

QIAGEN NV  
Form 6-K  
May 02, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER**  
**PURSUANT TO RULE 13a-16 OR 15d-16 OF THE**  
**SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2011

Commission File Number 0-28564

**QIAGEN N.V.**

Spoorstraat 50

5911 KJ Venlo

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**The Netherlands**

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F  Form 40-F

Indicate by check mark whether the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark whether the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

If  Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- .

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**QIAGEN N.V.**

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**OTHER INFORMATION**

For the three-month period ended March 31, 2011, QIAGEN N.V. prepared its quarterly report under United States Generally Accepted Accounting Principles (U.S. GAAP). This quarterly report is furnished herewith as Exhibit 99.1 and incorporated by reference herein.

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**SIGNATURES**

Pursuant to the requirements 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.

QIAGEN N.V.

BY: /s/ **ROLAND SACKERS**  
**Roland Sackers**  
**Chief Financial Officer**

Date: April 29, 2011

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**EXHIBIT INDEX**

**Exhibit**

<b>No.</b>	<b>Exhibit</b>
99.1	U.S. GAAP Quarterly Report for the Period Ended March 31, 2011

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**Exhibit 99.1**

**QIAGEN N.V. AND SUBSIDIARIES**

**U.S. GAAP QUARTERLY REPORT FOR THE PERIOD ENDED MARCH 31, 2011**

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**QIAGEN N.V. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands)

	Note	March 31, 2011 (unaudited)	December 31, 2010
<b>Assets</b>			
<b>Current Assets:</b>			
Cash and cash equivalents		\$ 776,581	\$ 828,407
Short-term investments	(7)	162,346	106,077
Accounts receivable, net of allowance for doubtful accounts of \$4,058 and \$3,227 in 2011 and 2010, respectively		202,215	197,418
Income taxes receivable		12,647	10,920
Inventories, net	(9)	132,752	126,633
Prepaid expenses and other current assets		76,624	64,402
Deferred income taxes		25,094	30,731
<b>Total current assets</b>		<b>1,388,259</b>	1,364,588
<b>Long-Term Assets:</b>			
Property, plant and equipment, net		369,955	345,664
Goodwill	(10)	1,364,183	1,352,281
Intangible assets, net of accumulated amortization of \$343,869 and \$312,326 in 2011 and 2010, respectively	(10)	752,541	753,327
Deferred income taxes		31,045	37,182
Other assets		52,072	60,953
<b>Total long-term assets</b>		<b>2,569,796</b>	2,549,407
<b>Total assets</b>		<b>\$ 3,958,055</b>	\$ 3,913,995

The accompanying notes are an integral part of these condensed consolidated financial statements.



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**QIAGEN N.V. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except par value)

	Note	March 31, 2011 (unaudited)	December 31, 2010
Liabilities and Shareholders' Equity			
Current Liabilities:			
Accounts payable		\$ 51,976	\$ 47,803
Accrued and other liabilities (of which \$10,049 and \$6,296 due to related parties in 2011 and 2010, respectively)	(14)	197,951	209,054
Income taxes payable		17,821	25,211
Current portion of long-term debt	(8)	76,332	75,835
Deferred income taxes		30,809	30,504
Total current liabilities		374,889	388,407
Long-Term Liabilities:			
Long-term debt, net of current portion (of which \$445,000 in 2011 and 2010 due to related parties)	(8), (14)	796,865	797,171
Deferred income taxes		191,160	200,667
Other liabilities		58,846	51,397
Total long-term liabilities		1,046,871	1,049,235
Commitments and Contingencies	(13)		
Shareholders' Equity:			
Preference shares, 0.01 EUR par value, authorized 450,000 shares, no shares issued and outstanding			
Financing preference shares, 0.01 EUR par value, authorized 40,000 shares, no shares issued and outstanding			
Common Shares, 0.01 EUR par value, authorized 410,000 shares, issued and outstanding 233,683 and 233,115 shares in 2011 and 2010, respectively		2,732	2,724
Additional paid-in capital		1,659,073	1,648,985
Retained earnings		787,871	759,890
Accumulated other comprehensive income	(12)	86,619	64,754
Total shareholders' equity		2,536,295	2,476,353
Total liabilities and shareholders' equity		\$ 3,958,055	\$ 3,913,995

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Table of Contents****QIAGEN N.V. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share data)

	Three Months Ended March 31, 2011 (unaudited)      2010	
Net sales	\$ 264,265	\$ 264,364
Cost of sales	92,117	91,152
<b>Gross profit</b>	<b>172,148</b>	173,212
Operating Expenses:		
Research and development	32,667	31,597
Sales and marketing	68,414	64,436
General and administrative, integration and other	26,397	26,340
Acquisition-related intangible amortization	6,225	6,158
<b>Total operating expenses</b>	<b>133,703</b>	128,531
Income from operations	38,445	44,681
Other Income (Expense):		
Interest income	1,271	689
Interest expense	(6,307)	(6,254)
Other income, net	1,878	2,235
<b>Total other expense</b>	<b>(3,158)</b>	(3,330)
Income before provision for income taxes	35,287	41,351
Provision for income taxes	7,306	8,337
Net income	\$ 27,981	\$ 33,014
Basic net income per common share	\$ 0.12	\$ 0.14
Diluted net income per common share	\$ 0.12	\$ 0.14

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Table of Contents****QIAGEN N.V. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(in thousands)**

	Note	Three Months Ended March 31, 2011      2010 (unaudited)	
Net income		\$ 27,981	\$ 33,014
Gains (losses) on cash flow hedges, before tax	(6)	(7,838)	10,747
Reclassification adjustments on cash flow hedges, before tax	(6)	9,835	(10,201)
Cash flow hedges, before tax		1,997	546
Foreign currency translation adjustments, before tax		20,633	(21,039)
Other comprehensive income, before tax		22,630	(20,493)
Income tax relating to components of other comprehensive income		(765)	618
Other comprehensive income, after tax		21,865	(19,875)
Total comprehensive income		\$ 49,846	\$ 13,139

The accompanying notes are an integral part of these condensed consolidated financial statements.

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## QIAGEN N.V. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands, unaudited)

	Note	Common Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
BALANCE AT DECEMBER 31, 2010		233,115	\$ 2,724	\$ 1,648,985	\$ 759,890	\$ 64,754	\$ 2,476,353
Net income					27,981		27,981
Proceeds from subscription receivables				117			117
Unrealized loss, net on hedging contracts						(5,433)	(5,433)
Realized loss, net on hedging contracts						6,900	6,900
Translation adjustment, net	(12)					20,398	20,398
Issuance of common shares in connection with stock plan		568	8	4,347			4,355
Share-based compensation	(3)			3,951			3,951
Tax benefit of employee stock plans				1,673			1,673
BALANCE AT MARCH 31, 2011		233,683	\$ 2,732	\$ 1,659,073	\$ 787,871	\$ 86,619	\$ 2,536,295
BALANCE AT DECEMBER 31, 2009		232,074	\$ 2,711	\$ 1,622,733	\$ 615,579	\$ 50,146	\$ 2,291,169
Net income					33,014		33,014
Proceeds from subscription receivables				114			114
Unrealized gain, net on hedging contracts						7,472	7,472
Realized gain, net on hedging contracts						(7,141)	(7,141)
Translation adjustment, net						(20,206)	(20,206)
Issuance of common shares in connection with stock plan		310	4	3,241			3,245
Share-based compensation	(3)			2,581			2,581
Tax benefit of employee stock plans				817			817
BALANCE AT MARCH 31, 2010		232,384	\$ 2,715	\$ 1,629,486	\$ 648,593	\$ 30,271	\$ 2,311,065

The accompanying notes are an integral part of these condensed consolidated financial statements.

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## QIAGEN N.V. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Note	Three Months Ended March 31, 2011 (unaudited) 2010	
<b>Cash Flows From Operating Activities:</b>			
Net income		\$ 27,981	\$ 33,014
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		15,709	12,711
Amortization of purchased intangible assets		22,982	21,230
Share-based compensation:			
Share-based compensation expense	(3)	3,951	2,581
Excess tax benefits from share-based compensation		(1,673)	(817)
Deferred income taxes		(1,442)	(4,501)
Other including sale from non-monetary exchange		(1,370)	145
Net changes in operating assets and liabilities:			
Accounts receivable		(479)	293
Inventories		(4,037)	1,261
Accounts payable		3,057	2,386
Accrued and other liabilities		(12,133)	(31,240)
Other		(2,503)	(7,509)
<b>Net cash provided by operating activities</b>		<b>50,043</b>	<b>29,554</b>
<b>Cash Flows From Investing Activities:</b>			
Purchases of property, plant and equipment		(21,070)	(17,208)
Proceeds from sale of equipment		415	1,039
Purchases of intangible assets		(5,351)	(6,315)
Purchases of investments	(5)	(3,443)	
Purchases of short-term investments	(7)	(65,229)	(54,000)
Proceeds from sales of short-term investments	(7)	8,960	
Proceeds from sale of investment		604	14,927
Cash paid for acquisitions, net of cash acquired		(2,964)	(16,418)
<b>Net cash used in investing activities</b>		<b>(88,078)</b>	<b>(77,975)</b>
<b>Cash Flows From Financing Activities:</b>			
Principal payments on capital leases		(898)	(880)
Proceeds from subscription receivables		117	114
Excess tax benefits from share based compensation		1,673	817
Issuance of common shares		4,355	3,245
Other financing activities		262	(1,253)
<b>Net cash provided by financing activities</b>		<b>5,509</b>	<b>2,043</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(19,300)</b>	<b>15,591</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(51,826)</b>	<b>(30,787)</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>828,407</b>	<b>825,557</b>

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Cash and cash equivalents, end of period

\$ **776,581**    \$ 794,770

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**QIAGEN N.V. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**1. Description of the Business and Basis of Presentation**

QIAGEN N.V., a Netherlands holding company, and subsidiaries (we, our or the Company) is a leading provider of innovative sample and assay technologies. These technologies consumable products such as sample and assay kits and automated instrumentation systems empower customers to transform raw biological samples into valuable molecular information. We serve four major customer classes: molecular diagnostics laboratories, academic researchers, pharmaceutical research and development groups, and applied testing customers in fields such as forensics, veterinary diagnostics, food safety and biosecurity. We market our products in more than 100 countries. We operate as one business segment in accordance with Accounting Standards Codification (ASC) Topic 280, *Segment Reporting*.

*Basis of Presentation*

The accompanying Condensed Consolidated Financial Statements were prepared in conformity with U.S. generally accepted accounting principles (GAAP) and all amounts are presented in U.S. dollars rounded to the nearest thousand, unless otherwise indicated.

**2. Recent Authoritative Pronouncements**

*Adoption of New Accounting Standards*

In April 2010, the FASB issued ASU No. 2010-17, *Revenue Recognition Milestone Method (Topic 605): Milestone Method of Revenue Recognition*. The ASU codifies the consensus reached in Emerging Issues Task Force Issue No. 08-9, *Milestone Method of Revenue Recognition*. The amendments in this ASU provide guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Consideration that is contingent on achievement of a milestone in its entirety may be recognized as revenue in the period in which the milestone is achieved only if the milestone is judged to meet certain criteria to be considered substantive. Milestones should be considered substantive in their entirety and may not be bifurcated. An arrangement may contain both substantive and nonsubstantive milestones, and each milestone should be evaluated individually to determine if it is substantive. The amendments in the ASU are effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early adoption is permitted. The Company adopted these updates on January 1, 2011 without any impact.

In April 2010, the FASB issued ASU No. 2010-12, *Income Taxes (Topic 740)*. This ASU codifies an SEC Staff Announcement relating to accounting for the Health Care and Education Reconciliation Act of 2010 and the Patient Protection and Affordable Care Act. On March 30, 2010, the U.S. President signed the Health Care and Education Reconciliation Act of 2010, which is a reconciliation bill that amends the Patient Protection and Affordable Care Act that was signed by the President on March 23, 2010 (collectively, the Acts). Questions had arisen about the effect, if any, of the two different signing dates. The SEC has concluded that the two Acts, when taken together, represent the current health care reforms as passed by U.S. Congress and signed by the U.S. President and therefore would not object to the view that the two Acts should be considered together for accounting purposes. As a result of the Acts, a 2.3% excise tax will be imposed on the sale, including leases, of any taxable medical devices by the manufacturer, producer or importer of such devices. A taxable medical device is any FDA regulated device intended for human use. The excise tax will apply to the sales of all taxable medical devices occurring in the U.S. after December 31, 2012. While the Company continues to evaluate the impact of the Acts, at the present time, the Company expects a net positive impact from the legislation due to the expected increase in net sales resulting from increased health coverage, which will be partially offset by the excise tax.

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In October 2009, the FASB issued new authoritative guidance regarding *Revenue Recognition Multiple Deliverable Revenue Arrangements*. This guidance provides amendments for separating consideration in multiple deliverable arrangements and removes the objective-and-reliable-evidence-of-fair-value criterion from the separation criteria used to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, replaces references to fair value with selling price to distinguish from the fair value measurements required under the *Fair Value Measurements and Disclosures* guidance, provides a hierarchy that entities must use to estimate the selling price, eliminates the use of the residual method for allocation, and expands the ongoing disclosure requirements. This update is effective for the Company beginning January 1, 2011. The Company adopted these updates on January 1, 2011 without any impact.

### ***Recently Issued Accounting Standards***

In December 2010, the FASB issued ASU No. 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations a consensus of the FASB Emerging Issues Task Force*, to amend FASB ASC 805, Business Combinations, regarding how public entities disclose supplemental pro forma information for business combinations that occur during the year. Under the amended guidance, a public entity that presents comparative financial statements must disclose the revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the prior annual reporting period. The guidance in ASU 2010-29 also amends ASC 805 to require public entities to provide a description of the nature and amount of any material, nonrecurring pro forma adjustments directly attributable to business combination(s) that are included in the reported pro forma revenue and earnings. This update is effective for the Company beginning January 1, 2011. The Company adopted these updates on January 1, 2011 without any impact.

## **3. Share-Based Payments**

### ***Stock Options***

During the three-month periods ended March 31, 2011 and 2010, we granted options to purchase 258,555 and 263,460 common shares, respectively.

The unrecognized share-based compensation expense related to employee stock option awards, including estimated forfeitures, was approximately \$4.8 million as of March 31, 2011 and is expected to be recognized over a weighted average period of approximately 2.03 years.

### ***Restricted Stock Units***

During the three-month periods ended March 31, 2011 and 2010, we granted 929,738 and 796,120 restricted stock units, respectively.

