\$ 182.3	\$ 22.7	\$ 23.3 ⁽¹⁾	\$ 11.0	\$ (9.1)	\$ 230.2
Depreciation, depletion and amortization	\$ 4.5	\$ 21.5	\$ 0.1	\$ 5.8	\$ 0.4	\$ 32.3
Capital expenditures	\$ 1.2	\$ 170.3	\$ 0.1	\$ 17.6	\$ 26.0 ⁽²⁾	\$ 215.2
Identifiable assets	\$ 82.7	\$ 972.0	\$ 59.2	\$ 67.6	\$ 365.2 ⁽³⁾	\$ 1,546.7

(1) Includes dividend income of \$19.0 million attributable to 2008 and 2009 operations.

(2) Includes \$25.4 million attributable to the Middletown facility.

(3) Includes receivables from affiliate totaling \$289.0 million and Middletown facility construction-in-progress totaling \$72.5 million.

The Company evaluates the performance of its segments based on segment Adjusted EBITDA, which is defined as earnings before interest, taxes, depreciation, depletion and amortization (EBITDA) adjusted for sales discounts and the deduction of income attributable to

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noncontrolling interests in our Indiana Harbor cokemaking operations. The Company's presentation of Adjusted EBITDA may not be comparable to similarly-titled measures used by other companies. Below is a reconciliation of Adjusted EBITDA to net income.

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	Year Ended December 31		
	2011	2010	2009
	(Dollars in millions)		
Adjusted EBITDA	\$ 140.5	\$ 227.3	\$ 230.2
Subtract: Depreciation, depletion and amortization	58.4	48.2	32.3
Subtract (Add): Financing expense (income), net	1.4	(19.0)	(20.3)
Subtract: Income tax expense	7.2	46.9	20.7
Subtract: Sales discount provided to customers due to sharing of nonconventional fuels tax credits	12.9	12.0	7.8
Subtract (Add): Net loss (income) attributable to non controlling interest	1.7	(7.1)	(21.5)
Net income	\$ 58.9	\$ 146.3	\$ 211.2

The following table sets forth the Company's total sales and other operating revenue by product or service:

	Year Ended December 31		
	2011	2010	2009
	(Dollars in millions)		
Metallurgical coke sales	\$ 1,397.7	\$ 1,237.2	\$ 1,062.2
Steam and electricity sales	47.7	40.4	18.4
Operating and licensing fees	38.0	38.4	40.4
Metallurgical coal sales	44.2	0.2	2.5
Other		0.3	0.5
	\$ 1,527.6	\$ 1,316.5	\$ 1,124.0

26. Selected Quarterly Data (unaudited)

	2011				2010			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Dollars in millions)							
Sales and other operating revenue	\$ 333.0	\$ 377.6	\$ 403.1	\$ 413.9 ⁽¹⁾	\$ 328.2	\$ 350.3	\$ 330.6	\$ 307.4
Gross profit ⁽²⁾	\$ 20.0	\$ 43.8	\$ 55.6	\$ 25.4 ⁽³⁾	\$ 65.3	\$ 72.4	\$ 62.1	\$ 31.6
Net income	\$ 5.7	\$ 24.1	\$ 21.6	\$ 7.5	\$ 42.6	\$ 47.6	\$ 41.0	\$ 15.1
Net income attributable to SunCoke Energy, Inc. / net parent investment	\$ 11.9	\$ 22.5	\$ 18.2	\$ 8.0	\$ 38.9	\$ 44.3	\$ 37.5	\$ 18.5
Earnings attributable to SunCoke Energy, Inc. / net parent investment per share of common stock:								
Basic	\$ 0.17	\$ 0.32	\$ 0.26	\$ 0.12	\$ 0.56	\$ 0.63	\$ 0.53	\$ 0.26
Diluted	\$ 0.17	\$ 0.32	\$ 0.26	\$ 0.12	\$ 0.56	\$ 0.63	\$ 0.53	\$ 0.26

- (1) In the fourth quarter of 2011, we recorded approximately \$7.0 million related to the resolution of certain contract and billing issues with our customer at our Indiana Harbor facility. The resolution of this matter is not anticipated to have a material impact in 2012.
- (2) Gross profit equals sales and other operating revenue less cost of products sold, operating expenses, loss on firm purchase commitments and depreciation, depletion and amortization.
- (3) During the fourth quarter of 2011, an out-of-period adjustment of approximately \$3.9 million was recorded to correct the costs of products sold for our Indiana Harbor facility related to the third quarter of 2011. Management believes the amount was not material individually or

in the aggregate to current or prior interim periods. The adjustment had no impact on the full year fiscal 2011 financial results.

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27. Supplemental Condensed Consolidating Financial Information

Certain wholly owned subsidiaries of the Company serve as guarantors of the obligations under the \$300 million Term Loan and \$400 million Notes (Guarantor Subsidiaries). These guarantees are full and unconditional and joint and several. For purposes of the following footnote, SunCoke Energy, Inc. is referred to as Issuer. The indenture dated July 26, 2011 among the Company, the guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., governs subsidiaries designated as Guarantor Subsidiaries. All other consolidated subsidiaries of the Company are collectively referred to as Non-Guarantor Subsidiaries. Prior to the Separation Date, the Company was a wholly-owned subsidiary of Sunoco. Therefore, there is no parent entity for purposes of this footnote for periods prior to the Separation Date.

The following supplemental condensed combining and consolidating financial information reflects the Issuer s separate accounts, the combined accounts of the Guarantor Subsidiaries, the combined accounts of the Non-Guarantor Subsidiaries, the combining and consolidating adjustments and eliminations and the Issuer s combined and consolidated accounts for the dates and periods indicated. For purposes of the following condensed combining and consolidating information, the Issuer s investments in its subsidiaries and the Guarantor and Non-Guarantor Subsidiaries investments in its subsidiaries are accounted for under the equity method of accounting.

