

Caliper Life Sciences 2005 Annual Report



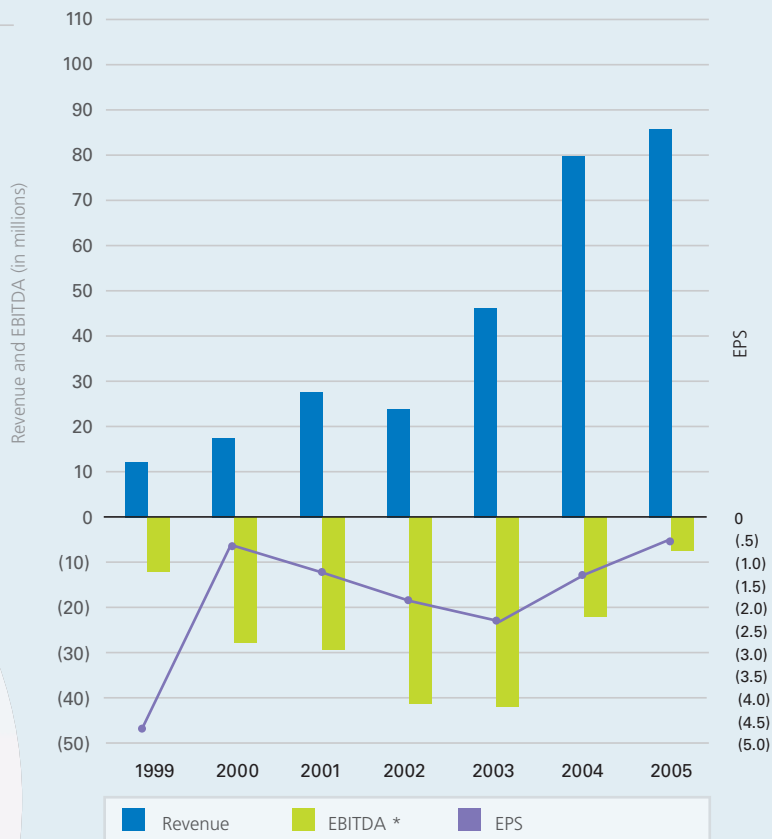
Executing a Strategy for Long-Term Growth

Caliper attained several important milestones in 2005, including the achievement of positive cash flows from operations in the fourth quarter, and the completion of our acquisition of Novascreen Biosciences. A fundamental shift in Caliper's business has occurred since the acquisition of Zymark in 2003. More balanced and profitable growth has set the stage for new financial and business strategies that will secure Caliper's long-term future as an innovative life sciences leader.

In August 2006, Caliper acquired Xenogen Corporation, adding in vivo imaging products and services to complement Caliper's existing line of in vitro products and services. The acquisition is a defining step in Caliper's strategic transformation into a leading provider of tools and services that increase the productivity and clinical relevance of life sciences research.