At March 31, 2011, there was \$65.7 million remaining in unrecognized compensation cost, including estimated forfeitures, related to these awards, which is expected to be recognized over a weighted average period of 8.39 years.



**Table of Contents****Compensation Expense**

Total share-based compensation expense for the three-month periods ended March 31, 2011 and 2010 is comprised of the following:

Compensation Expense (in thousands)	Three Months Ended March 31,	
	2011	2010
Cost of sales	\$ 323	\$ 175
Research and development	616	367
Sales and marketing	893	522
General and administrative, integration and other	2,119	1,517
Share-based compensation expense before taxes	3,951	2,581
Less: income tax benefit	834	742
Net share-based compensation expense	\$ 3,117	\$ 1,839

No compensation cost was capitalized in inventory in 2011 or 2010 as the amounts were not material.

**4. Net Income Per Common Share**

We present basic and diluted earnings per share. Basic earnings per share is calculated by dividing the net income attributable to the owners of QIAGEN N.V. by the weighted average number of common shares outstanding. Diluted earnings per share reflect the potential dilution that would occur if all in the money securities to issue common shares were exercised or converted. The following table summarizes the information used to compute earnings per common share:

(in thousands)	Three Months Ended March 31,	
	2011	2010
Weighted average number of common shares used to compute basic net income per common share	233,402	232,208
Dilutive effect of warrants	4,055	6,536
Dilutive effect of stock options and restricted stock units	2,925	3,180
Weighted average number of common shares used to compute diluted net income per common share	240,382	241,924
Outstanding options and awards having no dilutive effect, not included in above calculation	1,878	990
Outstanding warrants having no dilutive effect, not included in above calculation	22,412	19,931

**5. Investments and Variable Interest Entities**

*Investments* We have made strategic investments in certain companies that are accounted for using the equity or cost method of accounting. The method of accounting for an investment depends on the extent of influence. We monitor changes in circumstances that may require a reassessment of the level of influence. We also periodically review the carrying value of these investments for impairment, considering factors such as the most recent stock transactions and book values from the financial statements. The fair value of cost-method investments is estimated when there are identified events or changes in circumstances that may have an impact on the fair value of the investment. During the first quarter of 2011, we made an investment of EUR 2.5 million (approximately \$3.4 million) for a 15% share of a privately-held company. The investment is accounted for under the cost-method.



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*Variable Interest Entities* FASB Accounting Standards Codification Topic 810 requires a company to consolidate a variable interest entity if it is designated as the primary beneficiary of that entity even if the company does not have a majority of voting interests. A variable interest entity is generally defined as an entity with insufficient equity to finance its activities or where the owners of the entity lack the risk and rewards of ownership. We have a 50% interest in a joint venture company, PreAnalytiX GmbH, for which we are not the primary beneficiary. Thus, the investment is accounted for under the equity method. PreAnalytiX was formed to develop, manufacture and market integrated systems for the collection, stabilization and purification of nucleic acids for molecular diagnostic testing. At present, our maximum exposure to loss as a result of our involvement with PreAnalytiX is limited to our share of losses from the equity method investment itself.

We also have 100% interests in two entities established for the purpose of issuing convertible debt. These entities are discussed in Note 8 below.

**6. Derivatives and Hedging**

In the ordinary course of business, we use derivative instruments, including swaps, forwards and/or options, to manage potential losses from foreign currency exposures and variable rate debt. The principal objective of such derivative instruments is to minimize the risks and/or costs associated with global financial and operating activities. We do not utilize derivative or other financial instruments for trading or other speculative purposes. We recognize all derivatives as either assets or liabilities on the balance sheet on a gross basis, measure those instruments at fair value and recognize the change in fair value in earnings in the period of change, unless the derivative qualifies as an effective hedge that offsets certain exposures. We do not offset the fair value of derivative instruments with cash collateral held or received from the same counterparty under a master netting arrangement.

As of March 31, 2011 and December 31, 2010, all derivatives that qualify for hedge accounting are cash-flow hedges. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. In 2011 and 2010, we did not record any hedge ineffectiveness related to any cash-flow hedges in income (expense) and did not discontinue any cash-flow hedges. The cash flows derived from derivatives, including those that are not designated as hedges, are classified in the operating section of the condensed consolidated statements of cash flows, in the same category as the condensed consolidated balance sheet account of the underlying item.

*Foreign Currency Derivatives*

As a globally active enterprise, we are subject to risks associated with fluctuations in foreign currencies in our ordinary operations. This includes foreign currency-denominated receivables, payables, debt, and other balance sheet positions. We manage balance sheet exposure on a group-wide basis using foreign exchange forward and option contracts as well as cross-currency swaps.

We have foreign currency forward contracts with an aggregate notional amount of \$44.0 million, which have been entered into in connection with the notes payable to QIAGEN Finance (see Note 8) and which qualify for hedge accounting as cash-flow hedges. We have determined that no ineffectiveness exists related to these derivatives. However, the differences between spot and forward rates were excluded from the assessment of hedge effectiveness and included in interest income as it effectively constitutes the difference in the interest rates of the respective currency pairs. The contracts mature in July 2011 and had fair market values included in accrued and other liabilities in the accompanying condensed consolidated balance sheets at March 31, 2011 and December 31, 2010, of approximately \$6.4 million and \$3.9 million, respectively.

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In addition, we were party to cross-currency swaps which have been entered into in connection with the notes payable to Euro Finance (see Note 8) and which qualified as cash-flow hedges with a notional amount of \$120.0 million as of March 31, 2011 and December 31, 2010, which mature in November 2012 and had fair market values included in other long-term liabilities in the accompanying condensed consolidated balance sheets of \$11.3 million and \$4.6 million at March 31, 2011 and December 31, 2010, respectively.

*Undesignated Derivative Instruments*

We are party to various foreign exchange forward, option and swap arrangements which had, at March 31, 2011, an aggregate notional value of approximately \$453.0 million and fair values of \$1.0 million and \$5.7 million, which are included in other assets and other liabilities, respectively, and which expire at various dates through June 2011. The transactions have been entered into to offset the effects from short-term balance sheet exposure to foreign currency exchange risk. Changes in the fair value of these arrangements have been recognized in other income, net.

We were party to various foreign exchange forward and swap arrangements which had, at December 31, 2010, an aggregate notional value of approximately \$295.4 million and fair values of \$0.7 million and \$5.1 million, which are included in other assets and other liabilities, respectively, and which expired at various dates through April 2011. The transactions were entered into to offset the effects from short-term balance sheet exposure to foreign currency exchange risk. Changes in the fair value of these arrangements were recognized in other income, net.

*Interest Rate Derivatives*

We use interest rate derivative contracts on certain borrowing transactions to hedge fluctuating interest rates. We have entered into interest rate swaps in which we agree to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount. During 2008, we entered into interest rate swaps, which effectively fixed the variable interest rates on \$200.0 million of our variable rate debt and qualify for hedge accounting as cash-flow hedges. We have determined that no ineffectiveness exists related to these swaps. During 2010, \$100.0 million of the swaps matured. The remaining \$100.0 million matures in October 2011, and as of March 31, 2011 had an aggregate fair value of \$1.9 million, which is recorded in accrued and other liabilities in the accompanying condensed consolidated balance sheets. As of December 31, 2010, these swaps had an aggregate fair value of \$2.7 million, which is recorded in accrued and other liabilities in the accompanying condensed consolidated balance sheets.

*Fair Values of Derivative Instruments*

The following table summarizes the fair value amounts of derivative instruments reported in the condensed consolidated balance sheets as of March 31, 2011 and December 31, 2010:

(in thousands)	Derivatives in Asset		Derivatives in Liability Positions	
	Positions Fair value		Fair value	
	3/31/2011	12/31/2010	3/31/2011	12/31/2010
<b>Derivative instruments designated as hedges</b>				
Interest rate contracts	\$	\$	\$ (1,904)	\$ (2,663)
Foreign exchange contracts			(17,669)	(8,452)
Total derivative instruments designated as hedges	\$	\$	\$ (19,573)	\$ (11,115)
<b>Undesignated derivative instruments</b>				
Foreign exchange contracts	\$ 1,030	\$ 677	\$ (5,740)	\$ (5,113)
Total derivative instruments	\$ 1,030	\$ 677	\$ (25,313)	\$ (16,228)



**Table of Contents***Gains and Losses on Derivative Instruments*

The following tables summarize the locations and gains on derivative instruments for the three months ended March 31, 2011 and 2010:

March 31, 2011 (in thousands)	Gain/(loss) recognized in AOCI	Location of (gain) loss in income statement	(Gain) loss reclassified from AOCI into income	Gain (loss) recognized in income
<b>Cash-flow hedges</b>				
Interest rate contracts	\$ 759	Interest expense	\$	n/a
Foreign exchange contracts	(8,597)	Other income, net	9,835	n/a
Total	\$ (7,838)		\$ 9,835	n/a

**Undesignated derivative instruments**

Foreign exchange contracts	n/a	Other income, net	n/a	\$ (16,150)
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March 31, 2010 (in thousands)	Gain/(loss) recognized in AOCI	Location of (gain) loss in income statement	(Gain) loss reclassified from AOCI into income	Gain (loss) recognized in income
<b>Cash-flow hedges</b>				
Interest rate contracts	\$ 473	Interest expense	\$	n/a
Foreign exchange contracts	10,274	Other income, net	(10,201)	n/a
Total	\$ 10,747		\$ (10,201)	n/a

**Undesignated derivative instruments**

Foreign exchange contracts	n/a	Other income, net	n/a	\$ 8,178
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The amounts noted in the tables above for accumulated other comprehensive income (AOCI) do not include any adjustments for the impact of deferred income taxes.

**7. Fair Value Measurements**

Assets and liabilities are measured at fair value according to a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

*Level 1.* Observable inputs, such as quoted prices in active markets;

*Level 2.* Inputs, other than the quoted price in active markets, that are observable either directly or indirectly; and

*Level 3.* Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

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Our assets and liabilities measured at fair value on a recurring basis consist of short-term investments, which are classified in Level 1 and Level 2 of the fair value hierarchy, and derivative contracts used to hedge currency and interest rate risk, which are classified in Level 2 of the fair value hierarchy and are shown in the tables below. In determining fair value for Level 2 instruments, we apply a market approach, using quoted active market prices relevant to the particular instrument under valuation, giving consideration to the credit risk of both the respective counterparty to the contract and the Company. To determine our credit risk we estimated our credit rating by benchmarking the price of outstanding debt to publicly-available comparable data from rated companies. Using the estimated rating, our credit risk was quantified by reference to publicly-traded debt with a corresponding rating.

The following table presents our fair value hierarchy for our financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2011 and December 31, 2010:

(in thousands)	As of March 31, 2011				As of December 31, 2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
Short-term investments	\$ 70,000	\$ 92,346	\$	\$ 162,346	\$ 70,000	\$ 36,077	\$	\$ 106,077
Foreign exchange contracts		1,030		1,030		677		677
	\$ 70,000	\$ 93,376	\$	\$ 163,376	\$ 70,000	\$ 36,754	\$	\$ 106,754
<b>Liabilities:</b>								
Foreign exchange contracts	\$	\$ 23,409	\$	\$ 23,409	\$	\$ 13,565	\$	\$ 13,565
Interest rate contracts		1,904		1,904		2,663		2,663
	\$	\$ 25,313	\$	\$ 25,313	\$	\$ 16,228	\$	\$ 16,228

The carrying values of financial instruments, including cash and equivalents, accounts receivable, accounts payable and other accrued liabilities, approximate their fair values due to their short-term maturities. The estimated fair value of long-term debt as disclosed in Note 8 was based on current interest rates for similar types of borrowings. The estimated fair values may not represent actual values of the financial instruments that could be realized as of the balance sheet date or that will be realized in the future. There were no fair value adjustments in the three-month periods ended March 31, 2011 and 2010 for nonfinancial assets or liabilities required to be measured at fair value on a nonrecurring basis.

**8. Debt**

We have five separate lines of credit amounting to \$161.5 million in the aggregate with variable interest rates. There was no significant line of credit or short-term borrowings as of March 31, 2011 and December 31, 2010.

At March 31, 2011, total debt was approximately \$873.2 million, \$76.3 million of which is current. Total debt consists of the following:

(in thousands)	March 31, 2011	December 31, 2010
\$500 million note payable bearing interest at LIBOR plus a variable margin ranging from 0.646% to 0.662%, and 0.629% to 0.754% at March 31, 2011 and December 31, 2010, respectively, due on July 12, 2012, with payments commencing in 2009	\$ 425,000	\$ 425,000
Notes payable to QIAGEN Euro Finance bearing interest at an effective rate of 3.97% due in November 2012	300,000	300,000
Notes payable to QIAGEN Finance bearing interest at an effective rate of 2.19% due no earlier than in July 2012	145,000	145,000
R&D-related loan bearing interest at 3.50% due in June 2019 with repayments starting in September 2011	3,197	3,006
<b>Total long-term debt</b>	<b>873,197</b>	<b>873,006</b>

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Less current portion	<b>76,332</b>	75,835
Long-term portion	<b>\$ 796,865</b>	\$ 797,171



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As of March 31, 2011, we have drawn down \$3.2 million under a loan which can be utilized for up to EUR 12.7 million to finance R&D projects in Germany. The loan bears interest at 3.5% and is due to be fully repaid by 2019 with repayments commencing in September 2011.

During 2007, we signed a Syndicated Multi-Currency Term Loan and Revolving Credit Facilities Agreement with Deutsche Bank AG, Deutsche Bank Luxembourg S.A., and the lenders named in the agreement. The lenders made available a term loan, a bridge loan, which was utilized and repaid in 2007, and a \$150 million revolving credit facility. Under the agreement, the \$500 million term loan will mature in July 2012 with repayment beginning in July 2009. In July 2010 and 2009, \$50.0 million and \$25.0 million, respectively, were repaid. The next payment of \$75.0 million will be made in July 2011. The \$150 million revolving credit facility will expire in July 2012. The proceeds of the debt were loaned to a subsidiary of QIAGEN N.V., and QIAGEN N.V. has guaranteed the debt. The loan agreements contain certain financial and non-financial covenants, including but not limited to, restrictions on the encumbrance of land, restrictions on the transfer of patents to third parties and the maintenance of certain financial ratios. We were in compliance with these covenants at March 31, 2011. The fair value of the note payable approximated its carrying value at March 31, 2011.