Table of Contents**SunCoke Energy, Inc.****Condensed Combining and Consolidating Statement of Income****Year Ended December 31, 2011****(in millions)**

	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Combining and Consolidating Adjustments	Total
Revenues					
Sales and other operating revenue	\$	\$ 1,023.4	\$ 504.2	\$	\$ 1,527.6
Equity in earnings (loss) of subsidiaries	34.9	(19.4)		(15.5)	
Other income, net		2.0	9.3		11.3
Total revenues	34.9	1,006.0	513.5	(15.5)	1,538.9
Costs and operating expenses					
Cost of products sold and operating expenses		815.1	490.7		1,305.8
Loss on firm purchase commitment			18.5		18.5
Selling, general and administrative expenses	2.6	78.0	8.1		88.7
Depreciation, depletion, and amortization		51.1	7.3		58.4
Total costs and operating expenses	2.6	944.2	524.6		1,471.4
Operating income (loss)	32.3	61.8	(11.1)	(15.5)	67.5
Interest income affiliate		7.6	8.2	(3.3)	12.5
Interest income		3.4	(3.0)		0.4
Interest cost affiliate		(3.5)	(3.3)	3.3	(3.5)
Interest cost	(20.6)				(20.6)
Capitalized interest		9.8			9.8
Total financing (loss) income, net	(20.6)	17.3	1.9		(1.4)
Income (loss) before income tax expense	11.7	79.1	(9.2)	(15.5)	66.1
Income tax (benefit) expense	(8.3)	6.8	8.7		7.2
Net income (loss)	20.0	72.3	(17.9)	(15.5)	58.9
Less: Net loss attributable to noncontrolling interests			(1.7)		(1.7)
Net income (loss) attributable to SunCoke Energy, Inc./net parent investment	\$ 20.0	\$ 72.3	\$ (16.2)	(15.5)	\$ 60.6

Table of Contents**SunCoke****Condensed Combining and Consolidating Statement of Income****Year Ended December 31, 2010****(in millions)**

	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Combining and Consolidating Adjustments	Total
Revenues				
Sales and other operating revenue	\$ 874.7	\$ 447.6	\$ (5.8)	\$ 1,316.5
Equity in earnings of subsidiaries	22.5		(22.5)	
Other income, net	1.3	8.7		10.0
Total revenues	898.5	456.3	(28.3)	1,326.5
Costs and operating expenses				
Cost of products sold and operating expenses	628.6	414.1	(5.8)	1,036.9
Selling, general and administrative expenses	50.0	17.2		67.2
Depreciation, depletion, and amortization	41.0	7.2		48.2
Total costs and operating expenses	719.6	438.5	(5.8)	1,152.3
Operating income	178.9	17.8	(22.5)	174.2
Interest income affiliate	8.7	15.0		23.7
Interest income				
Interest cost affiliate	(5.4)			(5.4)
Capitalized interest	0.7			0.7
Total financing income, net	4.0	15.0		19.0
Income before income tax expense	182.9	32.8	(22.5)	193.2
Income tax expense	43.1	3.8		46.9
Net income	139.8	29.0	(22.5)	146.3
Less: Net income attributable to noncontrolling interests		7.1		7.1
Net income attributable to net parent investment	\$ 139.8	\$ 21.9	\$ (22.5)	\$ 139.2

Table of Contents**SunCoke****Condensed Combining and Consolidating Statement of Income****Year Ended December 31, 2009****(in millions)**

	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Combining and Consolidating Adjustments	Total
Revenues				
Sales and other operating revenue	\$ 661.6	\$ 463.4	\$ (1.0)	\$ 1,124.0
Equity in earnings of subsidiaries	53.4		(53.4)	
Other income, net	1.3	19.7		21.0
Total revenues	716.3	483.1	(54.4)	1,145.0
Costs and operating expenses				
Cost of products sold and operating expenses	461.4	400.5	(1.0)	860.9
Selling, general and administrative expenses	30.2	10.0		40.2
Depreciation, depletion, and amortization	25.4	6.9		32.3
Total costs and operating expenses	517.0	417.4	(1.0)	933.4
Operating income	199.3	65.7	(53.4)	211.6
Interest income affiliate	9.0	15.1		24.1
Interest income	0.4			0.4
Interest cost affiliate	(5.7)			(5.7)
Capitalized interest	1.5			1.5
Total financing income, net	5.2	15.1		20.3
Income before income tax expense	204.5	80.8	(53.4)	231.9
Income tax expense	14.4	6.3		20.7
Net income	190.1	74.5	(53.4)	211.2
Less: Net income attributable to noncontrolling interests		21.6		21.6
Net income attributable to net parent investment	\$ 190.1	\$ 52.9	\$ (53.4)	\$ 189.6

Table of Contents**SunCoke Energy, Inc.****Condensed Consolidating Balance Sheet****December 31, 2011****(dollars in millions, except per share amounts)**