Financial Performance

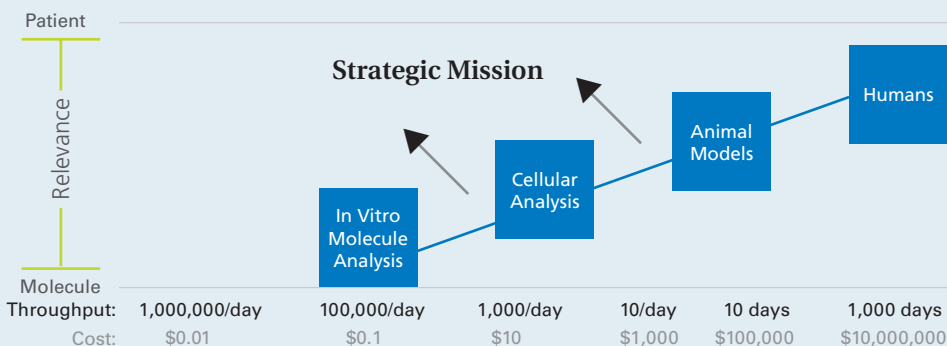


* Earnings before Interest, Taxes, Depreciation, and Amortization

Driving a Movement Towards More

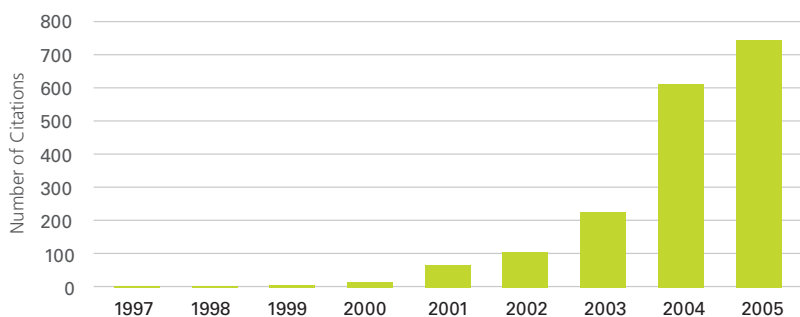
Our Strategic Mission

The FDA in its 2004 Critical Path report spelled out the urgent need to improve the productivity of drug discovery. Our vision is to pursue experimentation models that improve the clinical relevance of drug discovery while achieving cost and throughput levels that make discovery viable. Our LabChip technologies, in vitro services and acquisition of Xenogen are all critical components of our strategy to pursue new tools and experimental models that push the "relevancy curve" to the left and create opportunities for more productive drug discovery.



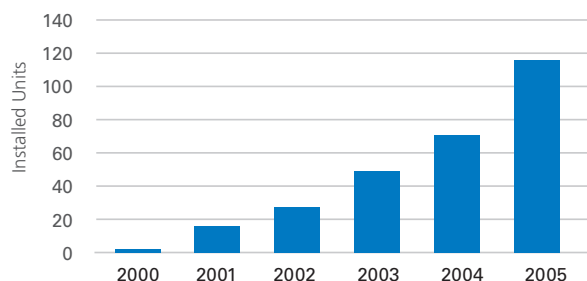
Generating Momentum for LabChip Microfluidics Adoption

Microfluidic Literature Citations by Year



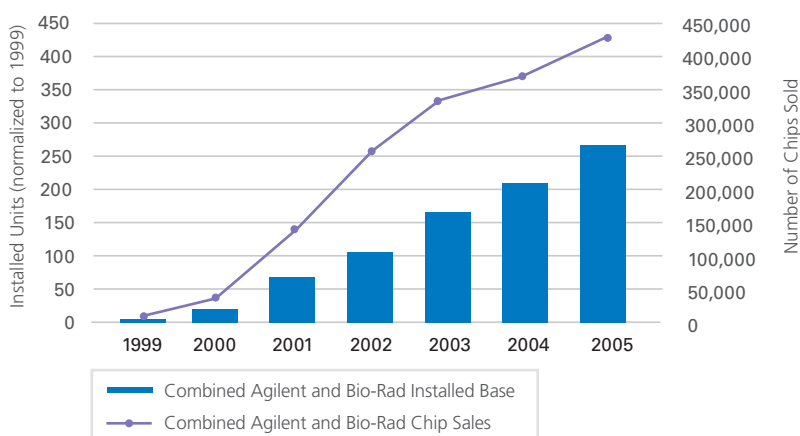
Source: PubMed

Direct Channel Microfluidics Installed Base



* Includes LabChip 3000, Caliper 250, Caliper 220, AMS 90 SE, LabChip 90; excludes Caliper 250 systems owned by Amphora

"Caliper Driven" Channel Microfluidics Installed Base and Chip Consumption



Our Caliper Driven Program has accelerated the adoption of the microfluidics platform as evidenced by the continued success of our partners' products, the Agilent 2100 Bioanalyzer and Bio-Rad Experion System. In 2005, Agilent and Bio-Rad each signed significant new licensing agreements with Caliper that allow them to pursue their next microfluidics-based products.



Agilent Technologies



Clinically Relevant Experimentation



The acquisition of NovaScreen Biosciences combined NovaScreen's screening, profiling and assay development services with Caliper's proven LabChip and advanced liquid handling products to provide the pharmaceutical and biotechnology industry with a central resource for in vitro drug discovery solutions.

