

QIAGEN NV  
Form 20-F  
April 19, 2005  
Table of Contents

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 20-F**

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

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

For the fiscal year ended December 31, 2004

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-28564

---

# QIAGEN N.V.

(exact name of registrant as specified in its charter)

**The Netherlands**

(Jurisdiction of incorporation or organization)

**Spoorstraat 50**

**5911 KJ Venlo**

**The Netherlands**

**011-31-77-320-8400**

(Address of principal executive offices)

---

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

**None**

**Securities registered or to be registered pursuant to Section 12(g) of the Act:**

**Title of class:**

**Common Shares, par value EUR .01 per share**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

**None**

---

## Edgar Filing: QIAGEN NV - Form 20-F

The number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2004 was 147,020,207.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark which financial statement item the registrant has elected to follow.  Item 17  Item 18

---

---

**Table of Contents**

Exhibit Index located on sequential page 105.

Unless the context otherwise requires, references herein to the Company or to QIAGEN are to QIAGEN N.V. and its consolidated subsidiaries.

---

Our name together with our logo is registered as a trademark in The Netherlands, the United States and a number of other countries: QIAGEN®. Other trademarks registered in the United States include, inter alia: QIAexpress®, QIAwell®, QIAEX®, QIAprep®, QIAamp®, QIAquick®, Oligotex®, RNeasy®, BIOROBOT®, ENDOFREE®, R.E.A.L.®, PolyFect®, SuperFect®, DNeasy®, UltraFect®, TurboFilter®, HotStarTaq®, EFFECTENE®, QIA®, DyeEx®, Omniscript®, Sensiscript®, HiSpeed®, Targetene®, TransMessenger®, MagAttract®, DirectPrep®, InhibitEX®, DoubleTag®, QuantiScript®, UltraSens®, pAlliance®, EverGene®, ProofStart®, FlexiGene®, QuantiTect®, DNAprotect®, and LiquiChip®. Registered trademarks in countries outside of the United States include: QIAexpress®, QIAwell®, QIABRANE, QIAEX®, QIAprep®, QIAamp®, QIAquick®, Oligotex®, RNeasy®, BIOROBOT®, ENDOFREE®, R.E.A.L.®, PolyFect®, SuperFect®, DNeasy®, UltraFect®, HotStarTaq®, EFFECTENE®, QIA®, DyeEx®, Omniscript®, Sensiscript®, HiSpeed®, Targetene®, TransMessenger®, MagAttract®, DirectPrep®, InhibitEX®, DoubleTag®, QuantiScript®, UltraSens®, ProofTaq, pAlliance®, MinElute®, EverGene®, ProofStart®, FlexiGene®, QuantiTect®, VARISPAN, RNAprotect®, DNAprotect®, LiquiChip®, CryoCell®, LabelStar™, ROSYS, RNAiFect, Easylabel and EasyXpress. In 2004 four trademark applications were filed in Germany, Countries of the European Community, Japan and the United States of America for BioSprint, AllPrep, and Qproteome.

KingFisher® is a registered trademark of Thermo Electron Corp. GeneChip® is a registered trademark of Affymetrix, Inc.

This Annual Report on Form 20-F may also contain trade names or trademarks of companies other than QIAGEN.

---

**EXCHANGE RATES**

QIAGEN publishes its financial statements in U.S. dollars. In this Annual Report on Form 20-F, references to dollars or \$ are to U.S. dollars, and references to the euro are to the European Monetary Union euro. Except as otherwise stated herein, all monetary amounts in this Annual Report on Form 20-F have been presented in U.S. dollars.

The exchange rate used for the euro was the noon buying rate of the euro in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Board of New York. This rate at March 25, 2005, was \$1.2954 per EUR 1.

For information regarding the effects of currency fluctuations on our results, see Item 5 Operating and Financial Review and Prospects.



**Table of Contents****TABLE OF CONTENTS****PART I**

	<b>Page</b>
Item 1. <u>Identity of Directors, Senior Management and Advisors</u>	4
Item 2. <u>Offer Statistics and Expected Timetable</u>	4
Item 3. <u>Key Information</u>	4
Item 4. <u>Information on the Company</u>	15
Item 5. <u>Operating and Financial Review and Prospects</u>	23
Item 6. <u>Directors, Senior Management and Employees</u>	37
Item 7. <u>Major Shareholders and Related Party Transactions</u>	46
Item 8. <u>Financial Information</u>	47
Item 9. <u>The Listing of the Company's Common Shares</u>	47
Item 10. <u>Additional Information</u>	49
Item 11. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	65
Item 12. <u>Description of Securities other than Equity Securities</u>	66

**PART II**

Item 13. <u>Defaults, Dividend Arrearages and Delinquencies</u>	67
Item 14. <u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	67
Item 15. <u>Controls and Procedures</u>	67
Item 16A. <u>Audit Committee Financial Expert</u>	67
Item 16B. <u>Code of Ethics</u>	67
Item 16C. <u>Principal Accountant Fees and Services</u>	67
Item 16D. <u>Exemptions From the Listing Standards for Audit Committees</u>	68
Item 16E. <u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	68

**PART III**

Item 17. <u>Financial Statements</u>	69
Item 18. <u>Financial Statements</u>	69
Item 19. <u>Signatures</u>	70
Exhibits	

**Table of Contents****PART I****Item 1. Identity of Directors, Senior Management and Advisors**

Not applicable

**Item 2. Offer Statistics and Expected Timetables**

Not applicable

**Item 3. Key Information**

The selected consolidated financial data below should be read in conjunction with *Operating and Financial Review and Prospects* and the Consolidated Financial Statements, notes thereto and other financial information included elsewhere in this Annual Report on Form 20-F. The selected consolidated statements of income data for the years ended December 31, 2004, 2003 and 2002 and the consolidated balance sheet data at December 31, 2004 and 2003 are derived from the Consolidated Financial Statements of QIAGEN which have been audited by Ernst & Young LLP, an independent registered public accounting firm, and are included herein. The selected consolidated statements of income data presented for the years ended December 31, 2001 and 2000, and the consolidated balance sheet data as of December 31, 2002, 2001 and 2000, is derived from audited consolidated financial statements not included herein.

**Selected Financial Data (amounts in thousands, except per share data)**

*The information below should be read in conjunction with the consolidated financial statements (and notes thereto) and Operating and Financial Review and Prospects.*

	Year Ended December 31,				
	2004	2003	2002	2001	2000
<b>Consolidated Statement of Income Data:</b>					
Net sales	\$ 380,629	\$ 351,404	\$ 298,607	\$ 263,770	\$ 216,802
Cost of sales	125,658	118,786	96,508	79,673	65,436
Cost of sales acquisition and restructuring related	1,454	3,618			
Gross profit	253,517	229,000	202,099	184,097	151,366

Edgar Filing: QIAGEN NV - Form 20-F

Operating Expenses:					
Research and development	35,767	31,789	28,177	26,769	23,372
Sales and marketing	87,506	83,005	75,086	64,830	54,931
General and administrative	41,715	42,269	42,030	36,022	31,177
Relocation and restructure costs	3,817	3,048	10,773		
Acquisition and related costs	572		2,848	3,000	5,353
	<u>169,377</u>	<u>160,111</u>	<u>158,914</u>	<u>130,621</u>	<u>114,833</u>
Total operating expenses					
Income from operations	84,140	68,889	43,185	53,476	36,533
	<u>84,140</u>	<u>68,889</u>	<u>43,185</u>	<u>53,476</u>	<u>36,533</u>
Other income (expense), net	(11,453)	(1,634)	(4,325)	2,847	2,591
	<u>(11,453)</u>	<u>(1,634)</u>	<u>(4,325)</u>	<u>2,847</u>	<u>2,591</u>
Income before provision for income taxes and minority interest	72,687	67,255	38,860	56,323	39,124
Provision for income taxes	23,982	24,405	15,723	21,896	18,085
Minority interest (income) expense			(5)	8	36
	<u>72,687</u>	<u>67,255</u>	<u>38,860</u>	<u>56,323</u>	<u>39,124</u>
Net income	\$ 48,705	\$ 42,850	\$ 23,142	\$ 34,419	\$ 21,003
	<u>\$ 48,705</u>	<u>\$ 42,850</u>	<u>\$ 23,142</u>	<u>\$ 34,419</u>	<u>\$ 21,003</u>
Basic net income per common share(1)	\$ 0.33	\$ 0.29	\$ 0.16	\$ 0.24	\$ 0.15
	<u>\$ 0.33</u>	<u>\$ 0.29</u>	<u>\$ 0.16</u>	<u>\$ 0.24</u>	<u>\$ 0.15</u>
Diluted net income per common share(1)	\$ 0.33	\$ 0.29	\$ 0.16	\$ 0.24	\$ 0.14
	<u>\$ 0.33</u>	<u>\$ 0.29</u>	<u>\$ 0.16</u>	<u>\$ 0.24</u>	<u>\$ 0.14</u>
Weighted average number of common shares used to compute basic net income per common share	146,658	145,832	144,795	142,962	142,040
Weighted average number of common shares used to compute diluted net income per common share	148,519	147,173	145,787	145,055	145,071



**Table of Contents**

(1) Computed on the basis described for net income per common share in Note 3 of the Notes to Consolidated Financial Statements .

	December 31,				
	2004	2003	2002	2001	2000
<b>Consolidated Statement of Income Data:</b>					
Cash and cash equivalents	\$ 196,375	\$ 98,993	\$ 44,893	\$ 56,460	\$ 24,008
Working capital	\$ 299,029	\$ 163,583	\$ 111,554	\$ 119,448	\$ 101,527
Total assets	\$ 714,599	\$ 551,930	\$ 454,511	\$ 356,968	\$ 240,893
Total long-term liabilities, including current portion	\$ 234,138	\$ 131,095	\$ 112,331	\$ 88,333	\$ 29,320
Total shareholders' equity	\$ 400,376	\$ 334,786	\$ 263,031	\$ 212,975	\$ 167,356
Common shares	\$ 1,495	\$ 1,485	\$ 1,478	\$ 1,458	\$ 1,450
Shares outstanding	147,020	146,218	145,534	143,464	142,548

**Risk Factors****Note regarding Forward-Looking Statements and Risk Factors**

Our future operating results may be affected by various risk factors, many of which are beyond our control. Certain of the statements included in this Annual Report and the documents incorporated herein by reference may be forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended, including statements regarding potential future net sales, gross profit, net income and liquidity. These statements can be identified by the use of forward-looking terminology such as may, will, could, expect, anticipate, estimate, continue or other similar words. Reference is made in particular to the description of our plans and objectives for future operations, assumptions underlying such plans and objectives, and other forward-looking statements. 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. Factors which could cause such results to differ materially from those described in the forward-looking statements include those set forth in the risk factors below. As a result, our future development efforts involve a high degree of risk. When considering forward-looking statements, you should keep in mind that the risk factors could cause our actual results to differ significantly from those contained in any forward-looking statement.