In May 2006, we completed the offering of \$300 million of 3.25% Senior Convertible Notes due in 2026 (2006 Notes) through an unconsolidated subsidiary, QIAGEN Euro Finance. The net proceeds of the 2006 Notes were loaned by Euro Finance to consolidated subsidiaries and at March 31, 2011 and December 31, 2010, \$300 million is included in long-term debt for the loan amounts payable to Euro Finance. These long-term notes payable to Euro Finance have an effective interest rate of 3.97% and are due in November 2012. Interest is payable semi-annually in May and November. The 2006 Notes were issued at 100% of principal value, and are convertible into 15.0 million common shares at the option of the holders upon the occurrence of certain events, at a price of \$20.00 per share, subject to adjustment. QIAGEN N.V. has an agreement with Euro Finance to issue shares to the investors in the event of conversion. This subscription right, along with the related receivable, is recorded at fair value in the equity of QIAGEN N.V. as paid-in capital. The 2006 Notes cannot be called for the first 7 years and are callable thereafter subject to a provisional call trigger of 130% of the conversion price. In addition, the holders of the 2006 Notes may require QIAGEN to repurchase all or a portion of the outstanding Notes for 100% of the principal amount, plus accrued interest, on May 16, 2013, 2017 and 2022. Based on an estimation using available over-the-counter market information on the convertible bond issued by QIAGEN Euro Finance, the fair value of the 2006 Notes at March 31, 2011 was approximately \$366.9 million. We have reserved 15.0 million common shares for issuance in the event of conversion.

In August 2004, we completed the sale of \$150 million of 1.5% Senior Convertible Notes due in 2024 (2004 Notes), through our unconsolidated subsidiary QIAGEN Finance. The net proceeds of the Senior Convertible Notes were loaned by QIAGEN Finance to consolidated subsidiaries in the U.S. and Switzerland and at March 31, 2011 and December 31, 2010, \$145 million is included in long-term debt for the loan amounts payable to QIAGEN Finance. These long-term notes payable to QIAGEN Finance have an effective interest rate of 2.19% and had an original maturity in July 2011. We are in the process of refinancing the \$145.0 million note, which will have a new maturity date no earlier than July 2012. This refinancing does not impact the amounts payable by QIAGEN Finance under the 2004 Notes. Interest is payable semi-annually in February and August. The 2004 Notes were issued at 100% of principal value, and are convertible into 11.5 million common shares at the option of the holders upon the occurrence of certain events at a price of \$12.6449 per share, subject to adjustment. QIAGEN N.V. has an agreement with QIAGEN Finance to issue shares to the investors in the event of conversion. This subscription right, along with the related receivable, is recorded at fair value in the equity of QIAGEN N.V. as paid-in capital. The 2004 Notes may be redeemed, in whole or in part, at QIAGEN's option on or after August 18, 2011, at 100% of the principal amount, provided that the actual trading price of our common shares exceeds 120% of the conversion price for twenty consecutive trading days. In addition, the holders of the 2004 Notes may require QIAGEN to repurchase all or a portion of the outstanding 2004 Notes for 100% of the principal amount, plus accrued interest, on August 18, 2011, 2014 and 2019. Based on an estimation using available over-the-counter market information on the convertible bond issued by QIAGEN Finance, the fair value of the 2004 Notes at March 31, 2011 was approximately \$230.2 million. We have reserved 11.5 million common shares for issuance in the event of conversion.

**Table of Contents****9. Inventories**

The components of inventories consist of the following as of March 31, 2011 and December 31, 2010:

(in thousands)	March 31, 2011	December 31, 2010
Raw materials	\$ 23,915	\$ 23,738
Work in process	35,288	33,043
Finished goods	73,549	69,852
Total inventories	\$ 132,752	\$ 126,633

**10. Intangible Assets**

The following table sets forth the intangible assets by major asset class as of March 31, 2011 and December 31, 2010:

(in thousands)	March 31, 2011		December 31, 2010	
	Gross		Gross	
	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
<b>Amortized Intangible Assets:</b>				
Patent and license rights	\$ 293,078	\$ (97,601)	\$ 289,199	\$ (88,275)
Developed technology	522,577	(172,653)	501,287	(157,838)
Customer base, trademarks and in-process R&D	280,755	(73,615)	275,167	(66,213)
	<b>\$ 1,096,410</b>	<b>\$ (343,869)</b>	<b>\$ 1,065,653</b>	<b>\$ (312,326)</b>
<b>Unamortized Intangible Assets:</b>				
Goodwill	<b>\$ 1,364,183</b>		<b>\$ 1,352,281</b>	

The changes in the carrying amount of goodwill for the three months ended March 31, 2011 resulted primarily from milestone payments and foreign currency translation.

For the three-month periods ended March 31, 2011 and 2010 amortization expense on intangible assets totaled approximately \$26.0 million and \$23.2 million, respectively. Amortization of intangibles for the next five years is expected to be approximately:

Year	Annual Amortization (in thousands)
2012	\$ 98,575
2013	\$ 95,493
2014	\$ 94,489
2015	\$ 93,310
2016	\$ 90,534

**Table of Contents****11. Income Taxes**

The provision for income taxes is based upon the estimated annual effective tax rates for the year applied to the current period income before tax plus the tax effect of any significant unusual items, discrete events or changes in tax law. Our operating subsidiaries are exposed to effective tax rates ranging from zero to approximately 42%. Fluctuations in the distribution of pre-tax income among our operating subsidiaries can lead to fluctuations of the effective tax rate in the consolidated financial statements. In the three-month periods ended March 31, 2011 and 2010, the effective tax rates were 21% and 20%, respectively.

We assess uncertain tax positions in accordance with ASC 740 (ASC 740-10 / Accounting for Uncertainties in Tax). At March 31, 2011, our net unrecognized tax benefits totaled approximately \$8.6 million which, if recognized, would favorably impact our effective tax rate in the periods in which they are recognized. It is possible that approximately \$3.3 million of the unrecognized tax benefits may be released during the next 12 months due to lapse of statutes of limitations or settlements with tax authorities. We cannot reasonably estimate the range of the potential outcomes of these matters.

We conduct business globally and, as a result, file numerous consolidated and separate income tax returns in The Netherlands, Germany, Switzerland and the U.S. federal jurisdiction, as well as in various other state and foreign jurisdictions. In the normal course of business, we are subject to examination by taxing authorities throughout the world. Our tax years since 2002 are open for income tax examinations by tax authorities. Our subsidiaries, with few exceptions, are no longer subject to income tax examinations by tax authorities for years before 2006. We have undistributed earnings in foreign subsidiaries. In some jurisdictions, we would be subject to tax upon repatriation of those earnings, in the form of dividends or otherwise. For those subsidiaries where the earnings are considered to be permanently reinvested, no provision for taxes has been made. In other cases, we have accrued for such taxes. It is not practicable to determine the amount of income tax payable in the event we repatriated all of our undistributed foreign earnings.

**12. Accumulated Other Comprehensive Income**

The following table is a summary of the components of accumulated other comprehensive income as of March 31, 2011 and December 31, 2010:

(in thousands)	March 31, 2011	December 31, 2010
Net unrealized loss on hedging contracts, net of tax of \$0.1 million and \$0.7 million in 2011 and 2010, respectively	\$ (177)	\$ (1,644)
Net unrealized loss on pension, net of tax	(11)	(11)
Foreign currency effects from intercompany long-term investment transactions, net of tax of \$4.1 million and \$4.4 million in 2011 and 2010, respectively	5,087	5,774
Foreign currency translation adjustments	81,720	60,635
Accumulated other comprehensive income	\$ 86,619	\$ 64,754

**13. Commitments and Contingencies*****Contingent Consideration Commitments***

Pursuant to the purchase agreements for certain acquisitions, we could be required to make additional contingent cash payments totaling up to \$85.4 million based on the achievement of certain revenue and operating results milestones as follows: \$19.0 million in 2011, \$16.2 million in 2012, and \$50.2 million payable in any 12-month period from now until 2014 based on the accomplishment of certain revenue targets, the launch of certain products or the grant of certain patent rights. Of the \$85.4 million total contingent obligation, approximately \$22.5 million is accrued as of March 31, 2011. We reassessed the fair value of the contingent consideration as of March 31, 2011 the result of which was not materially different from the fair value determined as of the date of the acquisitions.

***Preacquisition Contingencies***

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In connection with certain acquisitions, amounts were paid into escrow accounts to cover certain preacquisition contingencies assumed in the acquisition. The escrow amounts expected to be claimed by QIAGEN are recorded as an asset in prepaid and other expenses and amount to \$28.0 million as of March 31, 2011 (\$27.0 million as of December 31, 2010). In addition, we have recorded \$29.8 million for preacquisition contingencies as a liability under accrued and other liabilities as of March 31, 2011 (\$28.7 million as of December 31, 2010). We reassessed the fair value of the preacquisition contingencies as of March 31, 2011 the result of which was not materially different from the fair value determined as of the date of the acquisitions.

### *Contingencies*

In the ordinary course of business, we provide a warranty to customers that our products are free of defects and will conform to published specifications. Generally, the applicable product warranty period is one year from the date of delivery of the product to the

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customer or of site acceptance, if required. Additionally, we typically provide limited warranties with respect to our services. From time to time, we also make other warranties to customers, including warranties that our products are manufactured in accordance with applicable laws and not in violation of third-party rights. We provide for estimated warranty costs at the time of the product sale. We believe our warranty reserves of \$3.6 million and \$3.4 million as of March 31, 2011 and December 31, 2010, respectively, appropriately reflect the estimated cost of such warranty obligations.

### ***Litigation***

From time to time, QIAGEN may be party to legal proceedings incidental to its business. As of March 31, 2011, certain claims, suits or legal proceedings arising out of the normal course of business have been filed or were pending against QIAGEN or its subsidiaries. These matters have arisen in the ordinary course and conduct of business, as well as through acquisition. Although it is not possible to predict the outcome of such litigation, based on the facts known to QIAGEN and after consultation with legal counsel, management believes that such litigation will not have a material adverse effect on QIAGEN's financial position or results of operations.

### ***QIAGEN Sciences, Inc. v. Operon Biotechnologies, Inc.***

On July 2, 2009, Operon Biotechnologies, Inc. (Operon) commenced arbitration against QIAGEN Sciences, Inc. asserting a breach of a supply agreement between the parties and seeking monetary damages. Operon asserts that QIAGEN failed to comply with the preferred supplier provisions of the agreement and that this breach has caused damages, including lost profits. QIAGEN has denied the allegations and asserted counterclaims. The dispute has been submitted to an arbitration panel and the parties are awaiting a decision from the panel which is expected by May 2011.

## **14. Related Party Transactions**

From time to time, we engage in transactions with companies in which we hold interests all of which are individually and in the aggregate immaterial except for certain transactions as discussed below.

We have a 100% interest in QIAGEN Finance (Luxembourg) S.A. (QIAGEN Finance) and QIAGEN Euro Finance (Luxembourg) S.A. (Euro Finance), which were established for the purpose of issuing convertible debt. As discussed in Note 8, QIAGEN Finance and Euro Finance are variable interest entities with no primary beneficiary, thus they are not consolidated. Accordingly, the convertible debt is not included in the consolidated statements of QIAGEN N.V., though QIAGEN N.V. does report the full obligation of the debt through its liabilities to QIAGEN Finance and Euro Finance. As of March 31, 2011 and December 31, 2010, we had loans payable to QIAGEN Finance of \$145.0 million and accrued interest due to QIAGEN Finance of \$1.0 million and \$3.3 million and amounts receivable from QIAGEN Finance of \$0.7 million and \$2.3 million, respectively. As of March 31, 2011 and December 31, 2010, we had a loan payable to Euro Finance of \$300.0 million, accrued interest due to Euro Finance of \$9.0 million and \$3.0 million, respectively, and amounts receivable from Euro Finance of \$4.9 million and \$1.6 million, respectively. The amounts receivable are related to subscription rights which are recorded net in the equity of QIAGEN N.V. as paid-in capital.

## **15. Subsequent Event**

In April 2011, we entered into an agreement to acquire Cellestis Ltd., a publicly listed Australian company that develops and provides in-vitro diagnostics and life science research products based on its proprietary QuantiFERON® technology. The technology provides information on the activity of the cell-mediated functions of the immune system from whole blood samples. By tapping into the body's memory system, this approach allows diseases to be detected much earlier than with other diagnostic methods, such as PCR. With QuantiFERON®, we are adding a pre-molecular technology that allows us to look even deeper than with DNA-based molecular testing and thereby strive to feed and drive our DNA-based molecular franchise.

Subject to shareholder and regulator approval, we will acquire 100% of the outstanding stock of Cellestis for approximately AUD\$341 million (approximately \$355 million as of April 1, 2011) in cash. The acquisition is still subject to the approval of the Australian governmental authorities, the Australian court and Cellestis shareholders. Until the closing, QIAGEN and Cellestis will remain separate entities and we expect the transaction to close in the third quarter of 2011.

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**OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

This section contains a number of forward-looking statements. These statements are based on current management expectations, and actual results may differ materially. Among the factors that could cause actual results to differ from management's expectations are those described in Risk Factors and Forward-looking and Cautionary Statements below.

***Forward-looking and Cautionary Statements***

This report contains forward-looking statements that are subject to risks and uncertainties. These statements can be identified by the use of forward-looking terminology, such as believe, hope, plan, intend, seek, may, will, could, should, would, expect, anticipate, or other similar words. Such statements are based on management's current expectations and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. We caution investors that there can be no assurance that actual results or business conditions will not differ materially from those projected or suggested in such forward-looking statements as a result of various factors, including, but not limited to, the following: risks associated with our expansion of operations, including the acquisition of new businesses; variability in our operating results from quarter to quarter; management of growth, international operations, and dependence on key personnel; intense competition; technological change; our ability to develop and protect proprietary products and technologies and to enter into and maintain collaborative commercial relationships; our future capital requirements; general economic conditions and capital market fluctuations; and uncertainties as to the extent of future government regulation of our business. As a result, our future success involves a high degree of risk. For further information, refer to the more specific risks and uncertainties discussed below under the caption Risk Factors.

***Results of Operations***

***Overview***

QIAGEN is the world's leading provider of innovative sample and assay technologies, based on independent market studies of United States and European market shares for our products and technologies. Our automated systems and consumable products empower customers to transform raw biological samples into valuable molecular information. Sample technologies are used to isolate DNA, RNA and proteins from any biological sample, such as blood or tissue. Assay technologies are then used to amplify and enrich isolated biomolecules, such as the DNA of a specific virus, readable and ready for subsequent analysis.