	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Combining and Consolidating Adjustments	Total
Assets					
Cash and cash equivalents	\$	\$ 109.4	\$ 18.1	\$	\$ 127.5
Accounts receivable		49.1	17.1		66.2
Inventories		155.7	64.0		219.7
Deferred income taxes		0.6			0.6
Advances from affiliate	128.5	30.3		(158.8)	
Interest receivable from affiliate		7.3		(7.3)	
Total current assets	128.5	352.4	99.2	(166.1)	414.0
Notes receivable from affiliate		89.0	300.0	(389.0)	
Investment in Brazilian cokemaking operations			41.0		41.0
Properties, plants and equipment, net		1,281.6	110.2		1,391.8
Lease and mineral rights, net		53.2			53.2
Goodwill		9.4			9.4
Deferred charges and other assets	18.5	10.7	3.2		32.4
Investment in subsidiaries	1,120.5	41.9		(1,162.4)	
Total assets	\$ 1,267.5	\$ 1,838.2	\$ 553.6	\$ (1,717.5)	\$ 1,941.8
Liabilities and Equity					
Advances from affiliate	\$	\$ 128.5	\$ 30.3	\$ (158.8)	\$
Accounts payable		147.9	34.0		181.9
Current portion of long term debt	3.3				3.3
Accrued liabilities	16.5	57.9	11.3		85.7
Interest payable to affiliate			7.3	(7.3)	
Taxes payable		7.0	3.6		10.6
Total current liabilities	19.8	341.3	86.5	(166.1)	281.5
Long term debt	723.1				723.1
Payable to affiliate		300.0	89.0	(389.0)	
Accrual for black lung benefits		33.5			33.5
Retirement benefit liabilities		50.6			50.6
Deferred income taxes	(1.0)	265.3	(3.2)		261.1
Asset retirement obligations		10.4	2.1		12.5
Other deferred credits and liabilities	0.1	16.2	3.3		19.6
Commitments and contingent liabilities					
Total liabilities	742.0	1,017.3	177.7	(555.1)	1,381.9
Equity					
Preferred stock, \$0.01 par value. Authorized 50,000,000 shares; no issued and outstanding shares at December 31, 2011 and 2010					
Common stock, \$0.01 par value. Authorized 300,000,000 shares; issued and outstanding 70,012,702 shares at December 31, 2011 and no shares	0.7				0.7

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outstanding at December 31, 2010

Additional paid-in capital	504.8	807.0	344.2	(1,144.7)	511.3
Accumulated other comprehensive income		(6.2)	(0.3)		(6.5)
Retained earnings	20.0	20.1	(2.4)	(17.7)	20.0
Total SunCoke Energy, Inc. stockholders' equity	525.5	820.9	341.5	(1,162.4)	525.5
Noncontrolling interests			34.4		34.4
Total equity	525.5	820.9	375.9	(1,162.4)	559.9
Total liabilities and equity	\$ 1,267.5	\$ 1,838.2	\$ 553.6	\$ (1,717.5)	\$ 1,941.8

Table of Contents**SunCoke****Condensed Combining and Consolidating Balance Sheet****December 31, 2010****(in millions)**

	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Combining and Consolidating Adjustments	Total
Assets				
Cash and cash equivalents	\$	\$ 40.1	\$	\$ 40.1
Accounts receivable	32.0	12.6		44.6
Inventories	69.7	36.9		106.6
Deferred income taxes	1.1			1.1
Total current assets	102.8	89.6		192.4
Notes receivable from affiliate	89.0	200.0		289.0
Investment in Brazilian cokemaking operations		41.0		41.0
Properties, plants and equipment, net	1,063.9	116.3		1,180.2
Deferred charges and other assets	12.8	3.0		15.8
Investment in subsidiaries	232.5		(232.5)	
Total assets	\$ 1,501.0	\$ 449.9	\$ (232.5)	\$ 1,718.4
Liabilities and Equity				
Advances from affiliate	\$ 777.7	\$ 112.5	\$ (1.7)	\$ 888.5
Accounts payable	84.4	22.0		106.4
Accrued liabilities	38.4	14.7		53.1
Taxes payable	3.1	4.6		7.7
Total current liabilities	903.6	153.8	(1.7)	1,055.7
Payable to affiliate	53.9	1.9		55.8
Accrual for black lung benefits	26.6			26.6
Retirement benefit liabilities	42.9			42.9
Deferred income taxes	86.1	(0.2)		85.9
Asset retirement obligations	9.1	1.9		11.0
Other deferred credits and liabilities	11.2			11.2
Commitments and contingent liabilities				
Total liabilities	1,133.4	157.4	(1.7)	1,289.1
Equity				
Net parent investment	366.7	233.6	(230.8)	369.5
Noncontrolling interests	0.9	58.9		59.8
Total equity	367.6	292.5	(230.8)	429.3
Total liabilities and equity	\$ 1,501.0	\$ 449.9	\$ (232.5)	\$ 1,718.4

Table of Contents**SunCoke Energy, Inc.****Condensed Combining and Consolidating Statement of Cash Flows****Year Ended December 31, 2011****(in millions)**

	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Combining and Consolidating Adjustments	Total
Cash Flows from Operating Activities:					
Net income (loss)	\$ 20.0	\$ 72.3	\$ (17.9)	\$ (15.5)	\$ 58.9
Adjustments to reconcile net income (loss) to net cash provided (used in) by operating activities:					
Loss on firm purchase commitment			18.5		18.5
Depreciation, depletion and amortization		51.1	7.3		58.4
Deferred income tax (benefit) expense	(1.0)	44.1	(19.1)		24.0
Payments in excess of expense for retirement plans		5.8			5.8
Equity in earnings of subsidiaries	(34.9)	19.4		15.5	
Changes in working capital pertaining to operating activities:					
Accounts receivable		(13.8)	(4.5)		(18.3)
Inventories		(82.9)	(27.2)		(110.1)
Accounts payable and accrued liabilities	16.5	77.9	(10.2)		84.2
Taxes payable		(44.6)	27.7		(16.9)
Other	(4.4)	(13.1)	14.3		(3.2)
Net cash provided by (used in) operating activities	(3.8)	116.2	(11.1)		101.3
Cash Flows from Investing Activities:					
Capital expenditures		(236.9)	(1.2)		(238.1)
Acquisition of business		(37.6)			(37.6)
Proceeds from sales of assets					
Net cash used in investing activities		(274.5)	(1.2)		(275.7)
Cash Flows from Financing Activities:					
Proceeds from issuance of long-term debt	727.9				727.9
Debt issuance costs	(19.1)				(19.1)
Repayment of long-term debt	(1.6)				(1.6)
Purchase of noncontrolling interest in Indiana Harbor facility		(34.0)			(34.0)
Net (decrease) increase in advances from affiliate	(703.4)	296.8	(6.2)		(412.8)
Repayments of notes payable assumed in acquisition		(2.3)			(2.3)
Increase in payable to affiliate		7.2	(1.9)		5.3
Cash distributions to noncontrolling interests in cokemaking operations			(1.6)		(1.6)
Net cash provided by (used in) financing activities	3.8	267.7	(9.7)		261.8
Net increase (decrease) in cash and cash equivalents		109.4	(22.0)		87.4
Cash and cash equivalents at beginning of year			40.1		40.1