**Risks Related to Our Business****An inability to manage our growth or the expansion of our operations could adversely affect our business.**

Our business has grown rapidly, with total net revenues increasing from \$216.8 million in 2000 to \$380.6 million in 2004. In 2002, we opened a research and manufacturing facility in Germantown, Maryland and manufacturing and administration facilities in Germany. In 2003 and 2004 as part of a restructuring of our U.S. operations, we relocated certain administrative, sales and marketing functions to our Maryland facility. The expansion of these facilities added production capacity and increased fixed costs. These higher fixed costs will continue to be a cost of production in the future, and until we more fully utilize the additional capacity of the facilities, our gross profit will be negatively impacted. We have also upgraded our operating and financial systems and expanded the geographic area of our operations, resulting in the hiring of new

## Edgar Filing: QIAGEN NV - Form 20-F

employees, as well as increased responsibility for both existing and new management personnel. The rapid expansion of our business and 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, 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 successfully, and any inability to do so could have a material adverse effect on our results of operations.

**Table of Contents**

**We may not achieve the anticipated benefits of acquisitions of technologies and businesses.**

During the past several years we have acquired 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. Acquisitions would expose us to the risks associated with the:

assimilation of new technologies, operations, sites and personnel;

diversion of resources from our existing business and technologies;

inability to generate revenues to offset associated acquisition costs;

inability to maintain uniform standards, controls, and procedures;

inability to maintain relationships with employees and customers as a result of any integration of new management personnel;

issuance of dilutive equity securities;

incurrence or assumption of debt;

additional expenses associated with future amortization or impairment of acquired intangible assets or potential businesses; or

assumption of liabilities or exposure to 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.**

The market for certain of our products and services is only about fifteen years old. Rapid technological change and frequent new product introductions are typical in this market. 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, we may lose market share to our competitors, which will be difficult or impossible to regain. An inability, for technological or other reasons, to successfully develop and introduce new products could reduce our growth rate or otherwise damage our business. In the past, we have experienced, and are likely to experience in the future, delays in the development and introduction of products. We cannot assure you that we will keep pace with the rapid rate of change in life sciences research, or that our new products will adequately meet the requirements of the marketplace or achieve market acceptance. 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 product relative to competitive products;

customers' opinions of the products' utility;

citation of the product in published research; and

general trends in life sciences research, applied testing 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 operating results may vary significantly from period to period.**

Our operating results may vary significantly from quarter to quarter and from year to year, depending on factors such as the level and timing of our customers' research and commercialization efforts, timing of our

## **Table of Contents**

customers funding, the timing of our research and development and sales and marketing expenses, the introduction of new products by us or our competitors, competitive conditions, exchange rate fluctuations and general economic conditions. Our expense levels are based in part on our expectations as to future revenues. Consequently, revenues or profits may vary significantly from quarter to quarter or from year to year, and revenues and profits in any interim period will not necessarily be indicative of results in subsequent periods.

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

Our success will depend 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 December 31, 2004, we owned 60 issued patents in the United States, 37 issued patents in Germany and 225 issued patents in other major industrialized countries. In addition, at December 31, 2004, we had 256 pending patent applications and we intend to file applications for additional patents as our products and technologies are developed. However, the patent positions of technology-based companies, including QIAGEN, 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 tend 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.

Certain of our products incorporate patents and technologies that are licensed from third parties. 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.

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 such 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 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

## Edgar Filing: QIAGEN NV - Form 20-F

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

## **Table of Contents**

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 such proceedings.

### **Exchange rate fluctuations may adversely affect our business.**

Since we currently market our products in over 40 countries 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. 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.

### **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 fiscal quarter, as both their budgets and requirements for the coming quarter become clearer and sales promotions are often made in this period. As a result, even late in each fiscal quarter, we cannot predict with certainty whether our revenue 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 our customers' purchases during a quarter vary from historical patterns, our final quarterly results could deviate significantly from our projections. Consequently, our revenue forecasts for any given quarter may prove not to have been accurate. We may not have enough information as a result of such patterns to confirm or revise our sales projections during a quarter. If we fail to achieve our forecasted revenues for a particular quarter, our stock price could be adversely affected.

### **Competition in the Life Sciences market could reduce sales.**

Our primary competition stems from traditional separation, purification and handling methods ( traditional methods or home-brew methods ) that utilize widely available reagents and other chemicals. The success of our business depends in part on the continued conversion of current users of such traditional methods to our nucleic acid separation and purification technologies and products. There can be no assurance, however, as to how quickly such conversion will occur.

We also have experienced, and expect to continue to experience, increasing competition in various segments of our business from companies providing pre-analytical products and other products we offer. The markets for certain of our products are very competitive and price sensitive. Other life science research product suppliers have significant financial, operational, sales and marketing resources, and experience in research and development. These and other companies may have developed or could in the future develop new technologies that compete with our products or even render our products obsolete. If a competitor develops superior technology or cost-effective alternatives to our kits and other products, our business, operating results and financial condition could be materially adversely affected.

## Edgar Filing: QIAGEN NV - Form 20-F

We believe that customers in the preanalytical solutions market display a significant amount of loyalty to their initial supplier of a particular product. Therefore, it may be difficult to generate sales to customers who have



## **Table of Contents**

purchased products from competitors. To the extent we are unable to be the first to develop and supply new products, our competitive position will suffer.

### **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 researchers and their organizations for applications in which our products are used could have a significant effect on the demand for our products. Research and development budgets fluctuate due to changes in available resources, mergers of pharmaceutical and biotechnology companies, spending priorities and institutional budgetary policies. Our business could be seriously negatively impacted by any significant decrease in life sciences research and development expenditures by pharmaceutical and biotechnology companies, academic institutions or government and private laboratories. In addition, short term changes in administrative, regulatory or purchasing-related procedures can create uncertainties or other impediments which can contribute to lower sales.

In recent years, the pharmaceutical industry has undergone substantial restructuring and consolidation. Additional mergers or corporate consolidations in the pharmaceutical industry could cause us to lose existing customers and potential future customers, which could have a material adverse effect on our business, financial condition and results of operations.

A significant portion of our sales have been to researchers, universities, government laboratories and private foundations whose funding is dependent upon grants from government agencies such as the U.S. National Institutes of Health (NIH) and similar domestic and international agencies. Although the level of research funding has increased during the past several years, we cannot assure you that this trend will continue. Government funding of research and development is subject to the political process, which is inherently fluid and unpredictable. The predictability of our revenues may be adversely affected if our customers delay purchases as a result of uncertainties surrounding 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 other government agencies that fund research and development activities. A reduction in government funding for the NIH or other government research agencies could seriously and negatively impact our business.

### **We heavily rely on air cargo carriers and other overnight logistics services.**

Our customers within the scientific research markets typically do not keep a significant inventory of our products and consequently require overnight delivery of purchases. Consequently, we heavily rely on air cargo carriers such as DHL, FedEx and UPS. If overnight services are suspended or delayed and other delivery carriers cannot provide satisfactory services, customers may suspend a significant amount of work requiring pre-analytical solutions. If there are no adequate delivery alternatives available, sales levels could be negatively affected.

### **We depend on suppliers and if shipments from these suppliers is delayed or interrupted, we will be unable to manufacture our products.**

We buy materials for our products from many 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 were delayed or interrupted for any reason, we may not be able to obtain these materials timely or in sufficient quantities in order to produce certain products and our sales levels could be negatively affected.

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

Our long-term business strategy has included entering into strategic alliances and marketing and distribution arrangements with corporate partners relating to the development, commercialization, marketing and distribution of certain of our existing and potential products. There can be no assurance that we will continue to be able to

## **Table of Contents**

negotiate such collaborative arrangements on acceptable terms, or that any such relationships will be scientifically or commercially successful. In addition, there can be no assurance that we will be able to maintain such relationships or that our collaborative partners will not pursue or develop competing products or technologies, either on their own or in collaboration with others.

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

Our business involves operations in several countries outside of the United States. Our consumable manufacturing facilities are located in Germany and the United States, and our instrumentation facility is located in Switzerland. We also have established sales subsidiaries in Japan, the United Kingdom, France, Switzerland, Australia, Canada, Austria, The Netherlands and Italy. In addition, our products are sold through independent distributors serving more than 40 other countries. We began production of certain of our consumable products in the United States at our facility in Germantown, Maryland in the second quarter of 2002. We operate U.S. facilities in West Chester, Pennsylvania (sales and research and development) and Valencia, California (customer service and technical service). We also operate a research and development facility in Oslo, Norway. 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. We use SAP as our business information system to integrate most of our North American and European subsidiaries.

Our operations are also 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 the above conditions, an inability to successfully manage our international operations could have a material adverse impact on our operations.

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

Effective January 1, 2004 we restructured our management and formed an Executive Committee comprised of our most senior executives responsible for core functions. Dr. Metin Colpan, our former Chief Executive Officer, has transitioned his role to Senior Technology Advisor and has also joined our Supervisory Board. Mr. Peer Schatz, our former Chief Financial Officer, has taken the role of our Chief Executive Officer and Chairman of the Executive Committee. The loss of Mr. Schatz or any of our Managing Directors or Deputy Managing Director could have a material adverse effect. Further, although we have not experienced any difficulties attracting or retaining key management and scientific staff, our ability to recruit and retain qualified skilled personnel will also be critical to our future success. Due to the intense competition for experienced scientists from numerous pharmaceutical and biotechnology companies and academic and other research institutions, there can be no assurance that we will be able to attract and retain such personnel on acceptable terms. Our planned activities will also require additional personnel, including management, with expertise in areas such as manufacturing and marketing, and the development of such expertise by existing management personnel. The inability to recruit such personnel or develop such expertise could have a material adverse impact on our operations.