We sell our products, sample and assay kits known as consumables and automated instrumentation systems using those technologies, to four major customer classes:

**Molecular diagnostics** healthcare providers supporting many aspects of patient care including prevention, profiling of diseases, personalized healthcare and point of need testing

**Academic** researchers exploring the secrets of life and new approaches to disease

**Pharma** drug discovery and development efforts of pharmaceutical and biotechnology companies

**Applied testing** customers in fields such as forensics, veterinary diagnostics, food safety testing, and biosecurity.

QIAGEN markets products in more than 100 countries throughout the world. We have established subsidiaries in markets that we believe have the greatest sales potential, including countries throughout Europe, Asia, the Americas and Australia. We also work with specialized independent distributors and importers. We employ nearly 3,600 people in more than 30 locations worldwide. We have achieved five-year compound annual growth rates of approximately 22% in net sales and 18% in net income through 2010, as reported under U.S. GAAP. We have funded our growth through internally generated funds, debt, and private and public sales of equity securities.



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QIAGEN actively pursues strategic acquisitions with a goal of expanding our technology and product offerings as well as extending our geographic presence. Most recently, in April 2011, we entered into an agreement to acquire Cellestis Ltd., a publicly listed Australian company that develops and provides in-vitro diagnostics and life science research products based on its proprietary QuantiFERON® technology. The technology provides information on the activity of the cell-mediated functions of the immune system from whole blood samples. By tapping into the body's memory system, this approach allows diseases to be detected much earlier than with other diagnostic methods, such as PCR. With QuantiFERON®, we are adding a pre-molecular technology that allows us to look even deeper than with DNA-based molecular testing and thereby strive to feed and drive our DNA-based molecular franchise. The acquisition is still subject to the approval of the Australian court and Cellestis shareholders. Until the closing, QIAGEN and Cellestis will remain separate entities, and we expect the transaction to close in the third quarter of 2011. QuantiFERON® is a trademark of Cellestis, Ltd.

Other transactions which were recently concluded include:

In March 2011, we acquired a minority strategic stake in Alacris Theranostics GmbH (Alacris), a German start-up company using novel technologies to develop individualized cancer treatment strategies based upon a patient's genomic profile, and an exclusive option to access all biomarkers emerging from this discovery program. The collaboration brings together the global leadership of QIAGEN in developing molecular diagnostic and testing solutions in pharmaceutical development and personalized healthcare with Alacris' genomic data generation and mining capabilities and preferential access to large and well-characterized clinical sample sets.

In April 2010, we acquired assets related to food testing assays of the Institute for Product Quality (ifp), a company based in Berlin, Germany, which sells food, veterinary and environmental quality control assays. The transaction strengthened our applied testing business by adding 70 molecular food safety tests developed by ifp.

In January 2010, we acquired ESE GmbH, a German developer and manufacturer of portable, battery-operated, ultra-fast time to result multiplex UV and fluorescence optical measurement devices. ESE's fluorescence detection systems for point of need testing in healthcare and in applied testing enable low-throughput molecular testing in physician practices, emergency rooms, remote field areas, and other settings where a laboratory infrastructure is not accessible and fast turnaround is required.

Our financial results include the contributions of our recent acquisitions from the date of acquisition, as well as the costs related to the acquisitions and integrations, including costs related to the relocation and closure of certain facilities. Our results also reflect the benefits of our previous restructuring efforts, which have contributed to improved profitability as we continue to manage our operating costs.

Our results for the first quarter of 2011 reflect our anticipated slow start to 2011 together with unfavorable impacts from the unanticipated disruptions from natural disaster and political events in Japan and Australia/New Zealand as well as northern Africa, where we supply a hepatitis C monitoring program. In addition, comparisons with the first quarter 2010 reflect supplies to the influenza surveillance programs in 2010. During the first quarter of 2011, operating income on a consolidated basis was \$38.4 million, a 14% decrease from \$44.7 million for the same period in 2010. Continued cost management efforts together with productivity initiatives helped to partially offset the negative impact of lower first quarter sales.

### ***First Quarter Ended March 31, 2011 compared to First Quarter Ended March 31, 2010***

#### ***Net Sales***

In the first quarter of 2011, net sales of \$264.3 million were largely unchanged compared to \$264.4 million in the first quarter of 2010. The first quarter sales include a decline in organic growth of (2%), offset by the positive impacts of foreign currency exchange rates (2%).

In the first quarter of 2011, consumable and related revenues, which represent approximately 87% of total sales, reported a 1% increase as compared to the first quarter of 2010. Sales of instrumentation products in 2011, which represent approximately 13% of total sales, decreased by 6% as compared to an exceptionally strong performance in the same period of the prior year. The natural disaster disruptions in Japan and Australia/New Zealand together with the civil and political disruptions in Egypt, as well as lower growth in sales volumes of molecular diagnostic assays compared to growth rates experienced in 2010, resulted in a slow start to 2011.





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The overall net sales growth was spread across all customer classes. In molecular diagnostics, which represents approximately 43% of our net sales, we experienced a decline of 1% in the first quarter of 2011 as compared to the first quarter of 2010. First quarter 2011 net sales were negatively impacted by reduced deliveries in Japan and Egypt due to regional disruptions together with weaker sales in HPV screening tests in the U.S. In academia, which represents approximately 29% of our net sales, we experienced 1% growth in the first quarter of 2011 as compared to the first quarter of 2010. In Pharma, which represents approximately 21% of our net sales, we experienced 4% growth in the first quarter of 2011 as compared to the first quarter of 2010. In applied testing, which represents approximately 7% of our net sales, we experienced a decline of 12% in the first quarter of 2011 primarily as a result of lower instrument sales, as compared to the same period of 2010, which reported exceptionally strong instrument sales.

A significant portion of our revenues is denominated in Euros and currencies other than the United States dollar. Changes in currency exchange rates can affect net sales, potentially to a significant degree. When calculated by translating the local currency, actual results in the current period using the average exchange rates from the previous year's respective period instead of the current period, net sales were positively impacted by \$5.1 million in currency effects for the three months ended March 31, 2011 as compared to the same period in 2010.

The continuing uncertainties within the current global economy represent a risk for the Company, and while we expect continued growth in our consumables and instrumentation businesses, such future growth could be adversely affected and may be lower than our historical growth.

### ***Gross Profit***

Gross profit was \$172.1 million (65% of net sales) in the three-month period ended March 31, 2011 as compared to \$173.2 million (66% of net sales) in the same period in 2010. Our consumable sample and assay products have a higher gross margin than our instrumentation products, and fluctuations in the sales levels of these products can result in fluctuations in our gross margin during a quarter when compared to the gross margin of another quarter. The dollar decrease in 2011 gross profit compared to the same period in 2010 includes a charge of approximately \$1.6 million primarily related to inventory damaged at our sales subsidiary in Japan.

Amortization expense related to developed technology and patent and license rights, which have been acquired in a business combination, is included in cost of sales. The amortization expense on acquisition-related intangibles within cost of sales increased to \$16.8 million in the first quarter of 2011, as compared to \$15.0 million in the comparable 2010 period. We expect that our acquisition-related intangible amortization will continue to increase as a result of new acquisitions.

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

Research and development expenses increased by 3% to \$32.7 million (12% of net sales) in the first quarter of 2011, compared to \$31.6 million (12% of net sales) in the same period of 2010. Our business combinations, along with the acquisition of new technologies, have resulted in an increase in our research and development costs. As we continue to discover, develop and acquire new products and technologies, we will incur additional expense related to research and development facilities, licenses and employees engaged in our research and development efforts. Additionally, our research and development costs are expected to increase as a result of seeking regulatory approvals, including U.S. FDA Pre-Market Approval (PMA), U.S. FDA 510(k) clearance and EU CE approval of certain assays or instruments. The increase in research and development expense was adversely affected by \$0.4 million of currency impact in the first quarter of 2011. We have a strong commitment to research and development and expect to continue to make investments in our research and development efforts. Accordingly, our research and development expenses will continue to increase, perhaps significantly.

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**Table of Contents*****Sales and Marketing***

Sales and marketing expenses increased by 6% to \$68.4 million (26% of net sales) in the first quarter of 2011 from \$64.4 million (24% of net sales) in the same period of 2010. The increase in sales and marketing expense reflects an adverse currency impact of \$1.4 million in the first quarter of 2011. Sales and marketing expenses are primarily associated with personnel, commissions, advertising, trade shows, publications, freight and logistics expenses and other promotional expenses. In addition, the sales and marketing expenses include the costs of maintaining separate sales organizations addressing customers in industrial and academic research, applied testing and molecular diagnostics. We anticipate that sales and marketing costs will continue to increase along with new product introductions and growth in sales of our products, but we expect sales and marketing costs will, over the long term, grow at a slower rate than our overall revenue growth.

***General and Administrative, Integration and Other Costs***

General and administrative, business integration, restructuring and related costs were \$26.4 million (10% of net sales) in the first quarter of 2011 as compared to \$26.3 million (10% of net sales) in the first quarter of 2010. General and administrative, integration and related costs increased by \$0.1 million due to currency impact in the first quarter of 2011, as compared to the same period of 2010. We have continued to incur integration costs for businesses previously acquired and such costs totaled approximately \$1.0 million in the first quarter of 2011, as compared to \$2.1 million in the same period of 2010. In connection with the integration of the acquired companies, we are benefitting from improved efficiency in general and administrative operations in particular. As we further integrate previously or newly acquired companies and pursue other opportunities to gain efficiencies, we expect to continue to incur additional business integration and restructuring costs in 2011 and 2012. We believe that over time the integration and restructuring activities will result in a decrease in our general and administrative expenses as we aim to improve efficiency in general and administrative operations.

***Acquisition-Related Intangible Amortization***

Amortization expense related to developed technology and patent and license rights, which have been acquired in a business combination, is included in cost of sales. Amortization of trademarks, customer base and non-compete agreements, which have been acquired in a business combination, is recorded in operating expense under the caption acquisition-related intangible amortization. Amortization expenses of intangible assets not acquired in a business combination are recorded within either cost of sales, research and development or sales and marketing line items based on the use of the asset.

During the three months ended March 31, 2011, the amortization expense on acquisition-related intangibles within operating expense was nearly unchanged at \$6.2 million, as compared to \$6.1 million the same period of 2010. We expect that our acquisition-related intangible amortization will increase as a result of future acquisitions.

***Other Income (Expense)***

Total other expense was \$3.2 million and \$3.3 million in the three-month periods ended March 31, 2011 and 2010, respectively. Total other expense is primarily the result of interest expense, partially offset by interest income, foreign currency gains and income from equity method investees.

Interest expense increased slightly to \$6.3 million in the three-month period ended March 31, 2011 from \$6.2 million in the same period of 2010. Interest costs primarily resulted from our long-term debt as discussed in Note 8 in the accompanying notes to the condensed consolidated financial statements.

For the first quarter of 2011, interest income increased to \$1.3 million from \$0.7 million in the same period of 2010. The increase in interest income was primarily due to an increase in short-term investments.

***Provision for Income Taxes***

Our provision for income taxes is based upon the estimated annual effective tax rates. Fluctuations in the distribution of pre-tax income among our operating subsidiaries can lead to fluctuations of the effective tax rate in the consolidated financial statements. Our operating subsidiaries are exposed to effective tax rates ranging from zero up to approximately 42%.

In the first quarters of 2011 and 2010, our effective tax rates were 21% and 20% respectively. The provision for income taxes is based upon the estimated annual effective tax rates. The reported change in tax rates from the first quarter of 2010 to the first quarter of 2011 reflects a lower estimated annualized effective tax rate for 2011 offset by lower discrete events in the first quarter of 2011 as compared to the same period in

2010.

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**Table of Contents*****Liquidity and Capital Resources***

To date, we have funded our business primarily through internally generated funds, debt and private and public sales of equity. Our primary use of cash has been to support continuing operations and our investing activities, including capital expenditure requirements and acquisitions. As of March 31, 2011 and December 31, 2010, we had cash and cash equivalents of \$776.6 million and \$828.4 million, respectively. Cash and cash equivalents are primarily held in U.S. dollars and euros, other than those cash balances maintained in the local currency of subsidiaries to meet local working capital needs. At March 31, 2011, cash and cash equivalents had decreased by \$51.8 million from December 31, 2010 primarily due to cash used in investing activities of \$88.1 million, offset by cash provided by operating activities of \$50.0 million and financing activities of \$5.5 million. As of March 31, 2011 and December 31, 2010, we had working capital of \$1.0 billion and \$976.2 million, respectively.

**Operating Activities.** For the periods ended March 31, 2011 and 2010, we generated net cash from operating activities of \$50.0 million and \$29.6 million, respectively. While net income of \$28.0 million in the first quarter of 2011 decreased by \$5.0 million as compared to the same period in the prior year, the non-cash components such as depreciation and amortization and share-based compensation increased cash from operating activities by \$38.2 million in the first quarter of 2011. This increase was partially offset by net changes in operating assets and liabilities of \$16.1 million, primarily due to a decrease in accrued liabilities which reflects the payment of personnel costs accrued as of December 31, 2010. Because we rely heavily on cash generated from operating activities to fund our business, a decrease in demand for our products, longer collection cycles or significant technological advances of competitors would have a negative impact on our liquidity.

**Investing Activities.** Approximately \$88.1 million of cash was used in investing activities during the three months ended March 31, 2011, compared to \$78.0 million for the same period in 2010. Investing activities during the first quarter of 2011 consisted principally of \$65.2 million invested in short-term investments, \$21.1 million of cash paid for purchases of property and equipment, primarily in our ongoing construction projects in Germany and the U.S., as well as \$5.4 million paid for intangible assets and \$3.0 million of cash paid in connection with acquisition milestone achievement. In January 2011, we also acquired a stake in Alacris for \$3.4 million.

In 2009, we purchased the land and building adjacent to our facility in Hilden, Germany for EUR 2.5 million (approximately \$3.2 million) and began the construction to further expand the German facilities for research and development and production space. In addition, we started the expansion of our Germantown, Maryland, USA facility for production and administrative space in June 2010. These expansion projects are expected to continue into 2014 at an estimated total cost of approximately \$94.0 million. We anticipate that we will be able to fund such expansions with cash generated by operating activities.

In connection with certain acquisitions, we could be required to make additional contingent cash payments totaling up to \$85.4 million based on the achievement of certain revenue and operating results milestones as follows: \$19.0 million in 2011, \$16.2 million in 2012, and \$50.2 million payable in any 12-month period from now until 2014 based on the accomplishment of certain revenue targets, the launch of certain products or the grant of certain patent rights. Of the \$85.4 million total contingent obligation, approximately \$22.5 million is accrued as of March 31, 2011.