Acquisition of NovaScreen Rounds Out Our In Vitro Offerings

KinaseAdvisor™ Panel on the LabChip 3000: The New Gold Standard for Kinase Selectivity Screening



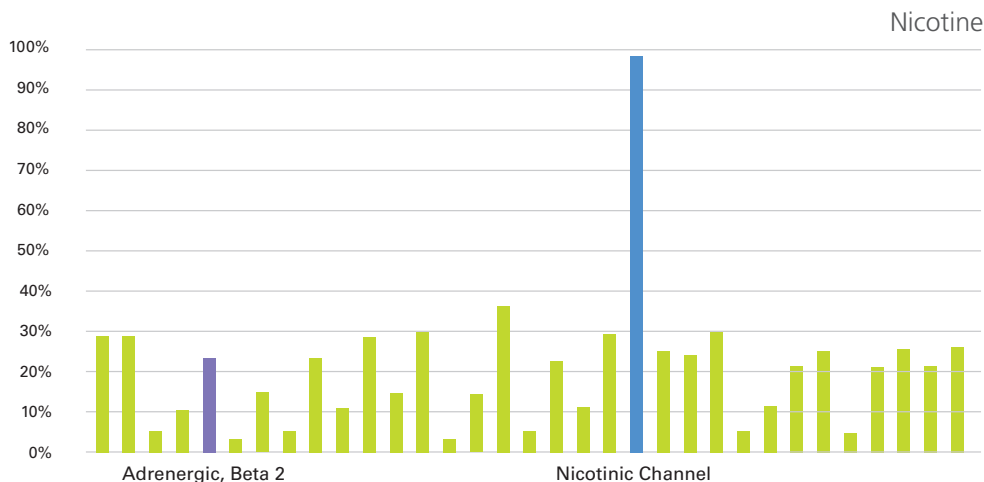
48 Kinases Currently Included:

ABL	cRAF	LCK	PDK1
AKT1	EPHA2	LYN	PIM2
AKT2	FGFR3	MAPK1	PKA
AMPK	FLT3	MAPK3	PKCb2
AurA	FYN	MAPK14	PKCz
BRK	GSK3b	MAPKAPK2	PKD2
CAMK2	IGF1R	MAPKAPK5	ROCK2
CAMK4	IKKb	MET	RSK1
CDK2	INSR	MSK1	SGK1
CHK1	IRAK4	MST2	SRC
CHK2	JNK2	p70s6k	SYK
CK1d	KIT	PAK2	VEGFR2

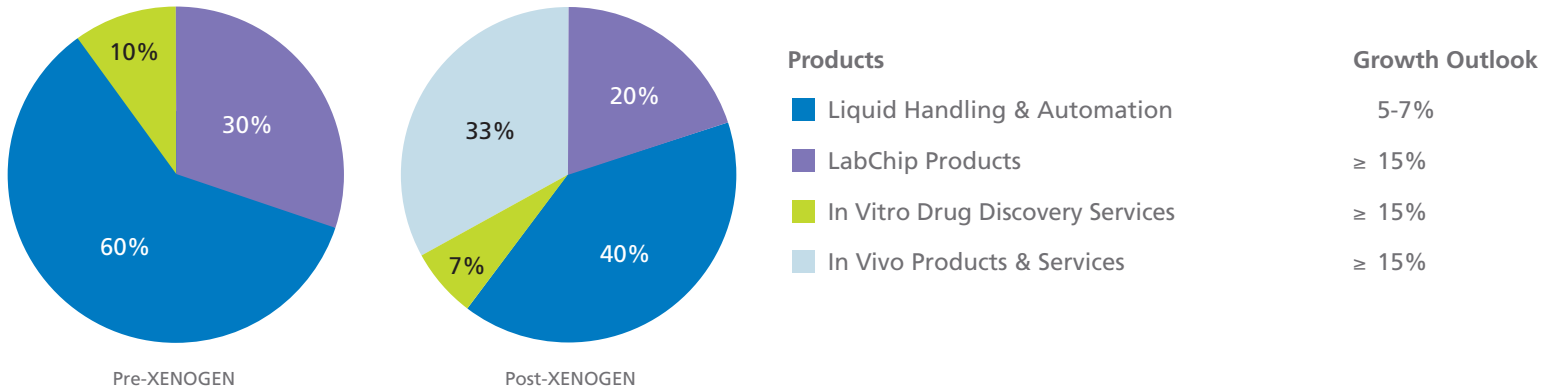
In 2005, NovaScreen launched its new KinaseAdvisor panel. The panel uses Caliper's LabChip 3000 system, significantly improving NovaScreen's competitive position in the kinase profiling services market due to the superior data and information-rich results that microfluidics screening offers. In addition, customers interested in setting up in-house kinase screening and profiling programs can easily assess the benefits of the LabChip 3000 system by utilizing NovaScreen's service offerings.