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

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

our marketing, sales and customer support efforts;

our research and development activities;

**Table of Contents**

the expansion of our facilities;

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

the demand for our products and services; and

the refinancing of debt.

We currently anticipate that our short-term capital requirements will be satisfied by the results of operations or other existing resources. To the extent that our existing resources are insufficient to fund our activities, we may need to raise funds through public or private debt or equity financings. No assurance can be given that such additional funds will be available or, if available, can be obtained on terms acceptable to us. If adequate funds are not available, we may have to reduce expenditures for research and development, production or marketing, which could have a material adverse effect on our business. To the extent that additional capital is raised through the sale of equity or convertible securities, the issuance of such securities could result in dilution to our shareholders.

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

We have made and may continue to make strategic investments in complementary businesses as the opportunities arise. We periodically review the carrying value of these investments for impairment, considering factors such as 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 impact our results of operations. It is uncertain whether or not we will realize any long term benefits from these strategic investments.

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

At December 31, 2004, we have a significant amount of debt which carries with it 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 pay or refinance such debt. If we are unable to generate 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 among other things could:

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

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

## Edgar Filing: QIAGEN NV - Form 20-F

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.

### **Changing government regulations may adversely impact our business.**

QIAGEN and our customers operate in a highly regulated environment characterized by continuous changes in the governing regulatory framework. Genetic research activities as well as products commonly referred to as genetically engineered, such as certain food and therapeutic products, are subject to governmental regulation in most developed countries, especially in the major markets for pharmaceutical and diagnostic products (i.e., the European Union, the United States, and Japan). In the recent past, several highly publicized scientific successes (most notably in the areas of genomic research and cloning) have stirred a public debate in which ethical,

## **Table of Contents**

philosophical and religious arguments have been raised against an unlimited expansion of genetic research and the use of products developed thereby. As a result of this debate, some key countries might increase the existing regulatory barriers; this, in turn, could adversely affect the 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.

Additionally, 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 effect on our capital expenditures, earnings or competitive position. Although we believe that our procedures for handling and disposing 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 effect on us.

Sales volumes of certain of our products in development may be dependent on commercial sales by us or by our customers of diagnostic and pharmaceutical products, which will require pre-clinical studies and clinical trials and other regulatory clearance. Such trials will be subject to extensive regulation by governmental authorities in the United States and other countries and could impact customer demand for our products. In addition, certain of our products, especially products intended for use in in-vitro diagnostics applications, are dependent on regulatory or other clearance. Our failing to obtain such clearance or approvals can significantly damage our business in such segments.

Since the European Union Directive 98/79/EC on in vitro diagnostic medical devices went into effect on December 7, 2003, all products and kits which are used for in vitro diagnostic applications and which are sold after this date have to be compliant with this European 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), pre-analytical solutions, including nucleic acid purification products, which are used in diagnostic workflows are affected by this new regulatory framework. The major goals of this directive are to standardize the diagnostic procedures within the European Union, to increase reliability of diagnostic analysis and to enhance patients' safety through the highest level of product safety. These goals are expected to be achieved by the enactment of a large number of mandatory regulations for product development, production, quality control and life cycle surveillance.

### **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 payers are increasingly seeking to contain health care costs and to reduce the price of medical products and services. Therefore, 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, the commercial success of our customers and, hence, of QIAGEN itself, could be adversely affected.

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

The marketing and sale of certain products and services for certain applications entail a potential risk of product liability, and, although we are not currently subject to any material product liability claims, there can be no assurance that product liability claims will not be brought against us. 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 currently carry product liability insurance coverage, which is limited in scope and





## **Table of Contents**

amount, but which we believe is currently appropriate for our purposes. There can be no assurance, however, that we will be able to maintain such insurance at reasonable cost and on reasonable terms, or that such insurance will be adequate to protect us against any or all potential claims or losses.

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

We were incorporated under Dutch law as a public limited liability company and we are organized as a holding company. Currently, our material assets are the outstanding shares of our subsidiaries. We, therefore, are dependent upon payments, dividends and distributions from our subsidiaries for funds to pay our operating and other expenses and to pay future cash dividends or distributions, if any, to holders of our common shares. The lending arrangements entered into by QIAGEN GmbH with a group of banks led by Deutsche Bank in 2001 and amended in July 2004 limits the amount of distributions that can be made by QIAGEN GmbH to QIAGEN N.V. during the period the borrowings are outstanding. The portion of this facility that would otherwise expire in October 2005 was repaid out of new borrowings in the third quarter of 2004. The remaining portion of this facility will expire in annual installments through June 2011. Dividends or distributions by subsidiaries to us in a currency other than the U.S. dollar may result in a loss upon a subsequent conversion or disposition of such foreign currency, including a subsequent conversion into U.S. dollars.

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

#### **Our common shares may have a volatile public trading price.**

The market price of the common shares since our initial public offering in September 1996 has increased significantly and been highly volatile. In the past two fiscal years, the closing price of our common shares has ranged from a high of \$15.61 to a low of \$5.20 on the NASDAQ National Market System, and a high of EUR 12.40 to a low of EUR 4.93 on the Frankfurt Stock Exchange. In addition to overall stock market fluctuations, factors which may have a significant impact on the market price of the 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;

changes in government regulations or patent laws;

developments in patent or other proprietary rights;

developments in government spending for life sciences related research; and

## Edgar Filing: QIAGEN NV - Form 20-F

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

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 and that have not necessarily been related to the operating performance of such companies. These broad market fluctuations may adversely affect the market price of our common shares.

**Holders of our common shares are not expected to receive dividend income.**

We have not paid cash dividends since our inception and management does not anticipate paying any cash dividends on our common shares for the foreseeable future. Although we previously have not paid any cash dividends, any cash dividends paid in the future 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 is through the appreciation in value of such shares.

---

**Table of Contents**

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

We may be classified as a passive foreign investment company ( 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 the holders of common shares and would likely cause a reduction in the value of such 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 current income, assets and activities, we do not believe that we are currently a PFIC. No assurances can be made, however, that the IRS will not challenge this position or that we will not subsequently become a PFIC.

**Future sales of our common shares could adversely affect our stock price.**

Future sales of substantial amounts of our common shares in the public market, or the perception that such sales may occur, could adversely affect the market price of the common shares. As of December 31, 2004, we had outstanding 147,020,207 common shares plus 13,047,739 additional shares subject to outstanding stock options, of which 9,479,000 were then exercisable. A total of approximately 18.6 million common shares are reserved for issuances under our stock option plan, including those shares subject to outstanding stock options. All of our outstanding common shares are freely saleable 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. are entitled to convert their Notes into approximately 11.9 million common shares, although the resale of these common shares would be subject to some restrictions.

**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 (the Articles ) provide that our shareholders may only suspend or dismiss our managing and supervisory directors against their wishes with a vote of two-thirds of the votes cast representing more than 50 percent of the outstanding shares. They also provide that if the members of our Supervisory Board and our Managing Board have been nominated by the Supervisory Board and Managing Board, shareholders may only overrule this nomination with a vote of two-thirds of the votes cast representing more than 50 percent of the outstanding shares. 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 shares by issuing preference shares. Pursuant to these provisions (and pursuant to the resolution adopted by our general meeting on July 16, 2004), our Supervisory Board is authorized to issue preference shares or grant rights to subscribe for preference shares if (i) a person has (directly or indirectly) acquired or has expressed a desire to acquire, more than 20 percent of our issued share capital, or (ii) a person holding at least a ten percent interest in our share capital has been designated as a hostile person by our Supervisory Board. If the Supervisory Board opposes an intended take-over 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.

We have also recently granted an option to a 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 less one share. When exercising the option and exercising its voting rights on such shares, the Foundation has to 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.

**United States civil liabilities may not be enforceable against us.**

We are incorporated under the laws of The Netherlands and substantial portions of our assets are located outside of the United States. In addition, certain members of our Managing and Supervisory Boards, our officers

---

**Table of Contents**

and certain experts named herein reside outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us or such other persons, or to enforce outside the U.S. 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 United States, rights predicated upon the U.S. securities laws. There is no treaty between the United States and The Netherlands for the mutual recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States 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 United States. If the Dutch court finds that the jurisdiction of the federal or state court in the United States has been based on grounds which 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 United States 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, officers or certain experts named herein who are residents of The Netherlands or countries other than the United States 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, our officers or certain experts named herein in an original action predicated solely upon the federal securities laws of the United States brought in a court of competent jurisdiction in The Netherlands against us or such members, officers or experts, respectively.

**Item 4. Information on the Company**

*History and Development of the Company*

We began operations as a German company in 1986. On April 29, 1996, we were incorporated as QIAGEN N.V., a public limited liability company ( *naamloze vennootschap* ) under Dutch law as a holding company for our wholly owned subsidiaries. Our legal seat is in Venlo, The Netherlands. As a holding company, we conduct our business through our subsidiaries located throughout Europe, Japan, Australia, Canada and the United States. Our principal executive office is located at Spoorstraat 50, 5911 KJ Venlo, The Netherlands, and our telephone number is +31-77-320-8400. Our website is [www.qiagen.com](http://www.qiagen.com).

Since 1986, we have developed and marketed a broad range of proprietary products for the academic and industrial research markets as well as for the applied testing and molecular diagnostics markets. We have experienced significant growth in the past, with a five year compound annual growth through December 31, 2004 of approximately 19% in net sales and 29% in net income, as reported under U.S. GAAP. In the last five years we have made a number of strategic acquisitions and have also restructured some of our key operations. Significant events in the development of our business in 2004 include:

The completion of the relocation of our North American marketing and sales operations from Valencia, California to Germantown, Maryland in order to utilize the capacity of our North American Headquarters. As a result, we incurred \$3.8 million in relocation and restructuring costs in 2004.

The sale of the majority of our synthetic DNA business unit in the second quarter of 2004. As a result we recorded a net loss related to the sale of \$9.8 million to other miscellaneous expense.