**Financing Activities.** Financing activities provided \$5.5 million in cash for the three months ended March 31, 2011 compared to \$2.0 million for the three months ended March 31, 2010. Cash provided during the first quarter of 2011 was primarily related to the issuance of common shares in connection with our equity compensation plans and tax benefits from stock-based compensation.

We have credit lines totaling \$161.5 million at variable interest rates, none of which was utilized as of March 31, 2011. We also have capital lease obligations, including interest, in the aggregate amount of \$26.6 million, and carry \$873.2 million of long-term debt, of which \$76.3 million is current as of March 31, 2011. As of March 31, 2011, we have drawn down \$3.2 million under a loan which can be utilized for up to EUR 12.7 million to finance research and development projects of the Company in Germany. The loan bears interest at 3.5% and is due to be fully repaid by 2019 with repayments starting in September 2011.

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In July 2007, we signed a Syndicated Multi-Currency Term Loan and Revolving Credit Facilities Agreement with Deutsche Bank AG, Deutsche Bank Luxembourg S.A., and the lenders named in the syndication agreement. The lenders made available to us an aggregate amount of \$750 million in the form of (1) a \$500.0 million term loan, (2) a \$100.0 million bridge loan, and (3) a \$150.0 million revolving credit facility. Under the agreement, the \$500.0 million term loan will mature in July 2012 with an amortization schedule that began in July 2009. In July 2010 and July 2009, \$50.0 million and \$25.0 million were repaid, respectively. The next payment of \$75.0 million is due in July 2011. The \$150.0 million revolving credit facility will also expire in July 2012. The \$100.0 million bridge loan was utilized and repaid within the third quarter of 2007. We used the proceeds of the term loan and the bridge loan to pay the cash component of the Digene acquisition consideration and the fees and expenses of the Digene offer and the merger. The revolving credit facility is available for general corporate purposes. The interest due on the \$500.0 million term loan and the \$150.0 million currently undrawn revolving credit facility is tied to the LIBOR benchmark and therefore variable. A \$100.0 million portion of the \$500.0 million term loan has been swapped into a fixed interest rate.

We have notes payable, which are the long-term borrowings of the proceeds from the issuances of \$150.0 million senior unsubordinated convertible notes, with a 1.5% coupon due in 2024 through QIAGEN Finance (2004 Notes), and of \$300.0 million 3.25% senior convertible notes (2006 Notes) due in 2026 through QIAGEN Euro Finance. QIAGEN Finance and Euro Finance are unconsolidated subsidiaries, which were established for this purpose. The 2004 Notes are convertible into our common shares at a conversion price of \$12.6449, subject to adjustment, and the 2006 Notes are convertible into our common shares at a conversion price of \$20.00, subject to adjustment. In connection with conversion of \$5.0 million of the 2004 Notes, we repaid \$5.0 million of the debt to QIAGEN Finance. At March 31, 2011, \$145.0 million and \$300.0 million are included in long-term debt for the amount of the notes payable to QIAGEN Finance and Euro Finance, respectively. The \$145.0 million note payable has an effective rate of 2.19%, and had an original maturity in July 2011. We are in the process of refinancing the \$145.0 million note, which will have a new maturity date no earlier than July 2012. The \$300.0 million note payable has an effective rate of 3.97% and is due in November 2012. QIAGEN N.V. has guaranteed the 2004 and 2006 Notes and has agreements with QIAGEN Finance and Euro Finance to issue shares to the investors in the event of conversion. These subscription rights, along with the related receivable, are recorded at fair value in the equity of QIAGEN N.V. as paid-in capital.

We expect that cash from financing activities will continue to be impacted by issuances of our common shares in connection with our equity compensation plans and that the market performance of our stock will impact the timing and volume of the issuances. Additionally, we may make future acquisitions or investments requiring cash payments, the issuance of additional equity or debt financing.

We believe that funds from operations, existing cash and cash equivalents, together with the proceeds from our public and private sales of equity, and availability of financing facilities, will be sufficient to fund our planned operations and expansion during the coming year. However, the global economic downturn may have a greater impact on our business than currently expected, and we may experience a decrease in the sales of our products, which could impact our ability to generate cash. The availability of debt financing has also been negatively impacted by the global credit crisis. If our future cash flows from operations and other capital resources are not adequate to fund our liquidity needs, we may be required to obtain additional debt or equity financing or reduce or delay our capital expenditures, acquisitions or research and development projects. If we could not obtain financing on a timely basis or at satisfactory terms, or implement timely reductions in our expenditures, our business could be adversely affected.

***Quantitative and Qualitative Disclosures About Market Risk***

Our market risk relates primarily to interest rate exposures on cash, marketable securities and borrowings and foreign currency exposures on intercompany and third-party transactions. The overall objective of our risk management is to reduce the potential negative earnings effects from changes in interest and foreign currency exchange rates. Exposures are managed through operational methods and financial instruments. We do not use financial instruments for trading or speculative purposes. Our exposure to market risk from changes in interest rates and currency exchange rates has not changed materially from our exposure as discussed in Item 11 of our Annual Report on Form 20-F for the year ended December 31, 2010.

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### ***Foreign Currency***

QIAGEN N.V.'s functional currency is the U.S. dollar and our subsidiaries' functional currencies are generally the local currencies of the respective countries in which they are located. All amounts in the financial statements of entities whose functional currency is not the U.S. dollar are translated into U.S. dollar equivalents at exchange rates as follows: (1) assets and liabilities at period-end rates, (2) income statement accounts at average exchange rates for the period, and (3) components of shareholders' equity at historical rates. Translation gains or losses are recorded in shareholders' equity, and transaction gains and losses are reflected in net income. The net gain on foreign currency transactions in the three-month periods ended March 31, 2011 and 2010 was \$0.7 million and \$2.1 million, respectively, and is included in other income, net.

### ***Derivatives and Hedging***

In the ordinary course of business, we use derivative instruments, including swaps, forwards and/or options, to manage potential losses from foreign currency exposures and variable rate debt. The principal objective of such derivative instruments is to minimize the risks and/or costs associated with global financial and operating activities. We do not utilize derivative or other financial instruments for trading or speculative purposes. We recognize all derivatives as either assets or liabilities on the balance sheet, measure those instruments at fair value and recognize the change in fair value in earnings in the period of change, unless the derivative qualifies as an effective hedge that offsets certain exposures. In determining fair value, we consider both the counterparty credit risk and our own creditworthiness. To determine our own credit risk, we estimated our own credit rating by benchmarking the price of our outstanding debt to publicly-available comparable data from rated companies. Using the estimated rating, we quantify our credit risk by reference to publicly-traded debt with a corresponding rating.

***Foreign Currency Derivatives.*** As a globally active enterprise, we are subject to risks associated with fluctuations in foreign currencies in our ordinary operations. This includes foreign currency-denominated receivables, payables, debt, and other balance sheet positions. We manage our balance sheet exposure on a group-wide basis using foreign exchange forward and option contracts as well as cross-currency swaps.

***Interest Rate Derivatives.*** We use interest rate derivative contracts in connection with certain borrowing transactions to hedge fluctuating interest rates. We have entered into interest rate swaps in which we agree to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount.

We also make use of economic hedges. All derivatives that qualify for hedge accounting are cash-flow hedges. Further details of our derivative and hedging activities can be found in Note 6 to the accompanying condensed consolidated financial statements.

### ***Recent Authoritative Pronouncements***

For information on recent accounting pronouncements impacting our business, see Note 2 to the accompanying condensed consolidated financial statements.

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### ***Application of Critical Accounting Policies, Judgments and Estimates***

The preparation of our financial statements in accordance with accounting principles generally accepted in the United States requires management to make assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Critical accounting policies are those that require the most complex or subjective judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. Thus, to the extent that actual events differ from management's estimates and assumptions, there could be a material impact on the financial statements. In applying our critical accounting policies, at times we used accounting estimates that either required us to make assumptions about matters that were highly uncertain at the time the estimate was made or were reasonably likely to change from period to period, having a material impact on the presentation of our results of operations, financial position or cash flows. Our critical accounting policies are those related to revenue recognition, share-based compensation, income taxes, investments, variable interest entities, goodwill and other intangible assets, purchase price allocation and fair value measurements.

Our critical accounting policies are discussed further in Item 5 of our Annual Report on Form 20-F for the year ended December 31, 2010. Actual results in these areas could differ from management's estimates. There have been no significant changes in our critical accounting policies during the first quarter of 2011.

### ***Off-Balance Sheet Arrangements***

Other than our arrangements with QIAGEN Finance and Euro Finance as discussed above and in Notes 8 and 14 to the accompanying condensed consolidated financial statements, we did not use special purpose entities and did not have off-balance-sheet financing arrangements as of March 31, 2011 and December 31, 2010.

### ***Contractual Obligations***

There were no material changes at March 31, 2011 from the contractual obligations disclosed in Item 5 of our Annual Report on Form 20-F for the year ended December 31, 2010.

### ***Legal Proceedings***

For information on legal proceedings, see Note 13 to the accompanying condensed consolidated financial statements.

While no assurances can be given regarding the outcome of the proceeding described in Note 13, based on information currently available, we believe that the resolution of these matters is unlikely to have a material adverse effect on our financial position or results of future operations for QIAGEN N.V. as a whole. However, because of the nature and inherent uncertainties of litigation, should the outcomes be unfavorable, certain aspects of our business, financial condition, and results of operations and cash flows could be materially adversely affected.



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### ***Risk Factors***

#### **Risks Related to the Growth of Our Business**

**An inability to manage our growth, manage the expansion of our operations, or successfully integrate acquired businesses could adversely affect our business.**

Our business has grown rapidly, with total net sales increasing to \$1.1 billion in 2010 from \$465.8 million in 2006. We have made several acquisitions in recent years, including SABiosciences in December 2009; DxS Ltd. in September 2009; Corbett Life Science Pty. Ltd., or Corbett, in July 2008; and Digene Corporation, or Digene, in July 2007. In April 2011, we entered into an agreement to acquire Cellestis, Ltd. We intend to identify and acquire other businesses in the future that support our strategy to build on our global leadership position in molecular technologies. The successful integration of acquired businesses requires a significant effort and expense across all operational areas, including sales and marketing, research and development, manufacturing, finance and administration and information technologies.

We have also made significant investments to expand our business operations. In January 2009, we purchased land adjacent to our facility in Germany and in August 2009 began a major expansion project to create additional facilities for research and development as well as to expand production capacity. This expansion project is expected to continue through 2011. In addition, we began a project in June 2010 to expand our facility in Germantown, Maryland, for research, production and administrative space, and it is expected to continue into 2014. These expansion projects increase our fixed costs, resulting in higher operational costs in the future that will negatively impact our gross margin and operating income until we fully utilize the additional capacity of these planned facilities. We also continue to upgrade our operating and financial systems and expand the geographic presence of our operations, which has resulted in the hiring of new employees as well as increased responsibilities for both existing and new management personnel. The rapid expansion of our business and the addition of new personnel may place a strain on our management and operational systems.

Our future operating results will depend on the ability of our management to continue to implement and improve our research, product development, manufacturing, sales and marketing and customer support programs, enhance our operational and financial control systems, expand, train and manage our employee base, integrate acquired businesses, and effectively address new issues related to our growth as they arise. There can be no assurance that we will be able to manage our recent or any future expansion or acquisitions successfully, and any inability to do so could have a material adverse effect on our results of operations.

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### **Our acquisitions expose us to new risks, and we may not achieve the anticipated benefits of acquisitions of technologies and businesses.**

During the past several years, we have acquired and integrated a number of companies through which we have gained access to technologies and products that complement our internally developed product lines. In the future, we may acquire additional technologies, products or businesses to expand our operations. Acquisitions expose us to new operating and other risks, including risks associated with the:

assimilation of new products, technologies, operations, sites and personnel;

application for and achievement of regulatory approvals or other clearances;

diversion of resources from our existing business and technologies;

generation of sales to offset associated acquisition costs;

implementation and maintenance of uniform standards and effective controls and procedures;

maintenance of relationships with employees and customers and integration of new management personnel;

issuance of dilutive equity securities;

incurrence or assumption of debt;

amortization or impairment of acquired intangible assets or potential businesses; and

exposure to liabilities of and claims against acquired entities.

Our failure to address the above risks successfully in the future may prevent us from achieving the anticipated benefits from any acquisition in a reasonable time frame, or at all.

### **Our continued growth is dependent on the development and success of new products.**

Rapid technological change and frequent new product introductions are typical in the markets we serve. Our future success will depend in part on continuous, timely development and introduction of new products that address evolving market requirements. We believe successful new product introductions provide a significant competitive advantage because customers make an investment of time in selecting and learning to use a new product and are reluctant to switch thereafter. To the extent that we fail to introduce new and innovative products, or such products suffer significant delays in development or are not accepted in the market, we may lose market share to our competitors, which will be difficult or impossible to regain. An inability to successfully develop and introduce new products, for technological or other reasons, could reduce our growth rate or otherwise have an adverse effect on our business. Important programs underway include the development and global rollout of our modular medium-throughput QIASymphony platform, our next generation high throughput molecular testing QIAensemble platform and related sample and assay technologies. In the past we have experienced delays in the development and introduction of products, including regulatory approvals, and we may experience delays in the future.



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Therefore, we cannot assure you that we will keep pace with the rapid rate of change in our markets or that our new products will adequately meet the requirements of the marketplace, achieve market acceptance or regulatory approval or compete successfully with competitive technologies. Some of the factors affecting market acceptance of new products include:

availability, quality and price relative to competitive products;

the timing of introduction of the new product relative to competitive products;

opinions of the new product's utility;

citation of the new product in published research;

regulatory trends and approvals; and

general trends in life sciences research, applied markets and molecular diagnostics.

The expenses or losses associated with unsuccessful product development activities or lack of market acceptance of our new products could materially adversely affect our business, financial condition and results of operations.