GEN SEP II: General Side Effect II Panel Identifies Potential Risk Factors of Drug Candidates

A specialized side effect screening service, GEN SEP II is an evolution from NovaScreen's original general side effect profile panel and incorporates a broader range of receptor subtype assays. Many of these assays use human source material, which helps researchers and scientists gain a more **clinically relevant** understanding of drug side effect liabilities.



Shifting Revenue Composition to Higher Growth Areas



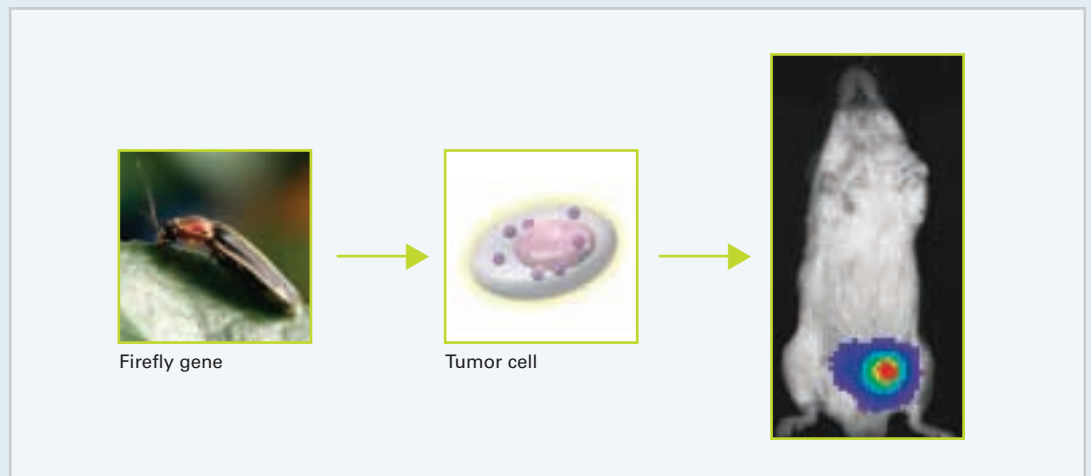
Xenogen Acquisition Will Add Critical In Vivo Capabilities



Xenogen’s optical imaging technologies add unique capabilities for integrated molecular level solutions that bridge the in vitro - in vivo gap, and have endless potential for enhancing the relevance and productivity of drug discovery.

Xenogen Technology: How it Works

The luciferase gene, which occurs naturally in fireflies, is incorporated into cells or animals to tag biological functions with light. The Xenogen IVIS system can then capture images of these biological functions, for example tumor growth, inside the mouse without sacrificing the animal.



E. Kevin Hrusovsky, President and CEO



Dear Fellow Stockholders,

2005 was the second full year of operations for Caliper Life Sciences, the company formed from the combination of Zymark and Caliper Technologies in mid-2003. In November of 2003, four months after my management team and I took on the task of running the new company, I made you a promise: we would take it from a cash burn of \$40 million per year to cash flow-positive in the fourth quarter of 2005. We have delivered on that promise. While this may not be our most important metric for 2005, it symbolizes this management team's commitment to delivering on our goals and methodically building this company into a formidable life sciences player.

[Delivering on Our Promises](#)

Throughout the year we delivered solid financial results, made great strides in our program to drive microfluidics adoption through our direct and partnership channels, and built out our in vitro products and services strategy by closing a key acquisition, NovaScreen Biosciences. We reported record revenues, and continued to significantly improve our EBITDA* and net loss per share. Solid revenue growth of 9%, combined with continued close management of costs, allowed us to reduce our net loss per share from \$1.08 in 2004 to \$0.46 in 2005. Our installed base of direct channel microfluidics products grew by nearly 60%, and we signed three microfluidics licensing deals through our Caliper Driven program. Total LabChip revenue now accounts for 31% of total company revenues, which is important as we continue to drive our revenue composition towards products and services with higher growth rates.