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Cash and cash equivalents at end of year	\$	\$ 109.4	\$ 18.1	\$	\$ 127.5
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Table of Contents**SunCoke****Condensed Combining and Consolidating Statement of Cash Flows****Year Ended December 31, 2010****(in millions)**

	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Combining and Consolidating Adjustments	Total
Cash Flows from Operating Activities:				
Net income	\$ 139.8	\$ 29.0	\$ (22.5)	\$ 146.3
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation, depletion and amortization	41.0	7.2		48.2
Deferred income tax expense	15.4			15.4
Payments in excess of expense for retirement plans	(6.0)			(6.0)
Equity in earnings of subsidiaries	(22.5)		22.5	
Changes in working capital pertaining to operating activities:				
Accounts receivable	(5.9)	40.6		34.7
Inventories	(0.5)	0.5		
Accounts payable and accrued liabilities	38.5	15.7		54.2
Taxes payable	1.7	0.2		1.9
Other	3.0	(1.1)		1.9
Net cash provided by operating activities	204.5	92.1		296.6
Cash Flows from Investing Activities:				
Capital expenditures	(214.0)	(1.6)		(215.6)
Proceeds from sales of assets	1.7			1.7
Net cash used in investing activities	(212.3)	(1.6)		(213.9)
Cash Flows from Financing Activities:				
Net decrease in advances from affiliate	(23.3)	(32.9)		(56.2)
Contribution from parent	1.0			1.0
Increase in payable to affiliate	30.1	0.7		30.8
Cash distributions to noncontrolling interests in cokemaking operations		(20.9)		(20.9)
Net cash provided by (used in) financing activities	7.8	(53.1)		(45.3)
Net increase in cash and cash equivalents		37.4		37.4
Cash and cash equivalents at beginning of year		2.7		2.7
Cash and cash equivalents at end of year	\$	\$ 40.1	\$	\$ 40.1

Table of Contents**SunCoke****Condensed Combining and Consolidating Statement of Cash Flows****Year Ended December 31, 2009****(in millions)**

	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Combining and Consolidating Adjustments	Total
Cash Flows from Operating Activities:				
Net income	\$ 190.1	\$ 74.5	\$ (53.4)	\$ 211.2
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation, depletion and amortization	25.4	6.9		32.3
Deferred income tax expense	14.6	0.6		15.2
Payments less than expense for retirement plans	3.3			3.3
Equity in earnings of subsidiaries	(53.4)		53.4	
Changes in working capital pertaining to operating activities:				
Accounts receivable	8.4	(47.0)		(38.6)
Inventories	(25.5)	(1.6)		(27.1)
Accounts payable and accrued liabilities	0.3	(8.6)		(8.3)
Taxes payable	0.2	(0.4)		(0.2)
Other	1.5	(2.1)		(0.6)
Net cash provided by operating activities	164.9	22.3		187.2
Cash Flows from Investing Activities:				
Capital expenditures	(213.4)	(1.8)		(215.2)
Proceeds from sales of assets	0.1			0.1
Net cash used in investing activities	(213.3)	(1.8)		(215.1)
Cash Flows from Financing Activities:				
Net increase in advances from affiliate	48.4	(22.9)		25.5
Increase in payable to affiliate		0.7		0.7
Cash distributions to noncontrolling interests in cokemaking operations		(18.6)		(18.6)
Net cash provided by (used in) financing activities	48.4	(40.8)		7.6
Net decrease in cash and cash equivalents		(20.3)		(20.3)
Cash and cash equivalents at beginning of year		23.0		23.0
Cash and cash equivalents at end of year	\$	\$ 2.7	\$	\$ 2.7

Table of Contents**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

Item 9A. Controls and Procedures***Management's Evaluation of Disclosure Controls and Procedures***

As required by Rule 13a-15(b) of the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Annual Report on Form 10-K. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2011.

Identification of Material Weakness

In its Annual Report on Form 10-K for the year ended December 31, 2010, Sunoco reported that its internal control over financial reporting was not effective as a result of a material weakness in internal control over financial reporting related to its accounting for income taxes. Sunoco's management identified the following control deficiencies that, in the aggregate, represented a material weakness in the design and operation of its internal controls over the computation of the income tax provision and determination of the appropriate classification of income taxes payable and deferred income taxes: (1) Sunoco's management relied on spreadsheets that were extremely complex and difficult to prepare and review; (2) a lack of readily available data to facilitate the accounting for complex, non-routine transactions resulted in a reasonable possibility that adjustments to balances would not be detected on a timely basis; and (3) inexperience with Sunoco's income tax accounting processes, procedures and controls due to recent employee turnover resulted in insufficient review of the income tax accounts.