The acquisition of the technology and product portfolio of Molecular Staging, Inc. in the third quarter of 2004. As a result, we recorded a \$1.5 million charge to cost of sales for a write-down of inventories, which will be replaced with products integrating newly acquired technologies, and a \$572,000 charge to operating expenses related to the impairment of other assets as a result of the acquisition.

## Edgar Filing: QIAGEN NV - Form 20-F

The establishment of QIAGEN Finance S.A. (QIAGEN Finance), an unconsolidated subsidiary located in Luxembourg, for the purpose of issuing convertible debt. In August 2004, we issued \$150.0 million

## **Table of Contents**

of 1.5% Senior Convertible Notes due in 2024 (the Notes) through QIAGEN Finance, and in turn the proceeds were loaned to subsidiaries within the consolidated QIAGEN N.V. group. QIAGEN N.V. has guaranteed the Notes, and has an agreement with QIAGEN Finance to issue shares to the investors in the event of conversion.

The opening of a new subsidiary in The Netherlands which directly supplies QIAGEN's complete range of integrated solutions, services, technical support, and online ordering facilities to our customers in the Benelux region.

Capital expenditures for property, plant and equipment totaled \$12.6 million, \$19.6 million, and \$59.1 million for the years ended December 31, 2004, 2003 and 2002. Capital expenditures during the year ended December 31, 2002 consisted principally of the purchases of property and equipment in connection with the expansion of our production operations in the United States and Germany. The capital investment programs were completed at the end of 2002, and as a result, the cash flow required for capital investing decreased in 2003 and 2004.

## **Business Overview**

### *Description of Our Business*

We believe that we are the world's leading provider of innovative enabling technologies and products for the separation, purification and handling of nucleic acids (DNA/RNA). This belief is based on the nature of our products and technologies and on our United States and European market shares as supported by independent market studies. We also manufacture and market a range of other solutions for pre-analytical sample processing and handling, as well as, synthetic nucleic acids (RNAi) and related services and products. Additionally, we sell and/or license technologies to others. We operate exclusively in life sciences-related industries, and develop, manufacture and market a broad portfolio of proprietary technologies and products, which meet the needs of the markets including academic and industrial research, applied testing and molecular diagnostics. Our products enable customers to reliably and rapidly process samples from collection through to purification of the target molecule, such as nucleic acids or proteins, without using hazardous reagents or expensive equipment.

We have developed or acquired a core set of technologies to provide a comprehensive approach to pre-analytical sample handling, separation and purification. These technologies can be used alone or in combination to achieve the best solution for a given application. In particular, our proprietary technologies for magnetic particle-based purification, solid-phase anion-exchange purification and selective adsorption to silica particles or membranes significantly enhance nucleic acid purification, the most difficult, critical, and labor intensive step in nucleic acid isolation. We believe that our technologies represent substantial advances in the speed, reliability, and ease of use of nucleic acid separation and purification procedures and the purity and yield of the resulting nucleic acids.

### *Our Products*

We offer over 300 products for a variety of applications in the handling, separation, purification, and subsequent use of nucleic acids and proteins. These products enable our customers to efficiently pursue their research and commercial goals that require the use of nucleic acids. The main categories of our products include:

*Consumables:* We offer most of our consumable products in kit form to maximize customer convenience and reduce user error. These kits contain our proprietary disposable handling, separation and purification devices and/or other proprietary technologies, all

## Edgar Filing: QIAGEN NV - Form 20-F

necessary reagents and buffers, and a technical handbook that includes a detailed protocol and background information. Each kit includes devices and reagents for a number of preparations ranging from one to thousands. Each kit is covered by our quality guarantee. Major applications for our consumable products are plasmid DNA purification; RNA stabilization and purification; genomic and viral nucleic acid purification; nucleic acid transfection; PCR amplification; reverse transcription; DNA cleanup after PCR and sequencing; DNA cloning and protein purification.



## **Table of Contents**

*Instrumentation:* Our BioRobot systems offer walk-away automation of nucleic acid preparation in low, medium or high throughput scale, as well as reaction set-up and other laboratory tasks.

*Services:* We also offer custom services, siRNA synthesis, whole genome amplification services, DNA sequencing, and non-cGMP and cGMP DNA production on a contract basis.

## ***Research and Development***

Our product development efforts are focused on expanding our existing products and developing innovative new products in selected areas where we have expertise and have identified substantial unmet market needs. We intend to maintain our technology leadership position through investments in product improvements, product extensions, and innovative new approaches. We believe that improvements in instrumentation will strengthen our leadership position in the automation of pre-analytical processing applications and generate an increased demand for our consumable products.

Our research and development organization is matrix structured and is overseen by our Senior Vice President of Research & Development. We conduct most of our research and development activities in Germany, Switzerland, Norway and the U.S. Our organization structure allows us flexibility to refocus our product development efforts as new technologies or markets emerge. The total number of research and development employees at December 31, 2004 was 276. Our total research and development expenses in 2004, 2003 and 2002 were approximately \$35.8 million, \$31.8 million, and \$28.2 million, respectively. In 2004 we introduced several significant new products, including:

a strategically important new product line for protein sample preparation which positions us as a leading provider for proteomic sample fractionation kits. This Qproteome product line is believed to represent one of the broadest, most comprehensive and technologically most advanced solution portfolios for the fractionation and depletion of proteins. The Qproteome product line can be used in parallel to and in combination with nucleic acid sample preparations and analysis products.

the first worldwide CE-marked stand alone automated sample preparation system for viral nucleic acids. The BioRobot MDx DSP instrument and the QIAamp DSP 96 Virus MDx Kit are the first of their kind in the molecular diagnostics marketplace.

the launch of the first set of manual CE-marked kits, QIAamp DSP Virus Kit and QIAamp DSP DNA Blood Mini Kit for isolation of viral nucleic acid and genomic DNA from blood, respectively.

a suite of instruments and consumables based on our exclusive agreement to co-market and co-promote Thermo Electron's (NYSE: TMO) KingFisher® instrumentation technology together with our magnetic bead based nucleic acid separation and purification technologies for use in nucleic acid-based applications.

the BioRobot Gene Expression GeneChip® Target Prep System which is a complete automated solution for preparing labeled cRNA targets for use with arrays such as Affymetrix GeneChip arrays. By automating the steps from first-strand cDNA synthesis to fragmentation of cRNA, the system both saves hands-on time and standardizes the preparation of cRNA targets, enabling more precise GeneChip array results.

## ***Sales and Marketing***

## Edgar Filing: QIAGEN NV - Form 20-F

We market our products in more than 40 countries throughout the world. We have subsidiaries in the markets that we believe have the greatest sales potential the United States, Germany, the United Kingdom, Switzerland, France, Japan, Australia, Canada, Norway and Italy. We have established a network of highly experienced marketing personnel and employ a dedicated field sales force of over 400 people, who sell our products and provide direct support to customers. A significant number of our marketing and sales staff are experienced scientists with academic degrees in molecular biology or related areas. We also have specialized independent distributors and importers serving more than 30 countries.

## **Table of Contents**

Our marketing strategy is focused on providing high-quality products that offer customers unique advantages, coupled with a commitment to technical excellence and customer service. We have developed a range of marketing tools designed to provide customers with direct access to technical support and inform them of new product offerings. One such tool is our technical service hotline which allows existing or potential customers to discuss, via phone and e-mail, a wide range of technical questions regarding our products and related molecular biology procedures with Ph.D. and M.Sc. scientists in our technical service group, who provide this advice and training without charge. Frequent communication with customers enables us to identify market needs, to gain early insight into new developments and business opportunities, and to respond with new products. We also distribute several publications, including our annual catalog, to existing and potential customers worldwide, providing new product information, product updates, and articles contributed by customers and by our scientists about existing and new applications for our products. In addition, we advertise in leading scientific journals such as *Nature*, *Science*, and *BioTechniques*, and hold numerous scientific seminars, in which our scientists present technical information at leading academic and industrial research institutes worldwide. We conduct direct mail campaigns to announce new products or offer special sales promotions, and also offer a personalized bi-monthly electronic newsletter for our worldwide customers that provides helpful hints and information for molecular biology applications. Our web site ([www.qiagen.com](http://www.qiagen.com)) contains a full on-line product catalog and online ordering system, various support tools and resources. We also have a Japanese language site ([www.qiagen.co.jp](http://www.qiagen.co.jp)) and some information is available on our website in French and German to support these local markets.

In addition to keeping our customers informed of new product offerings, we also offer an inventory consignment program. The QIAcabinet is a storage cabinet owned by us and placed in customer laboratories at their request. The QIAcabinet is stocked with our products, offering customers the convenience of immediate access, thereby reducing product reorder procedures and shipping costs. We monitor cabinet inventory and bill the customers at regular intervals as the products are used. We believe that our QIAcabinet can be an effective barrier to competitor entry, while also reducing distribution costs and increasing our visibility in the laboratory.

### ***Principal Markets***

From our inception, we have believed that nucleic acids would play an increasingly important role in molecular biology and that major new commercial uses of nucleic acids would be developed. We have been supplying customers with proprietary products for the handling, separation and purification of nucleic acids since 1986. Customers include major academic institutions and governmental laboratories such as the United States National Institutes of Health (NIH), as well as leading pharmaceutical and biotechnology companies. In addition, fundamental developments in recent years have created significant new opportunities for us in the emerging markets of nucleic acid-based molecular diagnostics, and applied testing such as forensics, veterinary diagnostics, genetically modified organisms (GMO) and other food testing. In response to these opportunities, we are currently targeting our products and marketing activities to each of these markets.

### ***Research Market***

The worldwide research market for nucleic acid and protein separation and purification products is comprised of an estimated 45,000 academic and industrial research laboratories with more than 390,000 researchers from leading academic institutions, diagnostics companies and laboratories, biotechnology companies and pharmaceutical companies. A substantial portion of this market continues to utilize traditional, labor intensive methods for nucleic acid separation and purification, and we estimate that 15 percent of all molecular biology research time is spent on such processes. We recognized early on the opportunity to replace the traditional methods with reliable, fast, and high-quality nucleic acid separation and purification technologies and products. We concentrated our product development and marketing efforts on this market and now offer over 300 nucleic acid handling, separation and purification products to customers. We also offer innovative protein expression and purification products. We believe that we are the technology leader in this growing research market and that we are well positioned to increase sales and expand our share of the research market as

## **Table of Contents**

laboratories continue to convert from traditional methods to our products. Based on estimates of the number of sample preparations being performed each year, we believe that the potential worldwide research market for our nucleic acid purification products exceeds \$1 billion. In addition, we believe that an additional \$800 million is spent annually in this market on PCR enzymes and reagents. We have expanded our product base for PCR amplification and reverse transcription and continue to develop products for the PCR-related market segment.