*Earnings Before Interest, Taxes, Depreciation, and Amortization

2005 Highlights

- Posted record revenues, and improved our EBITDA and eps results for full year
- Achieved goal, set in mid-2003, of cash-flow positive from operations in fourth quarter
- Ended year with \$32M cash, exceeding year-end goal of \$25M
- Grew revenues 9%, achieving full year revenue of \$87M
- Reduced operating expenses by \$6M
- Improved bottom line by \$17M
- Maintained 40% funding support for our ongoing R&D programs
- Achieved 56% growth in installed base of direct channel microfluidics products
- Signed two-year, multi-million dollar purchase agreement with Amphora
- Licensed microfluidics technology to Affymetrix
- Licensed microfluidics technology for diagnostic use to Agilent
- Named by Deloitte & Touche, LLP to New England "Fast 50" List of Fastest Growing Technology Companies
- Collaborated with Affymetrix to launch GeneChip Array System (GCAS)
- Signed second collaboration with Bio-Rad for novel microfluidics platform
- Signed new 5-year chip supply agreement with Agilent
- Completed NovaScreen acquisition and entered attractive in vitro services market
- Announced Xenogen acquisition shortly after the end of the year

A Successful Year for Our Caliper Driven Program

Our Caliper Driven program was established to drive adoption of our microfluidics and automation technologies into the industry through partnerships with key life science leaders. In 2005, this program gathered significant momentum as we signed several major agreements with some of the biggest names in the life sciences industry.

Early in the year, Affymetrix licensed our microfluidics technology to explore ways in which GeneChip products can be combined with our LabChip products. In 2004 we had signed a collaborative agreement with Affymetrix to incorporate our automation technologies with their GeneChip technologies, a partnership that led to the successful launch of the GCAS system in the fall of 2005. With the GCAS launch, we have learned that as microarrays are increasingly used in a high throughput manner, integration becomes increasingly important. The possibilities of integrating automation, GeneChip and LabChip technologies on one platform are intriguing, and we are excited that Affymetrix has invested in this area of research.

Agilent, a life science leader and long-standing partner of Caliper's, reinvigorated their relationship with Caliper in 2005 by signing two new agreements. The first agreement gave Agilent a non-exclusive license to use Caliper's LabChip technology for diagnostic applications. Agilent has since stated that they expect to launch a new cholesterol diagnostic test on the 2100 platform sometime in 2006. We are excited to be taking LabChip technology into the diagnostic world for the first time, and look forward to this important launch. The second agreement with Agilent in 2005 was a five-year exclusive planar chip supply agreement, which secures Caliper's position as the sole provider of Agilent's research and diagnostic chip needs.

Lastly Bio-Rad, a major player in life sciences and clinical diagnostics, signed an agreement with Caliper in 2005 to develop a second microfluidics-based system. Bio-Rad launched Experion, the product of its first collaboration with Caliper, in late 2004.

We are highly encouraged at the caliber of companies that repeatedly turn to Caliper for innovative technologies that help them maintain their leadership positions in the industry. We believe that, collectively, our collaboration agreements have the potential to deliver more than \$60 million of revenue over the next five-year period. In addition, these collaborations now fund nearly 40% of our annual R&D expenditures. We also expect that the Caliper Driven program will remain a key element of our adoption strategy success.

[Driving a Movement Towards Clinically Relevant Experimentation](#)

Our mission at Caliper is to help the drug discovery industry increase productivity by improving the clinical relevance of experimentation. We believe the way we can accomplish this is to offer a suite of in vitro and in vivo capabilities that we can tap in order to solve some of the problems the industry faces. For example, often the results of early in vitro experimentation correlate very poorly with what happens in animal or human trials. By improving the data quality of experimental tools and creating experimental models that can be used both in vitro and in vivo, we believe we can help the industry begin to solve this problem.