The amounts reflected in our financial statements for income tax expense and deferred income taxes have been prepared by us in conjunction with Sunoco's income tax department using processes similar to those used in the preparation of Sunoco's consolidated financial statements. We have established our own tax accounting processes, but utilized Sunoco's personnel and processes through the Distribution Date.

Remediation of Material Weakness

During 2011, Sunoco implemented remediation steps to address the material weakness discussed above and to improve its internal control over income tax accounting. Specifically, Sunoco has: (1) hired additional experienced tax personnel; (2) formalized and implemented tax organizational reporting structure changes which better integrate the tax accounting and compliance functions and facilitate an increase in the level of certain tax review activities during the financial close process; (3) utilized personnel from third-party professional services firms with expertise in accounting for income taxes to assist in the preparation and review of Sunoco's income tax provisions; (4) held training sessions covering accounting for income taxes and tax risk management; (5) updated process documentation to reflect improvements made for internal control compliance, including detailed tax checklists; (6) enhanced procedures and reviews of key tax accounts, non-routine transactions and supporting documentation; and (7) implemented and utilized a computer software package that facilitates the calculation, documentation and review of Sunoco's income tax provision.

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Sunoco's management believes that the measures described above remediated the material weakness identified and, that, as of December 31, 2011, Sunoco's internal control over financial reporting was effective.

Management's Report on Internal Control over Financial Reporting

This Annual Report on Form 10-K does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of our independent registered public accounting firm due to a transition period established by the rules of the SEC for newly public companies.

Changes in Internal Control over Financial Reporting

Other than the remediation steps discussed above, there was no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information on directors required by Item 401 of Regulation S-K appearing under the heading entitled Proposal 1- Election of Directors, the information required by Item 405 of Regulation S-K appearing under the section entitled Section 16(a) Beneficial Ownership Reporting Compliance under the heading Other Information, the information required by Item 406 of Regulation S-K appearing under the section entitled Code of Business Conduct and Ethics under the heading Corporate Governance, the information required by Items 407(d)(4) and 407(d)(5) of Regulation S-K in the heading entitled The Board of Directors and its Committees and under the section entitled Audit Committee Report in the heading entitled Audit Committee Matters, is in each case in our definitive Proxy Statement for our 2012 Annual Meeting of Stockholders (the Proxy Statement), which we anticipate will be filed with the SEC within 120 days after December 31, 2011, and are incorporated herein by reference.

Information concerning the Company's executive officers appears in Part I of this Annual Report on Form 10-K.

Item 11. Executive Compensation

The information required by Item 402 of Regulation S-K appearing under the heading Executive Compensation, including the sections entitled Compensation Discussion and Analysis, Summary Compensation Table, Grants of Plan-Based Awards Table, Outstanding Equity Awards at Fiscal Year-End Table, Option Exercises and Stock Vested Table, Pension Benefits, Nonqualified Deferred Compensation and Potential Payments Upon Termination or Change in Control and appearing under the heading Directors Compensation, and the information required by Items 407(e)(4) and 407(e)(5) of Regulation S-K appearing under the heading Executive Compensation, including the sections entitled Compensation Committee Report and Compensation Committee Interlocks and Insider Participation, is in each case in the Proxy Statement, and are incorporated herein by reference.

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

The information required by Item 403 of Regulation S-K appearing under the heading Beneficial Stock Ownership of Directors, Executive Officers and Persons Owning More Than Five Percent of Common Stock and the information required by Item 201(d) of Regulation S-K appearing under the section entitled Equity Compensation Plan Information, both under the heading Other Information, is in each case in the Proxy Statement, and are incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 404 of Regulation S-K appearing under the section entitled Transactions with Related Persons and the information required by Item 407(a) of Regulation S-K appearing under the section Director Independence, both under the heading Governance Matters, is in each case in the Proxy Statement, and are incorporated herein by reference.

Item 14. Principal Accountant Fees Services

The information required by Item 9(e) of Schedule 14A appearing under the heading Audit Committee Matters in the Proxy Statement is incorporated herein by reference.

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PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as a part of this report:

1. Combined and Consolidated Financial Statements:

The Combined and Consolidated Financial Statements are set forth under Item 8 of this report.

2. Financial Statements Schedules:

These schedules are omitted because the required information is shown elsewhere in this report, is not necessary or is not applicable.

3. Exhibits:

- 3.1 Amended and Restated Certificate of Incorporation of the Company (incorporated by reference herein to Exhibit 3.1 to the Company's Amendment No. 4 to Registration Statement on Form S-1 filed on July 6, 2011, File No. 333-35243)
- 3.2 Amended and Restated Bylaws of the Company (incorporated by reference herein to Exhibit 3.2 to the Company's Amendment No. 1 to Form S-1 filed on May 11, 2011, File No. 333-35243)
- 4.1 Indenture by and among the Company, the Guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., as Trustee, dated July 26, 2011 (incorporated by reference to the Company's Current Report on Form 8-K filed on August 1, 2011, File No. 333-35243)
- 4.2 Form of 7 ⁵/₈% Senior Notes due 2019 (included in Exhibit A to the Indenture filed as Exhibit 4.1)
- 4.3 Registration Rights Agreement, dated July 26, 2011, among SunCoke Energy, Inc., the guarantors party thereto and J.P. Morgan Securities LLC, acting as the representative of the initial purchasers (incorporated by reference herein to Exhibit 4.3 to the Company's Form 8-K filed on August 1, 2011, File No. 333-35243)
- 10.1 Separation and Distribution Agreement, dated as of July 18, 2011, between SunCoke Energy, Inc. and Sunoco, Inc. (incorporated by reference herein to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed on August 3, 2011, File No. 33-35243)
- 10.2 Transition Services Agreement, dated as of July 18, 2011, between SunCoke Energy, Inc. and Sunoco, Inc. (incorporated by reference herein to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed on August 3, 2011, File No. 33-35243)
- 10.3 Tax Sharing Agreement, dated as of July 18, 2011, between SunCoke Energy, Inc. and Sunoco, Inc. (incorporated by reference herein to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed on August 3, 2011, File No. 33-35243)
- 10.4 Guaranty, Keep Well, and Indemnification Agreement, dated as of July 18, 2011, between SunCoke Energy, Inc. and Sunoco, Inc. (incorporated by reference herein to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed on August 3, 2011, File No. 33-35243)
- 10.5* SunCoke Energy, Inc. Senior Executive Incentive Plan (Effective as of January 1, 2012) (incorporated by reference herein to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed on August 3, 2011, File No. 33-35243)