### ***Nucleic Acid-Based Molecular Diagnostics Market***

We believe that the molecular diagnostics market represents a significant market for nucleic acid separation and purification products. We believe that the advent of PCR and other amplification technologies has made the prospect of nucleic acid-based molecular diagnostics feasible. Nucleic acid-based molecular diagnostics have fundamental advantages over traditional diagnostic technologies such as immunoassays in both specificity and sensitivity. This new generation of molecular diagnostics can be used, for example, to detect or identify micro-organisms, cancer cells, bacteria and viruses (including HIV) by searching for their nucleic acid sequences. In order to prove that a disease is present in a patient, the unique sequence of the target nucleic acid causing the disease must be known, and the sequence must be amplified to facilitate detection. Potential commercial applications for nucleic acid-based molecular diagnostics include infectious disease diagnostics in blood banks, HLA typing for bone marrow and organ transplantation, genetic testing for predisposition to cancers and other common diseases, and genetic fingerprinting of humans, animals and plants.

The success of nucleic acid-based molecular diagnostics will depend on the ability to analyze purified nucleic acid samples from a variety of specimens, including blood, tissue, body fluids and stool, and on automation so that hundreds of samples can be handled concurrently. Other key factors will be the convenience, versatility, and reliability of the nucleic acid separation and purification procedures. The QIAGEN BioRobot series has been developed to handle low-, medium-, and high-throughput nucleic acid sample preparation and handling tasks in molecular biology laboratories, clinical laboratories, blood banks, forensic projects, and genomics projects. Nucleic acid samples purified on the BioRobot EZ1, BioRobot M48/96, BioRobot 9604 and BioRobot MDx are ready for use in the demanding and sensitive downstream assays performed in molecular diagnostic applications. In order to broadly address the market for nucleic acid preparation in molecular diagnostics, we are entering into partnerships or other agreements with established companies in the molecular diagnostics market.

### ***Applied Testing Market***

We believe that emerging applied testing markets such as forensics, veterinary and food, offers great opportunities for standardized sample preparation, modification and detection solutions. Successes in crime cases due to DNA analyses, public debates about genetically modified organisms (GMO) and food safety as well as bioterrorism risks, have increased the value of the use of molecular based methods. These methods are performed by well trained researchers in fully equipped laboratories as well as by less trained personnel calling for easy-to-use, reproducible and standardized methods. Our manual DNA and RNA purification methods as well as the automated solutions on BioRobot EZ1, BioSprint 15 and 96, as well as our amplification enzymes and quantitative assays address the needs in these markets.

### ***Genetic Vaccination and Gene Therapy Market***

We believe that the potential use of nucleic acids as vaccines or drugs represents the largest untapped market for nucleic acid separation and purification products. Analysis of data from the Human Genome Project should result in the identification of genes and gene mutations that are responsible for many common diseases and conditions, such as cancer, coronary artery disease, asthma, and obesity. Scientists believe that these discoveries may lead to the development of a new generation of drugs, based either on the delivery of non-mutated genes to prevent or cure disease, or on the development of therapeutics which can mimic the biological functions of genes. A further application, which may emerge

from ongoing gene research, is the development of

**Table of Contents**

genetic vaccination. Studies suggest that vaccination against diseases may be more effective using nucleic acid fragments from the disease-causing organisms rather than conventional vaccination approaches using recombinant proteins or the inactivated infectious agent. The commercialization of these drugs and vaccines will depend on the availability of large-scale production of ultrapure nucleic acids. We believe that the use in clinical testing of nucleic acids purified using our technologies and products will give us a strong position in this market once genetic vaccination and gene therapy products become commercially available.

**Seasonality**

Our business does not experience specific seasonality. Historically, a significant portion of our sales have been to researchers, universities, government laboratories and private foundations whose funding is dependent upon grants from government agencies such as the U.S. NIH and similar domestic and international agencies. To the extent that our academic customers experience increases, decreases or delays in funding arrangements, and to the extent that any of our customers' activities are slowed, such as during vacation periods or due to delays in the approval of governmental budgets, including the U.S. federal government's budget, we may experience fluctuations in sales volumes during the year or delays from one period to the next in the recognition of sales.

**Revenue by Geographic Region**

The table below sets forth total revenue during each of the past three fiscal years by geographical market, which includes revenue from all our product and service offerings. It is not practicable to provide a detail of revenues by category of activity. Net sales are attributed to countries based on the location of our subsidiary as certain subsidiaries have international distribution. See Note 20 to our consolidated financial statements included in Item 18. Financial Statements for additional information with respect to operations by geographic region.

Net Sales	2004	2003	2002
Germany*	<b>\$ 163,841,000</b>	\$ 153,143,000	\$ 136,334,000
United States*	<b>271,107,000</b>	261,366,000	221,762,000
Switzerland*	<b>37,936,000</b>	34,916,000	30,953,000
Japan*	<b>41,563,000</b>	46,839,000	34,937,000
United Kingdom	<b>31,511,000</b>	24,651,000	19,252,000
Other Countries*	<b>55,957,000</b>	48,146,000	29,730,000
Subtotal	<b>601,915,000</b>	569,061,000	472,968,000
Intersegment Elimination+	<b>(221,286,000)</b>	(217,657,000)	(174,361,000)
Total	<b>\$ 380,629,000</b>	\$ 351,404,000	\$ 298,607,000

\* Includes Net Sales to affiliates.

+ Represents intercompany sales between affiliates, which are accounted for by a formula based on local list prices and eliminated in consolidation.

**Intellectual Property, Proprietary Rights and Licenses**

## Edgar Filing: QIAGEN NV - Form 20-F

We do not depend on any individual patent or technologies owned or licensed by us. We are however significantly dependent in the aggregate on technology that we own or license. Therefore, we consider the protection of our proprietary technologies and products for the separation and purification of nucleic acids as the key to the success of our business. We rely on a combination of patents, licenses and trademarks to establish and protect our proprietary rights in our technologies and products. We currently own 60 issued patents in the United States, 37 issued patents in Germany and 225 issued patents in other major industrialized countries, and have 256 pending patent applications. Worldwide, we own 322 granted patents. Our policy is to file patent applications in Western Europe, the United States and Japan. U.S. patents have a term of 17 years from the date of issue for patents issued from applications submitted prior to June 8, 1995, and 20 years from the date of filing of the application in the case of patents issued from applications submitted on or after June 8, 1995. Patents in most

## **Table of Contents**

other countries have a term of 20 years from the date of filing of the patent application. We intend to aggressively prosecute and enforce our patents and otherwise protect our proprietary technologies. We also rely on trade secrets, know-how, continuing technological innovation and licensing opportunities to develop and maintain our competitive position.

Our practice is to require employees, consultants, outside scientific collaborators and sponsored researchers and other advisors to execute confidentiality agreements upon the commencement of employment or consulting relationships with us. These agreements provide that all confidential information developed by or made known to the individual during the course of the individual's relationship with QIAGEN is to be kept confidential and not disclosed to third parties, subject to a right to publish certain information in scientific literature in certain circumstances and subject to other specific exceptions. In the case of employees, the agreements provide that all inventions conceived by the individual while employed by us will be our exclusive property.

See **Risk Factors** included in Item 3 above for details regarding risks related to our reliance on patents and proprietary rights.

### ***Partnerships, Alliances and Acquisitions***

Our strategy includes the use of strategic alliances to augment our product development efforts with complementary technologies and to leverage our marketing and distribution capabilities with respect to select market opportunities. In order to complement or expand our business, we also intend to continue to make strategic investments in or acquisitions of complementary businesses and technologies as the opportunities arise.

### ***Competition***

We believe that our primary competition stems from traditional separation and purification methods, such as phenol extraction, cesium chloride density gradient centrifugation, and precipitation. These methods utilize widely available reagents and other chemicals supplied by companies such as Sigma-Aldrich Corp. and Roche Diagnostics GmbH (Applied Sciences Division). We compete with such methods through our innovative technologies and products, which offer a comprehensive solution for nucleic acid collection, pre-treatment, separation and purification needs and provide significant advantages over traditional methods with respect to speed, reliability, convenience, and ease of use.

We also experience, and expect to continue to experience, competition in different segments of our business from other companies providing nucleic acid separation and purification products in kit form and reagents for PCR and transfection. Competitors include: Promega Corp., Millipore Corp., Roche Diagnostics, Invitrogen Corp. and Macherey-Nagel GmbH for nucleic acid separation and purification; Applied Biosystems, Invitrogen Corp. and Promega Corp. for PCR reagents; Invitrogen Corp. and Promega Corp. for transfection reagents, Sigma-Aldrich Corp. and Fisher Scientific for protein fractionation products. We believe that our proprietary technologies and products offer significant advantages over competitors' products, with regard to purity, speed, reliability, and ease-of-use.

We believe that our competitors do not have the same comprehensive approach to pre-analytical solutions, including to nucleic acid handling, separation and purification and therefore cannot provide the broad range of technologies and depth of products and services that we offer. With our complete range of manual and fully automated solutions, we offer the value of standardization of procedures and therefore superior results.



## Edgar Filing: QIAGEN NV - Form 20-F

Our continued future success will rely in large part on our ability to maintain our technological advantage over competing products, expand our market presence and preserve customer loyalty. There can be no assurance that we will be able to compete effectively against our existing or future competitors or that developments by others will not render our technologies or products non-competitive.

## **Table of Contents**

### ***Suppliers***

We buy materials for our products from many suppliers, and are not dependent on any one supplier or group of suppliers for our business as a whole. Raw materials generally include chemicals, raw separation media, biologics, plastics and packaging. Raw materials are generally readily available at competitive, stable prices from a number of suppliers. Certain raw materials are produced under our specifications, so we closely monitor stock levels to maintain adequate supplies. We believe we maintain raw materials at a level to ensure reasonable customer service levels, and to guard against normal volatility in the availability.