**Our concentration of a large amount of revenues in a single product group and a small number of customers for that product group increases our dependence on that product group's success, our reliance on our relationship with each of those customers, and our reliance on a diversification strategy.**

We believe that contributions from sales of our HPV test product group may represent as much as 25% of our total net sales. While the ultimate decision to order this test is made by a physician in consultation with their patient, the test analysis is performed by reference laboratories, who in turn are the customers of QIAGEN in terms of ordering tests and related equipment. At present, a limited number of reference laboratories account for the majority of our sales for this product group. A significant reduction in sales of this product group may have a significant adverse impact on our results of operations. In times of economic hardship or high unemployment, as was the case in 2010, patients may decide to forego or delay routine tests. Further, the cost of HPV testing is reimbursed to reference laboratories by insurance providers and healthcare maintenance organizations. If these insurance companies decide to limit the availability of payments for our test to their members, it could have a significant adverse impact on our results of operations. It is possible that our dependence on sales from this product group will continue in the future. If we fail to diversify our product line grouping, we will continue to be at risk that the loss or under-performance of a single product, product group or customer may materially affect our results of operations.

**Our sales of HPV products and our growth will be effected by the level of acceptance of and the market for HPV screening by physicians and laboratories.**

Sales of our HPV-related molecular diagnostic products, and our ability to increase sales of this product group, depend upon greater acceptance by physicians and laboratories of the clinical benefits of HPV screening as a necessary part of the standard of care for screening women for risk of cervical cancer. This applies to the U.S. as well as Europe and various markets around the world. In particular, a key element of future sales growth includes greater adoption of HPV test products as a primary cervical cancer screening method, either alone or in conjunction with cytology-based tests (Pap tests). Pap tests have been the principal means of cervical cancer screening since the 1940s. The introduction of our HPV test has been supported by major clinical data showing its significant benefits in better identifying women at risk for cervical cancer than to those who were only given a Pap test, and standards of care in the U.S. have been adopted to recommend HPV tests in conjunction with Pap tests. These standards are also being adopted in other countries around the world. However, technological advances designed to improve quality control over sample collection and preservation, as well as to reduce the susceptibility of Pap tests to human error, may increase physician reliance on the Pap test and solidify its market position as the most widely used screening test for cervical cancer. Approximately 60 million Pap tests are currently performed annually in the United States, and an estimated 60 to 100 million additional Pap tests are performed annually in the rest of the world.



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HPV testing applies a new molecular-based technology and testing approach that is different from the cytology-based approach (reviewing cells under a microscope) of the Pap test. Significant resources are required to educate physicians and laboratories about the patient benefits that can result from using HPV test products in addition to the Pap test, and to assist laboratory customers in learning how to use our HPV test products. The addition of our HPV test products to the Pap test for primary screening in the United States may be seen by some customers as adding unnecessary expense to the generally accepted cervical cancer screening methodology. As a result, we must provide information to counteract these types of impressions on a case-by-case basis. If we are not successful in executing our marketing strategies, which focus on the proven significant benefits of HPV testing to identify women at risk for cervical cancer, we may not be able to maintain or continue to grow our market share for HPV testing.

We are working with physician and laboratory customers, and also with patient advocacy groups, to develop and establish the benefits of HPV screening to women. If we are not successful in this endeavor, we may not be able to maintain or grow the market for HPV screening or maintain or increase our HPV test revenues.

**We may encounter delays in receipt, or limits in the amount, of reimbursement approvals and public health funding, which will impact our ability to grow revenues in these markets.**

Third-party payors are often reluctant to reimburse healthcare providers for the use of medical tests that involve new technologies or provide novel diagnostic information. In addition, third-party payors are increasingly limiting reimbursement coverage for medical diagnostic products and, in many instances, are exerting pressure on diagnostic product suppliers to reduce their prices. Since each third-party payor often makes reimbursement decisions on an individual patient basis, obtaining such approvals is a time-consuming and costly process that requires us to provide scientific and clinical data supporting the clinical benefits of each of our products. As a result, there can be no assurance that reimbursement approvals will be obtained. This process can delay the broad market introduction of new products, and could have a negative effect on our results of operations. As a result, outside the U.S., third-party reimbursement may not be consistent or financially adequate to cover the cost of our products. This could limit our ability to sell our products or cause us to reduce prices, which would adversely affect our results of operations.

**Reduction in research and development budgets and government funding may result in reduced sales.**

Our customers include researchers at pharmaceutical and biotechnology companies, academic institutions, and government and private laboratories. Fluctuations in the research and development budgets of these organizations could have a significant adverse effect on demand for our products. Research and development budgets are affected by changes in available resources, the mergers of pharmaceutical and biotechnology companies, changes in spending priorities and institutional budgetary policies. Our results of operations could be adversely affected by any significant decrease in expenditures for life sciences research and development by pharmaceutical and biotechnology companies, academic institutions, and government and private laboratories. In addition, short-term changes in administrative, regulatory or purchasing-related procedures can create uncertainties or other impediments that can have an adverse impact on our results of operations.

In recent years, the pharmaceutical and biotechnology industries have undergone substantial restructuring and consolidation. Additional mergers or consolidation within the pharmaceutical and biotechnology industries could cause us to lose existing customers and potential future customers, which could have a material adverse impact on our results of operations.

A significant portion of our sales are generated from demand for our products from researchers at universities, government laboratories and private foundations, and whose funding is dependent upon grants from government agencies, such as the U.S. National Institutes of Health (NIH). Although the level of research funding has been increasing in recent years, we cannot assure you that this trend will continue, in particular in the U.S. given budget constraints caused by challenging economic conditions. Government funding of research and development is subject to the political process, which is inherently unpredictable. Future sales may be adversely affected if our customers delay purchases as a result of uncertainties regarding the approval of government or industrial budget proposals. Also, government proposals to reduce or eliminate budgetary deficits have sometimes included reduced allocations to the NIH and government agencies in other countries that fund life sciences research and development activities. A reduction in government funding for the NIH or government research agencies in other countries could have a serious adverse impact on our results of operations.

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### **Competition could reduce our sales.**

We face various competitive factors against greater adoption of our products, in particular the use of "home-brew" methods, where widely available reagents and other chemicals are used in a non-standardized manner to perform sample and assay processing. We are also aware that a significant number of laboratory organizations and competitor companies are developing and using their own internally developed molecular assay tests. Some competitor companies may seek regulatory approvals from the U.S. Food and Drug Administration (FDA) or similar non-U.S. regulatory authorities and bring to the market alternative products that could limit the use of our products. The success of our business depends in part on the continued conversion of current users of "home brew" methods to our standardized sample and assay technologies and products. There can be no assurance, however, as to the continued conversion of these potential customers.

We have experienced, and expect to continue to experience, increasing competition in various segments of our business from companies that provide competitive pre-analytical solutions and also other products used by our customers. The markets for some of our products are very competitive and price sensitive. Other product suppliers may have significant advantages in terms of financial, operational, sales and marketing resources as well as experience in research and development. These companies may have developed, or could develop in the future, new technologies that compete with our products or even render our products obsolete. The development of products offering superior technology or a more cost-effective alternative to our products could have a material adverse effect on our results of operations.

We believe that customers in the market for pre-analytical solutions and assay technologies display a significant amount of loyalty to their initial supplier of a particular product, in particular given the time and expense required by customers to properly implement these products into their operations. As a result, it may be difficult to convert customers who have purchased products from competitors, and our competitive position may suffer if we are unable to be the first to develop and supply new products.

### **Global economic conditions could adversely affect our business, results of operations and financial condition.**

Our results of operations could be materially affected by adverse general conditions in the global economy and global financial markets. In times of economic hardship or high unemployment, patients may decide to forego or delay routine tests, in particular for our HPV test used to screen women for risk of cervical cancer. Changes in the availability or reimbursement of our molecular diagnostic testing products by insurance providers and healthcare maintenance organizations could also have a significant adverse impact on our results of operations.

Access to financing in the global financial markets has also been adversely affected for many businesses during the recent challenging economic times. Our customers may face internal financing pressures that adversely impact spending decisions and the ability to purchase our products. A severe or prolonged economic downturn could result in a variety of risks to our business that would adversely impact our results of operations, including the reduction or delay in planned improvements to healthcare systems in various countries, the reduction of funding for life sciences research, and intensified efforts by governments and healthcare payors regarding cost-containment efforts.

As is the case for many businesses, we face the following risks in regard to financial markets:

severely limited access to financing over an extended period of time, which may limit our ability to fund our growth strategy and could result in delays to capital expenditures, acquisitions or research and development projects;

further failures of currently solvent financial institutions, which may cause losses from our short-term cash investments or our hedging transactions due to a counterparty's inability to fulfill its payment obligations;

inability to refinance existing debt at competitive rates, reasonable terms or sufficient amounts; and

increased volatility or adverse movements in foreign currency exchange rates.

### **Risks Related to the Development, Manufacture and Distribution of Our Products**

**We depend on suppliers for materials used to manufacture our products, and if shipments from these suppliers are delayed or interrupted, we may be unable to manufacture our products.**

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We buy materials to create our products from a number of suppliers and are not dependent on any one supplier or group of suppliers for our business as a whole. However, key components of certain products, including certain instrumentation components and chemicals, are available only from a single source. If supplies from these vendors are delayed or interrupted for any reason, we may not be able to obtain these materials timely or in sufficient quantities or qualities in order to produce certain products, and this could have an adverse impact on our results of operations.

### **We rely on collaborative commercial relationships to develop some of our products.**

Our long-term business strategy involves entering into strategic alliances as well as marketing and distribution arrangements with academic, corporate and other partners relating to the development, commercialization, marketing and distribution of certain of



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our existing and potential products. We may be unable to continue to negotiate these collaborative arrangements on acceptable terms, and these relationships also may not be scientifically or commercially successful. In addition, we may be unable to maintain these relationships, and our collaborative partners may pursue or develop competing products or technologies, either on their own or in collaboration with others.

### **Some of our customers are requiring us to change our sales arrangements to lower their costs which may limit our pricing flexibility and harm our business.**

Some of our customers have developed purchasing initiatives to reduce the number of vendors from which they purchase products to lower their supply costs. In some cases, these customers have established agreements with large distributors, which include discounts and direct involvement in the distributor's purchasing process. These activities may force us to supply large distributors with our products at discounts in order to continue providing products to some customers. For similar reasons, many larger customers, including the U.S. government, have requested, and may request in the future, special pricing arrangements, which can include blanket purchase agreements. These agreements may limit our pricing flexibility, which could harm our business and affect our results of operations. For a limited number of customers, and at the customer's request, we have conducted sales transactions through third-party online intermediaries to whom we are required to pay commissions. If sales grow through these intermediaries, it could have an adverse impact on our results of operations, particularly a negative impact on our gross margin.

### **The time and expense needed to obtain regulatory approval and respond to changes in regulatory requirements could adversely affect our ability to commercially distribute our products and generate sales.**

We and our customers operate in a highly regulated environment characterized by continuous changes in the governing regulatory framework, particularly for product approvals. Genetic research activities and products commonly referred to as genetically engineered (such as certain food and therapeutic products) are subject to extensive governmental regulation in most developed countries, especially in the major markets for pharmaceutical and diagnostic products such as the European Union, the U.S. and Japan. In recent years, several highly publicized scientific events (most notably in genomic research and cloning) have prompted intense public debates on the ethical, philosophical and religious implications of an unlimited expansion in genetic research and the use of products emerging from this research. As a result of this debate, some key countries may increase existing regulatory barriers, which could adversely affect demand for our products and prevent us from fulfilling our growth expectations. Furthermore, there can be no assurance that any future changes of applicable regulations will not require further expenditures or an alteration, suspension or liquidation of our operations in certain areas, or even in their entirety.

Changes in the existing regulations or adoption of new requirements or policies could adversely affect our ability to sell our approved products or to seek approvals for new products in other countries around the world. Future sales of certain products now in development may be dependent upon us conducting pre-clinical studies, clinical trials and other tasks required to gain regulatory approvals. These trials could be subject to extensive regulation by governmental authorities in the U.S., particularly the FDA, and regulatory agencies in other countries with similar responsibilities. These trials involve substantial uncertainties and could impact customer demand for our products.

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In addition, certain products, especially those intended for use in *in vitro* diagnostics applications, require regulatory approvals in various countries. For example, since the European Union Directive 98/79/EC on *in vitro* diagnostic medical devices, or EU-IvD-D, went into effect on December 7, 2003, all products and kits used for *in vitro* diagnostic applications must be compliant with this directive. In addition to high-risk products such as HIV testing systems (list A of Annex II of the directive) or blood glucose testing systems (list B of Annex II of the directive), nucleic acid purification products, which are used in diagnostic workflows, are affected by this regulatory framework. The major goals of this directive are to standardize diagnostic procedures within the European Union, to increase reliability of diagnostic analysis and to enhance patient safety through the highest level of product safety. Our failing to obtain any required clearance or approvals may significantly damage our business in these markets.

Additionally, we may be required to incur significant costs to comply with laws and regulations in the future, and changes or additions to existing laws or regulations may have a material adverse effect upon our business, financial condition and results of operations.

Several of our key products and programs are medical devices subject to extensive regulation by the FDA under the Federal Food, Drug and Cosmetic Act. We plan to apply for FDA clearance or approval of additional products in the future as medical devices. Regulatory agencies in other countries also have medical device approval regulations that are becoming more extensive. These regulations govern most commercial activities associated with medical devices, including indications for the use of these products as well as other aspects that include product development, testing, manufacturing, labeling, storage, recordkeeping, advertising and promotion. Compliance with these regulations is expensive and time-consuming. Our HPV products were the first to obtain regulatory approval in the U.S. and in many European countries for clinical use in screening women for cervical cancer, which adds to our marketing expenses and increases the degree of regulatory review and oversight. The expense of submitting regulatory approval applications in multiple countries, as compared to our available resources, will impact the decisions we make about entering new markets.

Each medical device that we wish to distribute commercially in the U.S. will likely require us to seek either 510(k) clearance or approval of a pre-market approval application (PMA) from the FDA prior to marketing the device for *in-vitro* diagnostic use. Clinical trials related to our regulatory submissions take years to complete and represent a significant expense. The 510(k) clearance pathway usually takes from three to twelve months, but can take even longer. The PMA pathway is more costly, lengthy and uncertain, and can take from one to three years, or even longer. For example, it took more than four years to receive pre-market approval from the FDA for our HPV test product for use as a test for the presence of HPV in women with equivocal Pap test results and pre-market approval for the use of our HPV test as a primary adjunctive cervical cancer screening test to be performed in combination with the Pap test for women age 30 and older. The uncertain time period required for regulatory review increases our costs to develop new products and increases the risk that we will not succeed in introducing or selling new products in the U.S.