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10.6* SunCoke Energy, Inc. Long-Term Performance Enhancement Plan (Effective as of July 21, 2011) (incorporated by reference herein to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed on August 3, 2011, File No. 33-35243)

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10.7* SunCoke Energy, Inc. Special Executive Severance Plan (Effective as of July 27, 2011) (incorporated by reference herein to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed on August 3, 2011, File No. 33-35243)

10.8* SunCoke Energy, Inc. Executive Involuntary Severance Plan (Effective as of July 27, 2011) (incorporated by reference herein to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed on August 3, 2011, File No. 33-35243)

10.9* Letter Agreement between Frederick A. Henderson and Sunoco, dated September 2, 2010 (incorporated by reference herein to Exhibit 10.10 to the Company's Registration Statement on Form S-1 filed on March 23, 2011, File No. 333-35243)

10.10* Amendment No. 1 to Letter Agreement between Frederick A. Henderson and Sunoco dated May 25, 2011 (incorporated by reference herein to Exhibit 10.11 to the Company's Amendment No. 2 to Registration Statement on Form S-1 filed on June 3, 2011, File No. 333-35243)

10.11* Letter Agreement between Michael J. Thomson and Sunoco, dated September 2, 2010 (incorporated by reference herein to Exhibit 10.12 to the Company's Amendment No. 3 on Registration Statement on Form S-1 filed on March 23, 2011, File No. 333-35243)

10.12* Letter Agreement between Fay West and SunCoke Energy, Inc., dated January 16, 2011 (incorporated by reference herein to Exhibit 10.13 to the Company's Amendment No. 2 to Registration Statement on Form S-1 filed on June 3, 2011, File No. 333-35243)

10.13* Letter Agreement between Denise R. Cade and Sunoco, dated February 18, 2011 (incorporated by reference herein to Exhibit 10.14 to the Company's Amendment No. 2 to Registration Statement on Form S-1 filed on June 3, 2011, File No. 333-35243)

10.14* Letter Agreement between Mark E. Newman and Sunoco, dated March 10, 2011 (incorporated by reference herein to Exhibit 10.15 to the Company's Amendment No. 2 to Registration Statement on Form S-1 filed on June 3, 2011, File No. 333-35243)

10.15* SunCoke Energy, Inc. Deferred Compensation Plan, effective as of June 1, 2011 (incorporated by reference herein to Exhibit 10.35 to the Company's Amendment No. 4 to Registration Statement on Form S-1 filed on July 6, 2011, File No. 333-35243)

10.16* SunCoke Energy, Inc. Retainer Stock Plan for Outside Directors, effective as of June 1, 2011 (incorporated by reference herein to Exhibit 10.36 to the Company's Amendment No. 4 to Registration Statement on Form S-1 filed on July 6, 2011, File No. 333-35243)

10.17* Form of Indemnification Agreement, individually entered into between SunCoke Energy, Inc. and each director of the Company (incorporated by reference herein to Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011 filed on November 2, 2012, File No. 33-35243)

10.18* Restricted Share Unit Agreement under the SunCoke Energy, Inc. Long-Term Performance Enhancement Plan, entered into as of July 21, 2011, by and between SunCoke Energy, Inc. and Michael J. Thomson (incorporated by reference herein to Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed on August 3, 2011, File No. 33-35243)

10.19* Restricted Share Unit Agreement under the SunCoke Energy, Inc. Long-Term Performance Enhancement Plan, entered into as of July 21, 2011, by and between SunCoke Energy, Inc. and Frederick A. Henderson (incorporated by reference herein to Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed on August 3, 2011, File No. 33-35243)