### ***Government Regulations***

We are not subject to direct regulation other than regulation generally applicable to businesses pursuant to various laws and regulations in effect in the different jurisdictions in which we operate, including laws and regulations applicable to environmental matters, such as the handling and disposal of hazardous wastes. Our research and development activities involve the controlled use of small amounts of hazardous materials, chemicals and radioactive compounds. Although we believe that our safety procedures for handling and disposing of such materials comply with the standards prescribed by applicable regulations, such as the United States Occupational Safety and Health Administration's (OSHA) Hazard Communication and Occupational Exposure to Hazardous Chemicals in Laboratories standards, 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 effect on us.

We also comply with the OSHA Bloodborne Pathogens standard and the Center for Disease Control/National Institutes of Health Biosafety in Microbiological and Biomedical Laboratories standards for the handling of biological materials as well as comply with the United States Department of Transportation and International Air Transport Association regulations for the shipping of our kits which contain materials classified as hazardous. There are other federal, state and local laws and regulations applicable to our business, including those of the United States Environmental Protection Agency and the Maryland Department of the Environment. However, we do not expect that compliance with governmental regulations to which we are subject will have a material effect on our capital expenditures, earnings or competitive positions.

Sales volumes of certain of our products in development may be dependent on commercial sales by our customers of diagnostic and pharmaceutical products, which will require preclinical studies and clinical trials and other regulatory requirements. Trials will be subject to extensive regulation by governmental authorities in the United States, including the Food and Drug Administration (FDA) and equivalent agencies in other countries, and involve substantial uncertainties. In addition, certain of our products, especially products intended for use in in-vitro diagnostics applications, are dependent on regulatory or other clearance. Our failing to provide such clearance or approvals can significantly damage our business in such segments.

### ***Organizational Structure***

QIAGEN N.V. is the holding company for 22 consolidated subsidiaries, the majority of which have the primary function of the distribution of our products and services on a regional basis. Certain subsidiaries also have research and development or production activities. A listing of our significant subsidiaries, all of which are wholly owned, and their country of incorporation, is included in Exhibit 8.1 to this Annual Report.

### ***Description of Property***

Our production and manufacturing facilities for consumables products are located in Germantown, Maryland, Hilden and Erkrath, Germany. The instrument production facility is located at the QIAGEN Instruments AG facility in Hombrechtikon, Switzerland and was expanded in 2003. Over the last several years, we have made investments in automated and interchangeable production equipment to increase our production capacity and improve efficiency. For GMP production, special GMP areas were built in our facilities at Hilden

---

## **Table of Contents**

and Erkrath. Our production and manufacturing operations are highly integrated and benefit from sophisticated inventory control. We have also installed and continue to expand production-planning systems that are included in our integrated information and control system based on the business software package SAP R/3 from SAP AG. Worldwide, SAP integrates our material operating subsidiaries. Our production management personnel are highly qualified and many have engineering degrees.

The consumable products manufactured at QIAGEN GmbH are produced under ISO 9001:1994/EN 46001:1996 standards; we received our certification in January 1999. QIAGEN Instruments AG which produces the majority of our BioRobot® instrumentation product line received ISO 9001 certification in May 1997. Our ISO 9001 and EN 46001 certifications form part of our ongoing commitment to providing our customers high quality, state-of-the-art products and technologies for the handling, separation and purification of nucleic acids and proteins and to the development of our Total Quality Management system.

Our facilities in Hilden, Germany currently occupy approximately 221,000 square feet, some of which is leased pursuant to separate contracts expiring between the years 2004 and 2018. In two separate transactions between July 1997 and February 1998, QIAGEN purchased a parcel of land directly adjacent to our existing German facilities, measuring approximately 549,000 square feet. During 2003, we completed a 115,000 square foot production facility and a 149,000 square foot administration building on this land at a cost of EUR 55.4 (approximately \$69.8 million). QIAGEN also leases cGMP production facilities in Germany.

We increased our production capacity with the establishment of a manufacturing and research facility in the United States. In 1999, QIAGEN Sciences, Inc. purchased of an 18-acre site for approximately \$3.2 million in Germantown, Maryland. Construction began in March 2000, and in November 2000 QIAGEN Sciences exercised the option to purchase an additional adjacent lot of approximately 6 acres for \$1.2 million. The purchase of this additional lot allows for future expansion of up to 400,000 square feet of additional facility space. Construction was financed primarily by intercompany loans and long-term bank debt. Early in 2002, construction on the manufacturing portion of the facility was completed at a cost of approximately \$57.5 million. The 200,000 square foot Maryland facility consists of several buildings in a campus-like arrangement and is intended to accommodate over 300 employees. Construction of siRNA/RNA research and development lab and production space, as well as additional office space, was completed in the first quarter of 2003 at a cost of approximately \$3.9 million. QIAGEN Sciences is integrated with our other North American and European subsidiaries through our SAP business information systems and utilizes production-planning, quality management and inventory management modules from SAP in order to increase efficiency.

Our corporate headquarters are located in leased office space in Venlo, The Netherlands. Other subsidiaries throughout the world lease small amounts of space.

We believe that our existing production and distribution facilities can support our planned production needs for the next 36 months. Our production and manufacturing operations are subject to various federal, state, and local laws and regulations including environmental regulations. We believe we do not have any material issues relating to these laws and regulations.

### **Item 5. 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 above, and Business Factors below.*

***Business Factors***

This report contains forward-looking statements that are subject to certain risks and uncertainties. These statements can be identified by the use of forward-looking terminology such as may, will, could, expect, anticipate, estimate, continue or other similar words. Such statements are based on management's current

## **Table of Contents**

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 companies; 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 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 development efforts involve a high degree of risk. For further information, refer to the more specific risks and uncertainties discussed under the caption "Risk Factors" in Item 3 and throughout this Form 20-F.

## ***Results of Operations***

### *Overview*

We produce and distribute biotechnology products, primarily for the handling, separation and purification of biological samples prior to their analysis (pre-analytical processing). A substantial portion of our sales come from products that address the pre-analytical processing of nucleic acids (DNA/RNA). In addition, we sell PCR- and siRNA- related products and services, as well as license and sell technology or the rights to it. We believe that we are the world's leading provider of innovative enabling technologies and products for nucleic acid handling, separation and purification, based on the nature of our products and technologies and on our United States and European market shares as supported by independent market studies. We operate exclusively in the life sciences industry, and develop, manufacture and market a broad portfolio of proprietary technologies and products to meet the needs of the academic and industrial research, applied testing and molecular diagnostics markets. Our products enable customers to reliably and rapidly produce high purity nucleic acids without using hazardous reagents or expensive equipment.

We segment our business based on the geographic locations of our subsidiaries. Our reportable segments include Germany, the United States, Switzerland, Japan, the United Kingdom, Norway and Other Countries (consisting of subsidiaries in Canada, France, Australia, Italy, Austria and The Netherlands, which services Belgium, The Netherlands and Luxembourg). Our research, production and manufacturing facilities are located in Germany, the United States, Switzerland and Norway. Our holding company is located in The Netherlands. Reportable segments derive revenues from our entire product and service offerings. Our Luxembourg subsidiary, QIAGEN Finance, which was established as the financing vehicle for the issuance of convertible debt, is not consolidated.

Since 1999, we have had compound annual growth of approximately 19% in net sales and 29% in net income based on reported U.S. GAAP results. In recent years we have made a number of strategic acquisitions and disposals expanding and focusing our technology and product offerings. These transactions include:

In September 2004, we completed the acquisition of key assets of Molecular Staging, Inc. (MSI) of New Haven, Connecticut. MSI was a privately held company which had developed a range of proprietary products and services based on its Multiple Displacement Amplification (MDA) and Rolling Circle Amplification (RCAT) technology. The key application of MDA is whole genome amplification (WGA) which is designed to eliminate limitations created by the scarce quantities of DNA samples available for customers to perform an increasing number of analyses. The technology portfolio acquired from MSI adds a new dimension of customer benefit and is in our core focus on pre-analytical solutions. The primary reason for the acquisition was to enable us to provide customers a solution for overcoming the limitations of scarce DNA samples.

## Edgar Filing: QIAGEN NV - Form 20-F

In June 2004, we sold a significant portion of our synthetic DNA business unit to a group of investors since the market dynamics and strategic directions this business were becoming different in nature

**Table of Contents**

compared to our core focus. We retained all rights and activities in our leading siRNA business including ownership of our proprietary TOM-amidite chemistry.

In June 2002, we completed the acquisition of GenoVision A.S. located in Oslo, Norway. GenoVision A.S. was formed in 1998 and had two wholly owned subsidiaries and one majority owned subsidiary. We believe that the acquisition has provided us with unique, automated solutions for the purification of nucleic acids based on GenoVision's proprietary magnetic particle technologies.

In April 2002, we completed the acquisition of Xeragon, Inc. of Huntsville, Alabama. Established in 2001, Xeragon is a market and technology leader for products and services focusing on synthetic nucleic acids, particularly siRNA.

In 2002 we completed our North American Headquarters in Germantown, Maryland and also completed production and office facilities in Hilden, Germany. In December 2002, we closed the QIAGEN Genomics facility located in Bothell, Washington and relocated certain activities to our recently opened facilities in Germantown, Maryland and Hilden, Germany. In December 2003, we committed to a relocation and restructure plan to more fully utilize our North American Headquarters in Germantown, Maryland and to discontinue certain products. This plan was completed in 2004.

To date, we have funded our growth through internally generated funds, debt and private and public sales of equity securities.

On a consolidated basis, operating income increased to \$84.1 million in 2004, compared to \$68.9 million in 2003. The increase in operating income is primarily the result of increased sales and lower operating costs as a result of our recent restructuring efforts, partially offset by acquisition related costs and costs related to our restructuring and relocation efforts. Further, 2003 operating income includes the results of our former synthetic DNA business unit a significant portion of which was sold at the end of the second quarter in 2004. Accordingly, the last six months of 2004 does not include any sales of synthetic DNA and related products or operating costs related to the former business unit.