Direct Channel LabChip Products Improve In Vitro Testing

We saw good momentum for direct channel LabChip product sales throughout 2005, achieving multiple LabChip 3000 system sales at major pharmaceutical companies like Pfizer, Sanofi-Aventis, Merck, and Bristol-Myer Squibb, and key placements of LabChip 90 systems both at large pharmaceutical companies and in prestigious core facilities such as MIT, Sanger Center and Genome Research in the UK. Our customers tell us that the data quality provided by our systems helps them make better choices in drug discovery and therefore enhances the productivity of their labs.

Acquisition of NovaScreen Services Business Rounds Out Our In Vitro Offering

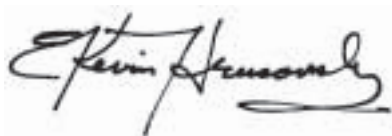
At the beginning of the fourth quarter, we completed the strategically important and financially accretive acquisition of NovaScreen. With the addition of NovaScreen, we are now able to include in vitro testing services in our in vitro product line, thereby rounding out our ability to offer high-quality data to customers who don't have in-house capabilities, or who need extra capacity from time to time. NovaScreen also offers unique approaches to enhancing the relevance of outsourced experimentation through their specialized side effect profiling databases, which offer insights into potential safety concerns very early in the discovery process. With our complete in vitro strategy in place, we are now well-positioned to attack our larger strategy of bridging the in vitro - in vivo gap to provide tools for more clinically relevant drug discovery.

Looking Ahead: Xenogen as a Defining Acquisition

In August 2006 we acquired Xenogen Corporation, a high growth company that is pioneering the field of biophotonic imaging. Xenogen's talented employee base and powerful in vivo imaging products and services are the perfect addition to our existing in vitro business. With the completion of the acquisition, our company is being transformed into a world-class company with a highly integrated suite of products and services that span the spectrum of in vitro to in vivo testing. We are now ideally positioned to meet customer demand for new models of experimentation that will provide insights into safety and efficacy earlier in the drug discovery process. We are receiving strong and positive reinforcement from our customer base for embarking on this bold but pivotal strategy. Most importantly, Caliper is a high growth life science tools company with an extensive arsenal of proprietary technologies, strategic differentiation, unparalleled customer and collaborator relationships, and a solid profit growth trajectory.

We would like to thank you for your continued support of and enthusiasm for our mission. Success is always a matter of teamwork, and we view each one of our stockholders, partners, employees, and customers as a vital member of our worldwide team.

Sincerely,



E. Kevin Hrusovsky
President & CEO

Forward-looking Statement

The statements made in this Annual Report regarding Caliper's projected financial operating results, the goals and timing of gaining wider adoption of our LabChip products and achieving cash flow positive operations, as well as other statements regarding future events characterized by the use of words such as "believe," "expect," "will" or "anticipate" are forward-looking statements subject to risks and uncertainties. Please see the risks outlined under "Factors Affecting Operating Results" contained in "Part II - Item 7". Management's Discussion and Analysis LabChip, Caliper, Caliper Driven and KinaseAdvisor are registered trademarks of Caliper Life Sciences, Inc.

Corporate Directory

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Former Chief Scientific Officer, Abbott Laboratories

Van Billet
Chief Financial Officer, The Berwind Company LLC

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Former Chief Executive Officer and Chairman,
Xenogen Corporation

Allan L. Comstock
Former Vice President and Controller,
Atlantic Richfield Company (ARCO)

Michael Eisenson
Managing Director and CEO,
Charlesbank Capital Partners

E. Kevin Hrusovsky
President and Chief Executive Officer,
Caliper Life Sciences, Inc.

Kathryn Tunstall
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Conceptus, Inc.

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President and Chief Executive Officer

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Vice President, Microfluidics R & D

Pamela Contag, Ph.D.
Bio Imaging Founder and Executive, New Ventures

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Mark Roskey, Ph.D.
Vice President, Reagents and Applied Biology

Jean-Louis Rufener
Vice President, International Operations

Financial Information

For any additional company information, including copies of the Form 10-K as filed with the Securities and Exchange Commission, please contact Caliper's Corporate Communications Department at investor.relations@caliperLS.com

Market Information

Caliper's common stock trades on the NASDAQ Stock Market under the symbol CALP. The Caliper's common stock began trading on December 15, 1999.

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