Our cleared or approved devices, including our diagnostic tests and related equipment, are subject to numerous post-approval requirements. We are subject to inspection and marketing surveillance by the FDA to determine our compliance with regulatory requirements. If the FDA determines that we have failed to comply, it can institute a wide variety of enforcement actions, ranging from warning letters to more severe sanctions such as fines, injunctions and civil penalties, recalls or seizures of our products, operating restrictions, partial suspension or total shutdown of production, denial of our requests for 510(k) clearance or pre-market approval of product candidates, withdrawal of 510(k) clearance or pre-market approval already granted and criminal prosecution. Any enforcement action by the FDA may affect our ability to commercially distribute these products in the U.S.

Some of our products are sold for research purposes in the U.S. We do not promote these products for clinical diagnostic use, and they are labeled For Research Use Only (RUO) or for molecular biology applications. If the FDA were to disagree with our designation of a product, we could be forced to stop selling the product until appropriate regulatory clearance or approval has been obtained.

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### **We heavily rely on air cargo carriers and other overnight logistics services, and shipping delays or interruptions could harm our business.**

Our customers in the scientific research markets typically only keep a modest inventory of our products on hand, and consequently require overnight delivery of purchases. As a result, we heavily rely on air cargo carriers and logistic suppliers. If overnight services are suspended or delayed, and other delivery carriers and logistic suppliers cannot provide satisfactory services, customers may suspend a significant amount of their work requiring nucleic acid purification. The lack of adequate delivery alternatives would have a serious adverse impact on our results of operations.

### **Risks Related to Our Operations**

#### **Our success depends on the continued employment of our key personnel, any of whom we may lose at any time.**

Our senior management consists of an Executive Committee comprised of the Managing Directors and our most senior executives responsible for core functions, and led by Mr. Peer Schatz, our Chief Executive Officer. The loss of Mr. Schatz or any of our Managing Directors could have a material adverse effect on us. Further, although we have not experienced any difficulties attracting or retaining key management and scientific staff, our ability to recruit and retain qualified, skilled employees will continue to be critical to our success. Given the intense competition for experienced scientists among pharmaceutical and biotechnology companies as well as academic and other research institutions, there can be no assurance that we will be able to attract and retain employees critical to our success on acceptable terms. Our initiatives to expand QIAGEN will also require additional employees, including management with expertise in areas such as manufacturing and marketing, and the development of existing managers to lead a growing organization. The failure to recruit new employees, or develop existing employees, could have a material adverse impact on our results of operations.

#### **Our ability to accurately forecast our results during each quarter may be negatively impacted by the fact that a substantial percentage of our sales may be recorded in the final weeks or days of the quarter.**

The markets we serve are characterized by a high percentage of purchase orders being received in the final few weeks or even days of each quarter. Although this varies from quarter to quarter, many customers make a large portion of their purchase decisions late in each quarter, in particular since it is during this period that they receive new information on both their budgets and requirements. As a result, even late in each quarter, we cannot predict with certainty whether our sales forecasts for the quarter will be achieved.

Historically, we have been able to rely on the overall pattern of customer purchase orders during prior periods to project with reasonable accuracy our anticipated sales for the current or coming quarters. However, if customer purchasing trends during a quarter vary from historical patterns, our quarterly financial results could deviate significantly from our projections. As a result, our sales forecasts for any given quarter may prove not to have been accurate. We also may not have sufficient information to confirm or revise our sales projections for a specific quarter. If we fail to achieve our forecasted sales for a particular quarter, the value of our Common Shares could be adversely affected.

#### **Changes in tax laws or their application could adversely affect our results of operations.**

The integrated nature of our worldwide operations enables us to reduce the effective tax rate on our earnings since a portion of our earnings are taxed at more favorable rates in some jurisdictions. Changes in tax laws or their application with respect to matters such as changes in tax-rates, transfer pricing, intercompany dividends, controlled corporations, and limitations on tax relief allowed on the interest on intercompany debt, could increase our effective tax rate and adversely affect our results of operations.

#### **The U.S. health care reform law could affect our business, profitability and stock price.**

Comprehensive healthcare reform legislation was signed into law in the U.S. in 2010. Although we cannot fully predict the many ways in which this healthcare reform might affect our business, the law imposes a 2.3% excise tax on certain transactions, including many sales of medical devices, which we expect will include the U.S. sales of our assays and instruments. This tax is scheduled to take effect in 2013. The increased tax burden may adversely affect our results of operations.

#### **We have a significant amount of long-term debt that may adversely affect our financial condition.**

We have a significant amount of debt, which creates significant debt service obligations. A high level of indebtedness increases the risk that we may default on our debt obligations. We cannot assure you that we will be able to generate sufficient cash flow to pay the interest on our debt or that future working capital, borrowings or equity financing will be available to repay or refinance our debt. If we are unable to generate

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sufficient cash flow to pay the interest on our debt, we may have to delay or curtail our research and development programs. The level of our indebtedness could, among other things:

make it difficult for us to make required payments on our debt;

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make it difficult for us to obtain any financing in the future necessary for working capital, capital expenditures, debt service requirements or other purposes;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete; and

make us more vulnerable in the event of a downturn in our business.

**Our business may require substantial additional capital, which we may not be able to obtain on terms acceptable to us, if at all.**

Our future capital requirements and level of expenses will depend upon numerous factors, including the costs associated with:

marketing, sales and customer support efforts;

research and development activities;

expansion of our facilities;

consummation of possible future acquisitions of technologies, products or businesses;

demand for our products and services; and

repayment or refinancing of debt.

We currently anticipate that our short-term capital requirements will be satisfied by cash flow from our operations. However, as of March 31, 2011, we had outstanding loan facilities of approximately \$425.0 million, of which \$75.0 million will become due in July 2011, and \$350.0 million will become due in July 2012. As of March 31, 2011, we also had additional long-term debt obligations of \$445.0 million, of which \$145.0 million will become due no earlier than July 2012, and \$300.0 million will become due in November 2012 as well as long-term debt of \$3.2 million which is due in June 2019 with repayments starting in September 2011. Furthermore, as of March 31, 2011, we have capital lease obligations, including the current portion, of \$26.6 million, that expire in various years through 2018. We may need to refinance all or part of these liabilities before or at their contractual maturities.

We currently do not foresee that this will happen, but if at some point in time our existing resources should be insufficient to fund our activities, we may need to raise funds through public or private debt or equity financings. The funds for the refinancing of the existing liabilities or for the ongoing funding of our business may not be available or, if available, not on terms acceptable to us. If adequate funds were not available, we may be required to reduce or delay expenditures for research and development, production, marketing, capital expenditures and/or acquisitions, which could have a material adverse effect on our business and results of operations. To the extent that additional capital is raised through the sale of equity or convertible securities, the issuance of any securities could result in dilution to our shareholders.

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### **An impairment of goodwill and intangible assets could reduce our earnings.**

At March 31, 2011, our consolidated balance sheet reflected approximately \$1.4 billion of goodwill and approximately \$752.5 million of intangible assets. Goodwill is recorded when the purchase price of a business exceeds the fair market value of the tangible and separately measurable intangible net assets. U.S. Generally Accepted Accounting Principles, (U.S. GAAP) generally requires us to test goodwill for impairment on an annual basis or when events or circumstances occur indicating that goodwill might be impaired. Long-lived assets, such as intangible assets with finite useful lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If we determine that any of our goodwill or intangible assets were impaired, we would be required to take an immediate charge to earnings and our results of operations could be adversely affected.

### **Our strategic equity investments may result in losses.**

We have made, and may continue to make, strategic investments in complementary businesses as opportunities arise. We periodically review the carrying value of these investments for impairment, considering factors that include the most recent stock transactions, book values from the most recent financial statements, and forecasts and expectations of the investee. The results of these valuations may fluctuate due to market conditions and other conditions over which we have no control.

Estimating the fair value of non-marketable equity investments in life science companies is inherently subjective. If actual events differ from our assumptions and other than temporary unfavorable fluctuations in the valuations of the investments are indicated, it could require a write-down of the investment. This could result in future charges on our earnings that could materially adversely affect our results of operations. It is uncertain whether or not we will realize any long-term benefits from these strategic investments.

### **Risk of price controls is a threat to our profitability.**

The ability of many of our customers to successfully market their products depends in part on the extent to which reimbursement for the costs of these products is available from governmental health administrations, private health insurers and other organizations. Governmental and other third-party payors are increasingly seeking to contain healthcare costs and to reduce the price of medical products and services. As a result, the biotechnology, diagnostics and pharmaceutical industries are exposed to the potential risk of price controls by these entities. If there are not adequate reimbursement levels, our business and results of operations could be adversely affected.

## **Risks Related to Our Global Operations**

### **Doing business internationally creates certain risks for our business.**

Our business involves operations in several countries outside of the U.S. Our consumable manufacturing facilities are located in Germany, China and the U.S., and our instrumentation facilities are located in Switzerland. We have established sales subsidiaries in numerous countries including the U.S., Germany, Japan, the United Kingdom, France, Switzerland, Australia, Canada, the Netherlands, Sweden, Italy, Hong Kong, Singapore, Turkey, Korea, Malaysia, China, Spain, Brazil, Mexico and India. In addition, our products are sold through independent distributors serving more than 40 other countries. Conducting and launching operations on an international scale requires close coordination of activities across multiple jurisdictions and time zones and consumes significant management resources. We have invested heavily in computerized information systems in order to manage more efficiently the widely dispersed components of our operations. If we fail to coordinate and manage these activities effectively, our business and results of operations will be adversely affected.

Our operations are subject to other risks inherent in international business activities, such as general economic conditions in the countries in which we operate, overlap of different tax structures, unexpected changes in regulatory requirements, compliance with a variety of foreign laws and regulations, and longer accounts receivable payment cycles in certain countries. Other risks associated with international operations include import and export licensing requirements, trade restrictions, exchange controls and changes in tariff and freight rates. As a result of these conditions, an inability to successfully manage our international operations could have a material adverse impact on our business and results of operations.

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### **Our business in countries with a history of corruption and transactions with foreign governments increase the risks associated with our international activities.**

Based on our international operations, we are subject to the U.S. Foreign Corrupt Practices Act, or the FCPA, and other laws that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by business entities for the purpose of obtaining or retaining business. We have operations, agreements with third parties and make sales in countries known to experience corruption. Further international expansion may involve increased exposure to such practices. Our activities in these countries creates the risk of unauthorized payments or offers of payments by one of our employees, consultants, sales agents or distributors that could be in violation of various laws, including the FCPA, even though these parties are not always subject to our control. It is our policy to implement safeguards to discourage these practices by our employees and distributors. However, our existing safeguards and any future improvements may not prove to be effective, and our employees, consultants, sales agents or distributors may engage in conduct for which we might be held responsible. Violations of the FCPA and other laws may result in criminal or civil sanctions, which could be severe, and we may be subject to other liabilities, which could negatively affect our business, results of operations and financial condition.

### **Exchange rate fluctuations may adversely affect our business and operating results.**

Since we currently market our products throughout the world, a significant portion of our business is conducted in currencies other than the U.S. dollar, our reporting currency. As a result, fluctuations in value, relative to the U.S. dollar, of the currencies in which we conduct our business have caused and will continue to cause foreign currency transaction gains and losses. Foreign currency transaction gains and losses arising from normal business operations are charged against earnings in the period when incurred. We hedge a portion of the anticipated cash flow that we expect to exchange into other currencies, subject to our short-term financing needs. Due to the number of currencies involved, the variability of currency exposures and the potential volatility of currency exchange rates, we cannot predict the effects of exchange rate fluctuations upon future operating results. While we engage in foreign exchange hedging transactions to manage our foreign currency exposure, there can be no assurance that our hedging strategy will adequately protect our operating results from the effects of future exchange rate fluctuations.

### **We have made investments in and are expanding our business into emerging markets and regions, which exposes us to new risks.**

We have recently expanded our business into emerging markets in Asia, South America and Africa, and we expect to continue to focus on expanding our business in these fast-growing markets. In addition to the currency and international operation risks described above, our international operations are subject to a variety of risks that include those arising out of the economy, political outlook and language and cultural barriers in countries where we have operations or do business. In many of these emerging markets, we may be faced with several risks that are more significant than in other countries in which we have a history of doing business. These risks include economies that may be dependent on only a few products and are therefore subject to significant fluctuations, weak legal systems which may affect our ability to enforce contractual rights, exchange controls, unstable governments, and privatization or other government actions affecting the flow of goods and currency. In conducting our business, we move products from one country to another and may provide services in one country from a subsidiary located in another country. Accordingly, we are vulnerable to abrupt changes in customs and tax regimes that could have significant negative impacts on our results of operations.

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**Our global operations may be affected by actions of governments, global or regional economic developments, weather or transportation delays, natural disasters or other force majeure events (collectively, unforeseen events) which may negatively impact our suppliers, our customers or us.**

Our business involves operations around the world. Our consumable manufacturing facilities are located in Germany, China and the U.S., and our instrumentation facilities are located in Switzerland. We have established sales subsidiaries in numerous countries and our products are sold through independent distributors serving more than 40 additional countries. Our facilities may be harmed by unforeseen events, and in the event we or our customers are affected by a disaster, we may experience delays or reductions in sales or production, or increased costs, or may be required to identify alternate suppliers or rely on third-party manufacturers.

Our instrumentation manufacturing processes are dependent upon certain components provided by third-party suppliers located in Japan. We may experience temporary shortages of these components due to disruptions in supply caused by the earthquake and tsunami that hit Japan in March 2011. As a result, to the extent that our suppliers are impacted by these events, we may experience periods of reduced instrumentation production. These unexpected interruptions in our instrumentation production capabilities may lead to delayed or lost sales and may adversely affect our results of operations for the affected period.

If the recovery of our suppliers in Japan does not occur in a reasonable time frame, we may be forced to procure sourced products or materials from alternative suppliers, and we may not be able to do so on terms as favorable as our current terms or at all. Material increases in the cost of components would have an adverse impact on our operating performance and cash flows if we were unable to pass on these increased costs to our customers.

In addition, to the extent we temporarily shutdown any facility following such an unforeseen event, we may experience disruptions in our ability to ship products to customers or otherwise operate our business as a result of the unforeseen event. While our global operations give us the ability to ship product from alternative sites, we may not be able to do so because our customers' facilities are shutdown or the local logistics infrastructure is not functioning, and our sales will suffer. We continue to evaluate the potential impact of Japan's earthquake and tsunami on our local and global sales.

Damage to our property due to unforeseen events and the disruption of our business from casualties may be covered by insurance, but this insurance may not be sufficient to cover all of our potential losses and such insurance may not continue to be available to us on acceptable terms, or at all. In addition, we may incur incremental costs following an unforeseen event which will reduce profits and adversely affect our results of operations.