On a comparative basis sales increased primarily as the result of an increase in our consumables products sales, which experienced very solid growth in 2004 compared to 2003. During 2004, we continued in our plans to realign certain operating functions in line with our focus on streamlining and strengthening our operations. In 2004, we recorded charges of \$3.8 million, respectively, related to our restructuring and relocation efforts. Upon the acquisition of the key assets of MSI, we recorded costs related to the acquisition in the third quarter of 2004 including a \$1.5 million charge to cost of sales for a write-down of inventories, which will be replaced with products integrating newly acquired technologies, and a \$572,000 charge to operating expenses related to the impairment of other assets as a result of the acquisition. Further, on a comparative basis, operating income during 2004 was negatively impacted by the currency impact of the stronger euro, since a significant portion of our production and operations is based in Germany, along with lower gross margins from instrumentation sales. After the sale of a significant portion of our synthetic DNA business unit, our gross margin is no longer negatively impacted by such products and as a result, our reported gross margin in 2004 increased to 67% compared to 65% for the same period in 2003.

The following tables set forth summaries of operating income by segment for the years ended December 31. More complete tables can be found in Note 20 in the accompanying financial statements.

Operating Income (Loss)	2004	2003
Germany	\$ 28,670,000	\$ 22,355,000
United States	36,473,000	32,641,000
Switzerland	1,492,000	(798,000)



Edgar Filing: QIAGEN NV - Form 20-F

All other segments	18,142,000	13,661,000
Subtotal	84,777,000	67,859,000
Intersegment Elimination	(637,000)	1,030,000
Total	\$ 84,140,000	\$ 68,889,000

## **Table of Contents**

In Germany, operating income was higher in 2004 as compared to 2003 primarily due to increased overall gross margin as a result of increased consumable sales which have a higher gross margin, partially offset by an increase in operating costs, primarily acquisition related costs.

Operating income in the United States was positively impacted in 2004 compared to 2003 by increased sales of consumables products and by a \$4.0 million sale of technology to Operon Biotechnologies, Inc. This increase in sales was partially offset by the lack of sales of synthetic DNA and related products in the second half of 2004 following the sale of the synthetic DNA business unit in June 2004. Operating expenses in the United States were lower as a result of the recent restructuring efforts. However, the impact of lower operating costs was partially offset by increased acquisition and relocation and restructuring costs.

Operating income in Switzerland was higher in 2004 as compared to 2003 primarily due to a \$1.0 million license of software to Operon Biotechnologies, Inc. and an increase in intercompany sales.

We regularly introduce new products in order to extend the life of our existing product lines as well as to address new market opportunities. During 2004, we introduced over 30 new products, including the first worldwide CE-marked stand alone automated Sample Preparation System for Viral Nucleic Acids composed of the BioRobot MDx DSP; QIAsoft MDxDSP; the QIAamp DSP 96 Virus MDx Protocols and the QIAamp DSP 96 Virus MDx Kit. Further, the declaration of conformity to the IvDD has been obtained for the MDx DSP System which targets diagnostics markets and is approved for such marketing under the CE regime.

### ***Fiscal Year Ended December 31, 2004 compared to 2003***

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

In 2004, net sales increased 8% to \$380.6 million from \$351.4 million in 2003. Net sales in the United States increased to \$167.4 million in 2004 from \$154.4 million in 2003, and net sales outside the United States increased to \$213.2 million in 2004 from \$197.0 million in 2003.

The increase in sales was primarily the result of an increase in our consumable products sales and our BioRobot product line, which experienced strong growth in 2004 compared to 2003. Outside of the United States, the increase in net sales was primarily due to growth at QIAGEN GmbH, located in Germany, which reported an increase of 10% (\$14.7 million), QIAGEN Ltd., located in the United Kingdom, which reported an increase of 28% (\$6.9 million) and QIAGEN Instruments, located in Switzerland, which reported an increase of 17% (\$4.3 million). QIAGEN Benelux B.V., our newly established sales subsidiary serving Belgium, The Netherlands and Luxembourg regions, reported sales of \$4.4 million during 2004. Prior to the establishment of this new subsidiary, QIAGEN GmbH reported sales to the Benelux region as sales to a third-party distributor. During 2004, QIAGEN K.K., located in Japan, reported a decrease of 4% (\$1.6 million), which is partly attributable to a change in local purchasing procedures during the year. We believe the impact of this change is temporary. Further, in the second quarter 2004, we sold a significant portion of our synthetic DNA business unit. Accordingly, net sales for the second half of 2004 in the United States, Germany and Japan did not include any sales of the synthetic DNA products, which were included in the 2003 net sales.

Changes in exchange rates continued to affect the growth rate of net sales for the year ended December 31, 2004. A significant portion of our revenues is denominated in European Union euros. Using identical foreign exchange rates for both years, net sales would have increased approximately 5% as compared to the reported increase of 8% for the year ended December 31, 2003. See Currency Fluctuations.

*Gross Profit*

Gross profit was \$253.5 million or 67% of net sales in the year ended December 31, 2004 as compared to \$229.0 million or 65% of net sales in 2003. The absolute dollar increase is attributable to the increase in net sales

## **Table of Contents**

partially offset by the currency impact of the stronger euro. The 2003 gross profit includes sales of our synthetic DNA business unit, a significant portion of which was sold at the end of the second quarter in 2004. Accordingly, the second half of 2004 does not include any sales of synthetic DNA and related products, which carried a lower gross profit than our consumables products, thus the reported gross profit in 2004 is higher than 2003. Further, the increase in gross profit as a percentage of net sales is also attributable to the increase in net sales of consumable products, partially offset by the currency impact of the stronger euro. Additionally, manufacturing costs incurred at our newer production facilities in Germantown, Maryland and Hilden, Germany, which began production operations in the second and fourth quarters of 2002, respectively, negatively impacted gross profit. These facilities added production capacity, which resulted in increased fixed production costs. These higher fixed costs will continue to be a cost of production in the future, though as production increases and we more fully utilize the additional capacity of these facilities, we expect that gross profit, as a percentage of sales, will increase. In connection with the acquisition of Molecular Staging, Inc. we expensed \$1.5 million of inventory to cost of sales in the third quarter of 2004, which will be replaced with products integrating the newly acquired technologies.

### *Research and Development*

Research and development expenses increased 13% to \$35.8 million (9% of net sales) in 2004 compared with \$31.8 million (9% of net sales) in 2003. Using identical foreign exchange rates for both years, research and development expenses increased approximately 8%. We expanded our German research facility late in 2002, which resulted in increased costs related to research and development starting in the first quarter of 2003. Our U.S. facility located in Germantown, Maryland now includes research and development activities, including those related to siRNA. The increase in research and development expenses is also attributable to the currency impact of the stronger euro, and was partially offset by the sale of our former synthetic DNA business unit in the second quarter of 2004. As we continue to expand our research activities and product development capabilities, additional expense will be incurred related to research and development facility costs and the employees engaged in our research and development efforts. We have a strong commitment to research and development and anticipate that absolute research and development expenses may increase significantly.

### *Sales and Marketing*

Sales and marketing expenses increased 5% to \$87.5 million (23% of net sales) in 2004 from \$83.0 million (24% of net sales) in 2003. Using identical foreign exchange rates for each year, sales and marketing expenses increased approximately 5%. Sales and marketing costs are primarily associated with personnel, commissions, advertising, trade shows, publications, freight and logistics expenses and other promotional items. The decrease in sales and marketing expenses as a percentage of sales in 2004 is primarily a result of our recent restructuring and relocation efforts. We anticipate that sales and marketing costs may increase along with new product introductions and continued growth in sales of our products.

### *General and Administrative*

General and administrative expenses decreased 1% to \$41.7 million (11% of net sales) in 2004 from \$42.3 million (12% of net sales) in 2003. Using identical foreign exchange rates for both years, general and administrative expenses increased approximately 5%. General and administrative expenses primarily represent the costs required to support our administrative infrastructure which, until our recent restructuring, continued to expand along with our growth. General and administrative expenses were lower in 2004 as a result of our relocation and restructuring efforts, including the sale of our synthetic DNA business unit, which we sold at the end of June 2004.

### *Acquisition and Related Costs*

Costs related to the acquisition of Molecular Staging, Inc. in the third quarter of 2004 included a \$1.5 million charge to cost of sales for a write-down of inventories, which will be replaced with products integrating

## **Table of Contents**

newly acquired technologies, and a \$572,000 charge to operating expenses related to the impairment of other assets as a result of the acquisition.

### *Relocation and Restructure Costs*

During 2004 we continued executing on our plans to realign certain operating functions in order to concentrate the locations of our activities and strengthen our operational effectiveness. In December 2003, we began the relocation of certain functions from our subsidiary in Valencia, California to our North American Headquarters located in Germantown, Maryland in order to utilize the capacity of our North American Headquarters in Germantown. In addition, in 2003 we realigned research and development programs, streamlined our product offering and discontinued certain product lines related to certain microarray-related products

As a result of the above plans, in 2004, we recognized approximately \$3.8 million in operating expenses related to employee relocation and severance costs. In 2003 we expensed approximately \$3.6 million to cost of sales for the write-down of inventories and approximately \$1.5 million to operating expenses related to relocating employees, severance for employees not relocating and the write-off of investments. These restructuring and relocation activities were completed in 2004 for a total cost of approximately \$8.9 million. Additionally, in 2003 approximately \$1.6 million of costs were incurred to complete the closure of the QIAGEN Genomics site in Bothell, Washington, mainly lease related costs.

### *Other Income (Expense)*

Other expense was \$11.5 million in 2004 compared to \$1.6 million in 2003. This increase in expense was primarily due to the sale of the majority of our synthetic DNA business unit to a group of investors including a former member of management. As a result we recorded a net loss related to the sale of \$9.8 million in the second quarter of 2004.

In 2004, research and development grant income from European as well as German state and federal government grants decreased to \$1.6 million from \$2.2 million in 2003. We conduct significant research and development activities in Germany, and expect to continue to apply for such research and development grants in the future.

We recorded a loss from foreign currency transactions of \$67,000 in 2004 as compared to a gain of \$1.1 million in 2003. The gain or loss from foreign currency transactions reflects net effects from conducting business in currencies other than the U.S. dollar. QIAGEN N.V.'s functional currency is the U.S. dollar and its subsidiaries' functional currencies are the European Union euro, the British pound, the Swiss franc, the U.S. dollar, the Australian dollar, the Canadian dollar, the Japanese yen and the Norwegian krone. See Currency Fluctuations under Item 11 Quantitative and Qualitative Disclosures About Market Risk .