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- 10.20* Stock Option Agreement under the SunCoke Energy, Inc. Long-Term Performance Enhancement Plan, entered into as of July 21, 2011, by and between SunCoke Energy, Inc. and Frederick A. Henderson (incorporated by reference herein to Exhibit 10.15 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed on August 3, 2011, File No. 33-35243)
- 10.21* Stock Option Agreement under the SunCoke Energy, Inc. Long-Term Performance Enhancement Plan, entered into as of July 21, 2011, by and between SunCoke Energy, Inc. and Frederick A. Henderson (incorporated by reference herein to Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed on August 3, 2011, File No. 33-35243)
- 10.22* Form of Stock Option Agreement under the SunCoke Energy, Inc. Long-Term Performance Enhancement Plan, entered into as of July 21, 2011, by and between SunCoke Energy, Inc. and employees of SunCoke Energy, Inc. or one of its Affiliates (incorporated by reference herein to Exhibit 10.17 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed on August 3, 2011, File No. 33-35243)
- 10.23* Form of Restricted Share Unit Agreement under the SunCoke Energy, Inc. Long-Term Performance Enhancement Plan, entered into as of July 21, 2011, by and between SunCoke Energy, Inc. and employees of SunCoke Energy, Inc. or one of its Affiliates (incorporated by reference herein to Exhibit 10.18 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 filed on August 3, 2011, File No. 33-35243)
- 10.24* SunCoke Energy, Inc. 2011 Executive Annual Incentive Plan (incorporated by reference herein to Exhibit 10.2 to the Company's Form 8-K filed on December 9, 2011, File No. 333-35243)
- 10.25* SunCoke Energy, Inc. Savings Restoration Plan (incorporated by reference herein to Exhibit 10.1 to the Company's Form 8-K filed on December 9, 2011, File No. 333-35243)
- 10.26 Steam Supply and Purchase Agreement, between Haverhill North Coke Co. and Sunoco, effective January 1, 2011 (incorporated by reference herein to Exhibit 10.17 to the Company's Amendment No. 2 to Registration Statement on Form S-1 filed on June 3, 2011, File No. 333-35243)
- 10.27 Amended and Restated Coke Supply Agreement, dated as of October 28, 2003, by and between Jewell Coke Company, L.P., ArcelorMittal Cleveland Inc. (f/k/a ISG Cleveland Inc.) and ArcelorMittal Indiana Harbor (f/k/a ISG Indiana Harbor Inc.) (incorporated by reference herein to Exhibit 10.18 to the Company's Amendment No. 4 to Registration Statement on Form S-1 filed on July 6, 2011, File No. 333-35243)
- 10.28 Amendment No. 1 to Amended and Restated Coke Supply Agreement, dated as of December 5, 2003, by and between Jewell Coke Company, L.P., ArcelorMittal Cleveland Inc. (f/k/a ISG Cleveland Inc.) and ArcelorMittal Indiana Harbor (f/k/a ISG Indiana Harbor Inc.) (incorporated by reference herein to Exhibit 10.19 to the Company's Amendment No. 2 to Registration Statement on Form S-1 filed on June 3, 2011, File No. 333-35243)
- 10.29 Letter Agreement, dated as of May 7, 2008, between ArcelorMittal USA Inc., Haverhill North Coke Company, Jewell Coke Company, L.P. and ISG Sparrows Point LLC, serving as (1) Amendment No. 2 to the Amended and Restated Coke Supply Agreement, by and between Jewell Coke Company, L.P., ArcelorMittal Cleveland Inc. (f/k/a ISG Cleveland Inc.) and ArcelorMittal Indiana Harbor (f/k/a ISG Indiana Harbor Inc.) and (2) Amendment No. 2 to the Coke Purchase Agreement, by and between Haverhill North Coke Company, ArcelorMittal Cleveland Inc. (f/k/a ISG Cleveland Inc.) and ArcelorMittal Indiana Harbor (f/k/a ISG Indiana Harbor Inc.) (incorporated by reference herein to Exhibit 10.20 to the Company's Amendment No. 3 to Registration Statement on Form S-1 filed on June 3, 2011, File No. 333-35243)

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- 10.30 Amendment No. 3 to Amended and Restated Coke Supply Agreement, dated as of January 26, 2011, by and between Jewell Coke Company, L.P., ArcelorMittal Cleveland Inc. (f/k/a ISG Cleveland Inc.) and ArcelorMittal Indiana Harbor (f/k/a ISG Indiana Harbor Inc.) (incorporated by reference herein to Exhibit 10.21 to the Company's Amendment No. 2 to Registration Statement on Form S-1 filed on June 3, 2011, File No. 333-35243)
- 10.31 Coke Purchase Agreement, dated as of October 28, 2003, by and between Haverhill North Coke Company, ArcelorMittal Cleveland Inc. (f/k/a ISG Cleveland Inc.) and ArcelorMittal Indiana Harbor (f/k/a ISG Indiana Harbor Inc.) (incorporated by reference herein to Exhibit 10.22 to the Company's Amendment No. 4 to Registration Statement on Form S-1 filed on July 6, 2011, File No. 333-35243)
- 10.32 Amendment No. 1 to Coke Purchase Agreement, dated as of December 5, 2003, by and between Haverhill North Coke Company, ArcelorMittal Cleveland Inc. (f/k/a ISG Cleveland Inc.) and ArcelorMittal Indiana Harbor (f/k/a ISG Indiana Harbor Inc.) (incorporated by reference herein to Exhibit 10.23 to the Company's Amendment No. 2 to Registration Statement on Form S-1 filed on June 3, 2011, File No. 333-35243)
- 10.33 Credit Agreement, dated as of July 26, 2011, by and among SunCoke Energy, Inc., JPMorgan Chase Bank, N.A., as Administrative Agent, the lenders party thereto, Bank of America, N.A., as Revolving Facility Syndication Agent and Term Loan Documentation Agent, Credit Suisse Securities (USA) LLC, as Term Loan Syndication Agent, and The Royal Bank of Scotland PLC and KeyBank National Association, as Revolving Facility Co-Documentation Agents (incorporated by reference herein to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 1, 2011, File No. 333-35243)
- 10.34 Amendment No. 3 to Coke Purchase Agreement, dated as of May 8, 2008, by and between Haverhill North Coke Company, ArcelorMittal Cleveland Inc. (f/k/a ISG Cleveland Inc.) and ArcelorMittal Indiana Harbor (f/k/a ISG Indiana Harbor Inc.) (incorporated by reference herein to Exhibit 10.25 to the Company's Amendment No. 2 to Registration Statement on Form S-1 filed on June 3, 2011, File No. 333-35243)
- 10.35 Amendment No. 4 to Coke Purchase Agreement, dated as of January 26, 2011, by and between Haverhill North Coke Company, ArcelorMittal Cleveland Inc. (f/k/a ISG Cleveland Inc.) and ArcelorMittal Indiana Harbor (f/k/a ISG Indiana Harbor Inc.) (incorporated by reference herein to Exhibit 10.26 to the Company's Amendment No. 2 to Registration Statement on Form S-1 filed on June 3, 2011, File No. 333-35243)
- 10.36 Coke Purchase Agreement, dated as of August 31, 2009, by and between Haverhill North Coke Company and AK Steel Corporation (incorporated by reference herein to Exhibit 10.27 to the Company's Amendment No. 5 to Registration Statement on Form S-1 filed on July 18, 2011, File No. 333-35243)
- 10.37 Amended and Restated Coke Purchase Agreement, dated as of February 19, 1998, by and between Indiana Harbor Coke Company, L.P. and ArcelorMittal USA Inc. (f/k/a Inland Steel Company) (incorporated by reference herein to Exhibit 10.28 to the Company's Amendment No. 6 to Registration Statement on Form S-1 filed on July 20, 2011, File No. 333-35243)
- 10.38 Amendment No. 1 to Amended and Restated Coke Purchase Agreement, dated as of November 22, 2000, by and between Indiana Harbor Coke Company, L.P., a subsidiary of the Company, and ArcelorMittal USA Inc. (f/k/a Inland Steel Company) (incorporated by reference herein to Exhibit 10.29 to the Company's Amendment No. 2 to Registration Statement on Form S-1 filed on June 3, 2011, File No. 333-35243)
- 10.39 Amendment No. 2 to Amended and Restated Coke Purchase Agreement, dated as of March 31, 2001, by and between Indiana Harbor Coke Company, L.P. and ArcelorMittal USA Inc. (f/k/a Inland Steel Company) (incorporated by reference herein to Exhibit 10.30 to the Company's Amendment No. 2 to Registration Statement on Form S-1 filed on June 3, 2011, File No. 333-35243)