### **Risks Related to our Intellectual Property**

#### **We depend on patents and proprietary rights that may fail to protect our business.**

Our success depends to a large extent on our ability to develop proprietary products and technologies and to establish and protect our patent and trademark rights in these products and technologies. As of March 31, 2011, we owned 173 issued patents in the United States, 127 issued patents in Germany and 651 issued patents in other major industrialized countries. In addition, at March 31, 2011, we had 977 pending patent applications, and we intend to file applications for additional patents as our products and technologies are developed. The patent positions of technology-based companies, including our company, involve complex legal and factual questions and may be uncertain, and the laws governing the scope of patent coverage and the periods of enforceability of patent protection are subject to change. In addition, patent applications in the United States are maintained in secrecy until patents issue, and publication of discoveries in the scientific or patent literature tends to lag behind actual discoveries by several months. Therefore, no assurance can be given that patents will issue from any patent applications that we own or license or if patents do issue, that the claims allowed will be sufficiently broad to protect our technology. In addition, no assurance can be given that any issued patents that we own or license will not be challenged, invalidated or circumvented, or that the rights granted thereunder will provide us competitive advantages. Further, as issued patents expire, we may lose some competitive advantage as others develop competing products and as a result, we may lose revenue.



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A significant portion of HPV-related intellectual property is in the public domain, while additional HPV-related intellectual property is subject to our patents some of which will begin to expire in the next few years or are licensed to us on a non-exclusive basis. As a result, other companies have developed or may develop HPV detection tests.

Certain of our products incorporate patents and technologies that are licensed from third parties and for certain products, these in-licensed patents together with other patents provide us with a competitive advantage. These licenses impose various commercialization, sublicensing and other obligations on us. Our failure to comply with these requirements could result in the conversion of the applicable license from being exclusive to non-exclusive in nature or, in some cases, termination of the license, and as a result, we may lose some competitive advantage and experience a loss of revenue.

We also rely on trade secrets and proprietary know-how, which we seek to protect through confidentiality agreements with our employees and consultants. There can be no assurance that any confidentiality agreements that we have with our employees, consultants, outside scientific collaborators and sponsored researchers and other advisors will provide meaningful protection for our trade secrets or adequate remedies in the event of unauthorized use or disclosure of such information. There also can be no assurance that our trade secrets will not otherwise become known or be independently developed by competitors.

We currently engage in, and may continue to engage in, collaborations with academic researchers and institutions. There can be no assurance that under the terms of such collaborations, third parties will not acquire rights in certain inventions developed during the course of the performance of these collaborations.

### **We are subject to risks associated with patent litigation.**

The biotechnology industry has been characterized by extensive litigation regarding patents and other intellectual property rights. We are aware that patents have been applied for and/or issued to third parties claiming technologies for the separation and purification of nucleic acids that are closely related to those we use. From time to time, we receive inquiries requesting confirmation that we do not infringe patents of third parties. We endeavor to follow developments in this field, and we do not believe that our technologies or products infringe any proprietary rights of third parties. However, there can be no assurance that third parties will not challenge our activities and, if so challenged, that we will prevail. In addition, the patent and proprietary rights of others could require that we alter our products or processes, pay licensing fees or cease certain activities, and there can be no assurance that we will be able to license any technologies that we may require on acceptable terms. In addition, litigation, including proceedings that may be declared by the U.S. Patent and Trademark Office or the International Trade Commission, may be necessary to respond to any assertions of infringement, enforce our patent rights and/or determine the scope and validity of our proprietary rights or those of third parties. Litigation could involve substantial cost, and there can be no assurance that we would prevail in any proceedings.

### **Risks Related to Product Liability Issues**

#### **Our business exposes us to potential product liability.**

The marketing and sale of our products and services for certain applications entail a potential risk of product liability. Although we are not currently subject to any material product liability claims, product liability claims may be brought against us in the future. Further, there can be no assurance that our products will not be included in unethical, illegal or inappropriate research or applications, which may in turn put us at risk of litigation. We carry product liability insurance coverage, which is limited in scope and amount, but that we believe is currently appropriate for us. There can be no assurance, however, that we will be able to maintain this insurance at a reasonable cost and on reasonable terms, or that this insurance will be adequate to protect us against any or all potential claims or losses.

We are subject to various laws and regulations generally applicable to businesses in the different jurisdictions in which we operate, including laws and regulations applicable to the handling and disposal of hazardous substances. We do not expect compliance with such laws to have a material adverse impact on our capital expenditures, results of operations or competitive position. Although we believe that our procedures for the handling and disposal of hazardous materials comply with the standards prescribed by applicable regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, we could be held liable for any damages that result, and any such liability could have a material adverse impact on us.

### **Risks Related to Our Common Shares**

**Our operating results may vary significantly from period to period and this may affect the market price of our Common Shares.**

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Our operating results may vary significantly from quarter to quarter, and also from year to year, since they are dependent upon a broad range of factors that include demand for our products, the level and timing of customer research budgets and commercialization efforts, the timing of government funding budgets of our customers, the timing of our research and development activities and related regulatory approvals, the impact of sales and marketing expenses, the introduction of new products by us or our competitors,

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competitive market conditions, exchange rate fluctuations and general economic conditions. Our expense levels are based in part on our expectations as to future sales trends. As a result, sales and earnings may vary significantly from quarter to quarter or from year to year, and actual sales and earnings results in any one period will not necessarily be indicative of results to be anticipated in subsequent periods. Our results may also fail to meet or exceed the expectations of securities analysts or investors, which could cause a decline in the market price of our Common Shares.

### **Our holding company structure makes us dependent on the operations of our subsidiaries.**

QIAGEN N.V. is incorporated under Dutch law as a public limited liability company (*naamloze vennootschap*), and is organized as a holding company. Currently, the material assets are the outstanding shares of the QIAGEN subsidiaries. As a result, QIAGEN N.V. is dependent upon payments, dividends and distributions from the subsidiaries for funds to pay operating and other expenses as well as to pay future cash dividends or distributions, if any, to holders of our Common Shares. Dividends or distributions by subsidiaries in a currency other than the U.S. dollar may result in a loss upon a subsequent conversion into U.S. dollars.

### **U.S. civil liabilities may not be enforceable against us.**

We are incorporated under Dutch law, and substantial portions of our assets are located outside of the U.S. In addition, certain members of our Managing and Supervisory Boards and our officers reside outside the U.S. As a result, it may be difficult for investors to effect service of process within the U.S. upon us or such other persons, or to enforce outside the U.S. any judgments obtained against such persons in U.S. courts, in any action, including actions predicated upon the civil liability provisions of U.S. securities laws.

In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions located outside the U.S., rights predicated upon the U.S. securities laws. There is no treaty between the U.S. and the Netherlands for the mutual recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. As a result, a final judgment for the payment of money rendered by any federal or state court in the U.S. based on civil liability, whether or not predicated solely upon the federal securities laws, would not be directly enforceable in the Netherlands. However, if the party in whose favor such final judgment is rendered brings a new suit in a competent court in the Netherlands, such party may submit to the Dutch court the final judgment which has been rendered in the U.S. If the Dutch court finds that the jurisdiction of the federal or state court in the U.S. has been based on grounds that are internationally acceptable and that proper legal procedures have been observed, the Dutch court will, in principle, give binding effect to the final judgment which has been rendered in the U.S. unless such judgment contravenes Dutch principles of public policy. Based on the foregoing, there can be no assurance that U.S. investors will be able to enforce against us, members of our Managing or Supervisory Boards, or officers who are residents of the Netherlands or countries other than the U.S. any judgments obtained in U.S. courts in civil and commercial matters, including judgments under the federal securities laws. In addition, there is doubt as to whether a Dutch court would impose civil liability on us, the members of our Managing or Supervisory Boards, or our officers in an original action predicated solely upon the federal securities laws of the U.S. brought in a court of competent jurisdiction in the Netherlands against us or such members or officers, respectively.

### **Our Common Shares may have a volatile public trading price.**

The market price of our common shares since our initial public offering in September 1996 has increased significantly and been highly volatile. In the last two years, the price of our Common Shares has ranged from a high of \$24.00 to a low of \$14.32 on NASDAQ, and a high of EUR 17.87 to a low of EUR 11.12 on the Frankfurt Stock Exchange. During the three months ended March 31, 2011, the price of our common share has ranged from a high of \$21.00 to a low of \$18.02 and a high of EUR 15.25 and to a low of EUR 12.85 on the NASDAQ and Frankfurt Stock Exchange, respectively. In addition to overall stock market fluctuations, factors that may have a significant impact on the price of our Common Shares include:

announcements of technological innovations or the introduction of new products by us or our competitors;

developments in our relationships with collaborative partners;

quarterly variations in our operating results or those of our peer companies;

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changes in government regulations or patent laws;

developments in patent or other intellectual property rights;

developments in government spending budgets for life sciences-related research;

general market conditions relating to the diagnostics, applied testing, pharmaceutical and biotechnology industries; and

impact from foreign exchange rates.

The stock market has from time to time experienced extreme price and trading volume fluctuations that have particularly affected the market for technology-based companies. These fluctuations have not necessarily been related to the operating performance of these companies. These broad market fluctuations may adversely affect the market price of our Common Shares.

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### **Holders of our Common Shares should not expect to receive dividend income.**

We have not paid cash dividends since our inception and do not anticipate paying any cash dividends on our Common Shares for the foreseeable future. Although we do not anticipate paying any cash dividends, the distribution of any cash dividends in a currency other than the U.S. dollar will be subject to the risk of foreign currency transaction losses. Investors should not invest in our Common Shares if they are seeking dividend income; the only return that may be realized through investing in our Common Shares would be through an appreciation in the share price.

### **Shareholders who are United States residents could be subject to unfavorable tax treatment.**

We may be classified as a passive foreign investment company, or a PFIC, for U.S. federal income tax purposes if certain tests are met. Our treatment as a PFIC could result in a reduction in the after-tax return to holders of Common Shares and would likely cause a reduction in the value of these shares. If we were determined to be a PFIC for U.S. federal income tax purposes, highly complex rules would apply to our U.S. shareholders. We would be considered a PFIC with respect to a U.S. shareholder if for any taxable year in which the U.S. shareholder held the common shares, either (i) 75% or more of our gross income for the taxable year is passive income; or (ii) the average value of our assets (during the taxable year) which produce or are held for the production of passive income is at least 50% of the average value of all assets for such year. Based on our income, assets and activities, we do not believe that we were a PFIC for U.S. federal income tax purposes for our taxable year ended December 31, 2010, and do not expect to be a PFIC for the current taxable year or any future taxable year. No assurances can be made, however, that the Internal Revenue Service will not challenge this position or that we will not subsequently become a PFIC.

### **Future sales and issuances of our Common Shares could adversely affect our stock price.**

Any future sale or issuance of a substantial number of our Common Shares in the public market, or any perception that a sale may occur, could adversely affect the market price of our Common Shares. Under Dutch law, a company can issue shares up to its authorized share capital provided for in its Articles of Association. Pursuant to our Articles of Association, our authorized share capital amounts to EUR 9.0 million, which is divided into 410.0 million common shares, 40.0 million financing preference shares and 450.0 million preference shares, with all shares having a EUR 0.01 par value. As of March 31, 2011, a total of approximately 233.7 million Common Shares were outstanding along with approximately 12.0 million additional shares reserved for issuance upon exercise or release of outstanding stock options and awards, of which 6.0 million were vested. A total of approximately 13.7 million Common Shares are reserved and available for issuances under our stock plans as of March 31, 2011, including the shares subject to outstanding stock options and awards. The majority of our outstanding Common Shares are free for sale, except shares held by our affiliates, which are subject to certain limitations on resale. Additionally, holders of notes issued by QIAGEN Finance (Luxembourg) S.A. and QIAGEN Euro Finance (Luxembourg) S.A. are entitled to convert their notes into approximately 26.5 million Common Shares, subject to adjustments in certain cases.

### **Provisions of our Articles of Association and Dutch law and an option we have granted may make it difficult to replace or remove management and may inhibit or delay a takeover.**

Our Articles of Association, or Articles, provide that our shareholders may only suspend or dismiss our Managing Directors and Supervisory Directors against their wishes with a vote of two-thirds of the votes cast if such votes represent more than 50% of our issued share capital. If the proposal were made by the joint meeting of the Supervisory Board and the Managing Board, a simple majority is sufficient. The Articles also provide that if the members of our Supervisory Board and our Managing Board have been nominated by the joint meeting of the Supervisory Board and Managing Board, shareholders may only overrule this nomination with a vote of two-thirds of the votes cast if such votes represent more than 50% of our issued share capital.

Certain other provisions of our Articles allow us, under certain circumstances, to prevent a third party from obtaining a majority of the voting control of our Common Shares through the issuance of Preference Shares. Pursuant to our Articles and the resolution adopted by our General Meeting of Shareholders on October 11, 2007, our Supervisory Board is entitled to issue Preference Shares in case of an intended takeover of our company by (i) any person who alone or with one or more other persons, directly or indirectly, have acquired or given notice of an intent to acquire (beneficial) ownership of an equity stake which in aggregate equals 20% or more of our share capital then outstanding or (ii) an adverse person as determined by the Supervisory Board. If the Supervisory Board opposes an intended takeover and authorizes the issuance of Preference Shares, the bidder may withdraw its bid or enter into negotiations with the Managing Board and/or Supervisory Board and agree on a higher bid price for our Shares.

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In 2004, we granted an option to the Stichting Preferente Aandelen QIAGEN, or the Foundation (*Stichting*), subject to the conditions described in the paragraph above, which allows the Foundation to acquire Preference Shares from us. The option enables the Foundation to acquire such number of Preference Shares as equals the number of our outstanding Common Shares at the time of the relevant exercise of the option, less one Preference Share. When exercising the option and exercising its voting rights on these Preference Shares, the Foundation must act in our interest and the interests of our stakeholders. The purpose of the Foundation option is to prevent or delay a change of control that would not be in the best interests of us and our stakeholders. An important restriction on the Foundation's ability to prevent or delay a change of control is that a public offer must be announced by a third party before it can issue (preference or other) protective shares that would enable the Foundation to exercise rights to 30% or more of the voting rights without an obligation to make a mandatory offer for all shares held by the remaining shareholders. In addition, the holding period for these shares by the Foundation is restricted to two years, and this protective stake must fall below the 30% voting rights threshold before the two-year period ends.