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10.40	Supplement to Amended and Restated Coke Purchase Agreement, dated as of February 3, 2011, by and between Indiana Harbor Coke Company, L.P. and ArcelorMittal USA Inc. (f/k/a Inland Steel Company) (incorporated by reference herein to Exhibit 10.31 to the Company's Amendment No. 5 to Registration Statement on Form S-1 filed on July 18, 2011, File No. 333-35243)
10.41	Coke Sale and Feed Water Processing Agreement, dated as of February 28, 2008, by and between Gateway Energy & Coke Company, LLC and United States Steel Corporation (incorporated by reference herein to Exhibit 10.32 to the Company's Amendment No. 7 to Registration Statement on Form S-1 filed on July 20, 2011, File No. 333-35243)
10.42	Amendment No. 1 to Coke Sale and Feed Water Processing Agreement, dated as of November 1, 2010, by and between Gateway Energy & Coke Company, LLC and United States Steel Corporation (incorporated by reference herein to Exhibit 10.33 to the Company's Amendment No. 2 to Registration Statement on Form S-1 filed on June 3, 2011, File No. 333-35243)
10.43	Amended and Restated Coke Purchase Agreement, dated as of September 1, 2009, by and between Middletown Coke Company, LLC, a subsidiary of the Company and AK Steel Corporation (incorporated by reference herein to Exhibit 10.34 to the Company's Amendment No. 5 to Registration Statement on Form S-1 filed on July 18, 2011, File No. 333-35243)
12.1**	Consolidated Ratio of Earnings to Fixed Charges
21.1**	Subsidiaries of the Registrant
23.1**	Consent of Ernst & Young LLP
23.2**	Consent of Marshall Miller & Associates, Inc.
24.1**	Powers of Attorney
31.1**	Chief Executive Officer Certification Pursuant to Exchange Act Rule 13a-14(a) or Rule 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2**	Chief Financial Officer Certification Pursuant to Exchange Act Rule 13a-14(a) or Rule 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Chief Executive Officer Certification Pursuant to Exchange Act Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Chief Financial Officer Certification Pursuant to Exchange Act Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.5**	Mine Safety Disclosure
101	The financial statements formatted in XBRL (eXtensible Business Reporting Language), tagged as blocks of text. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

* Management contracts, compensatory plans or arrangements required to be filed as an exhibit hereto pursuant to Item 601 of Regulation S-K.

** Filed herewith.

SunCoke Energy will furnish copies of the above exhibits to a stockholder upon written request to Investor Relations, SunCoke Energy, Inc., 1011 Warrenville Road, Suite 600, Lisle, Illinois 60532.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 29th day of February 2012.

SUNCOKE ENERGY, INC.

By: /s/ Mark E. Newman
Mark E. Newman

Senior Vice President and

Chief Financial Officer

Pursuant to the requirements of the Securities Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on February 29, 2012.

Signature	Title
/s/ Frederick A. Henderson Frederick A. Henderson	Chief Executive Officer and Chairman (Principal Executive Officer)
/s/ Mark E. Newman Mark E. Newman	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ Fay West* Fay West	Vice President and Controller (Principal Accounting Officer)
/s/ Robert J. Darnall* Robert J. Darnall	Director
/s/ Alvin Bledsoe* Alvin Bledsoe	Director
/s/ Peter B. Hamilton* Peter B. Hamilton	Director
/s/ Karen B. Peetz* Karen B. Peetz	Director
/s/ James E. Sweetnam* James E. Sweetnam	Director

* Mark E. Newman, pursuant to powers of attorney duly executed by the above officers and directors of SunCoke Energy, Inc. and filed with the SEC in Washington, D.C., hereby executes this registration statement on behalf of each of the persons named above in the capacity set forth opposite his or her name.

/s/ Mark E. Newman
Mark E. Newman

February 29, 2012