For the year ended December 31, 2004, interest income increased to \$2.9 million from \$1.3 million in 2003. Interest income is derived from our investment of funds in investment grade, interest-bearing marketable securities and from cash balances. As of December 31, 2004, we had approximately \$30.2 million invested in marketable securities. The weighted average interest rates on the marketable securities portfolio ranged from 1.27% to 1.45% in 2004, compared to 1.37% to 1.46% in 2003.

## Edgar Filing: QIAGEN NV - Form 20-F

Interest expense increased to \$5.1 million in 2004 compared to \$4.6 million in 2003. Interest costs relate primarily to our long-term borrowings of the proceeds from the convertible debt offering along with the long-term debt related to our facility construction.

In 2004, we recorded net losses from equity method investees of \$2.2 million compared to \$1.8 million in 2003. The loss primarily represents our share of losses from our equity investment in PreAnalytiX. We sell certain products directly as joint venture products and certain products are sold the use of via protocols and related QIAGEN products through QIAGEN. The aggregated PreAnalytiX activities are highly profitable for

## **Table of Contents**

QIAGEN. Due to the structure of the joint venture-related activities, the joint venture entity itself, PreAnalytiX GmbH, is expected to report net losses for our fiscal year 2005. As previously disclosed, we intend to continue to make strategic investments in complementary businesses as the opportunities arise. Accordingly, we may continue to record losses on equity investments in start-up companies based on our ownership interest in such companies.

Other expense was \$8.5 million in 2004 compared to other income of \$286,000 in 2003. This increase in expense was primarily due to the sale of the majority of our synthetic DNA business unit to a group of investors including a former member of management. As a result we recorded a net loss related to the sale of \$9.8 million in the second quarter of 2004.

### *Provision for Income Taxes*

Our effective tax rate decreased to 33% in 2004 from 36% in 2003. Our operating subsidiaries are exposed to effective tax rates ranging from approximately 25% to approximately 42%. Fluctuation in the distribution of pre-tax income among these entities can lead to fluctuations of the effective tax rate in our consolidated financial statements. Further, we received tax benefits in 2004 related to the revaluation of deferred taxes in The Netherlands, the United States, and Norway.

### *Fiscal Year Ended December 31, 2003 compared to 2002*

#### *Net Sales*

In 2003, net sales increased 18% to \$351.4 million from \$298.6 million in 2002. Net sales in the United States decreased to \$154.4 million in 2003 from \$156.0 million in 2002, and net sales outside the United States increased to \$197.0 million in 2003 from \$142.6 million in 2002.

Net sales within the United States decreased primarily as a result of the December 2002 closure of the QIAGEN Genomics facility in Seattle. In 2002, QIAGEN Genomics had reported sales of \$2.5 million. Following the December 2002 closure, we reduced the resources dedicated to genomics services resulting in lower sales. Net sales at QIAGEN, Inc., located in Valencia, California were overall unchanged, but QIAGEN Inc. continued to experience lower prices on the sale of synthetic DNA products due to greater price competition in the synthetic DNA market. We subsequently sold the majority of our synthetic DNA business unit in June 2004. Net sales at GenoVision Inc., which was acquired in the second quarter of 2002 as part of the acquisition of GenoVision A.S. and is located in Pennsylvania, were \$3.2 million in 2003 compared to reported sales of \$1.8 million in the second half of 2002.

Outside of the United States, the increase in net sales was primarily due to strong growth at QIAGEN GmbH, located in Germany, which reported an increase of 41% (\$20.3 million), QIAGEN Inc., located in Canada, which reported an increase of 83% (\$6.1 million), and QIAGEN Ltd., located in England, which reported an increase of 28% (\$5.4 million). Net sales in Japan, which include the results of QIAGEN K.K. and QIAGEN Sciences, K.K. (formerly Sawady) increased 16% (\$5.7 million) in 2003 compared to 2002.



## Edgar Filing: QIAGEN NV - Form 20-F

While unit sales of consumable products increased during the year, we expect a slower rate of sales growth for the range of products designed for large-scale plasmid DNA applications as the market for such products matures. We regularly introduce new products in order to extend the life of our existing product lines as well as to address new market opportunities. During 2003, we released over 60 new products including the LiquiChip Activated Beads which enable efficient covalent immobilization of antibodies and other thiol-containing biomolecules in xMap protein assays. The BioRobot® EZ1, M48 and M96 workstations deliver automation for low- to medium-throughput applications. The BioRobot EZ1 and EZ1 kits provide easy, automated purification of nucleic acids from 1-6 clinical samples for a wide range of sample types. BioRobot M48 and M96 workstations operate with the MagAttract® kits for fully automated nucleic acid purification from 6-48 or 8-96 clinical samples. Other specialized BioRobot systems were introduced for gene expression analysis, genotyping,

---

## **Table of Contents**

and plant sciences. We launched validated, ready-to-use QuantiTect<sup>®</sup> Gene Expression Assays, for real-time RT-PCR analysis of a constantly expanding range of genes, and QuantiTect Custom Assays, for any target of choice. Our RNeasy<sup>®</sup> product line now includes new kits for difficult-to-lyse samples. The new RNeasy Micro Kit and QIAamp<sup>®</sup> DNA Micro Kit enable purification of RNA and DNA from very small samples. The RNeasy MinElute Cleanup Kit is designed for RNA cleanup and sample concentration. New products for gene silencing in 2003 include 4-for-Silencing siRNA Duplexes for guaranteed, efficient gene silencing. HPP (high performance purity) Grade siRNA enables highly efficient gene silencing. RNAiFect Transfection Reagent and the RNAi Starter Kit facilitate transfection of siRNA into eukaryotic cells. New human and mouse Array-Ready Oligo Sets were launched along with a large number of new animal, bacteria, and plant species, including the first Array-Ready Oligo Sets for the grape genome.

Changes in exchange rates continued to affect the growth rate of net sales for the year ended December 31, 2003. A significant portion of our revenues is denominated in European Union euros. Using identical foreign exchange rates for both years, net sales would have increased approximately 12% as compared to the reported increase of 18% for the year ended December 31, 2003. See [Currency Fluctuations](#).

### *Gross Profit*

Gross profit was \$229.0 million or 65% of net sales in the year ended December 31, 2003 as compared to \$202.1 million or 68% of net sales in 2002. The absolute dollar increase is attributable to the increase in net sales partially offset by the currency impact of the stronger euro. Gross profit was negatively impacted by the currency effect of the stronger euro, since a significant portion of our production is based in Germany, while a significant portion of our sales is in the United States. Gross profit was also negatively impacted by a charge of \$3.6 million in December 2003, as part of our relocation and restructure plan, related to the write-down of inventory which is part of a product line that we will not sell in the future. Additionally, gross profit was negatively impacted by manufacturing costs incurred at our production facilities in Germantown, Maryland and Hilden, Germany, which began production operations in the second quarter of 2002 and fourth quarter of 2002, respectively. These facilities added additional production capacity, which resulted in increased fixed production costs. These higher fixed costs will continue to be a cost of production in the future.

### *Research and Development*

Research and development expenses increased 13% to \$31.8 million (9% of net sales) in 2003 compared with \$28.2 million (9% of net sales) in 2002. Using identical foreign exchange rates for both years, research and development expenses decreased approximately 2%. We expanded our German research facility late in 2002, which resulted in increased costs related to research and development in 2003 compared to 2002. Our U.S. facility located in Germantown, Maryland includes limited research and development activities. As we continue to expand our research activities and product development capabilities, additional research and development expense will be incurred related to facility costs and employees engaged in our research and development efforts. We have a strong commitment to research and development and anticipate that absolute research and development expenses may increase significantly.

### *Sales and Marketing*

Sales and marketing expenses increased 11% to \$83.0 million (24% of net sales) in 2003 from \$75.1 million (25% of net sales) in 2002. Using identical exchange rates for each year, sales and marketing expenses increased approximately 3%. Sales and marketing costs are primarily associated with personnel, commissions, advertising, trade shows, publications, freight and logistics expenses and other promotional items. We anticipate that selling and marketing costs will continue to increase along with new product introductions and continued growth in sales of our products.

*General and Administrative*

General and administrative expenses increased 1% to \$42.3 million (12% of net sales) in 2003 from \$42.0 million (14% of net sales) in 2002. Using identical foreign exchange rates for both years, general and

---

## **Table of Contents**

administrative expenses decreased approximately 7%. General and administrative expenses primarily represent the costs required to support our administrative infrastructure that continues to expand along with our growth, offset by our recent efforts to lower costs. These efforts include the 2002 closure of our Seattle facility and the implementation of a cost reduction program related to our synthetic DNA business.

### *Relocation and Restructure Costs*

In December 2003, we committed to a relocation and restructure plan. The plan includes the relocation of our North American marketing and sales operations from Valencia, California to Germantown, Maryland in order to utilize the capacity of our North American Headquarters. Additionally, we decided to refocus resources dedicated to certain products related to our microarray business and accordingly discontinued certain products. We expensed approximately \$3.6 million to cost of sales for the write-down of inventories and approximately \$1.5 million to operating expenses related to relocating employees, severance for employees who will not be relocating and the write-off of investments. Additionally, in 2003 approximately \$1.6 million of costs were incurred to complete the closure of the QIAGEN Genomics site in Bothell, Washington, mainly lease related costs.

During December 2002, we decided to close the QIAGEN Genomics site in Bothell, Washington and to relocate several of the site's activities to other locations, mainly to our facilities in Germantown, Maryland and Hilden, Germany. The closure and relocation was completed in the second quarter of 2003 and is expected to contribute to our future profitability as a result of lower operating costs. As a result of the closure and related re-focus of this business, we recorded a charge, in December 2002, of approximately \$10.8 million primarily consisting of: severance and other costs of \$2.7 million, and non-cash write offs of facilities and equipment and other assets of \$4.7 million and of intangible assets, including developed technology and goodwill, of \$3.2 million.

### *Other Income (Expense)*

Other expense was \$1.6 million in 2003 compared to \$4.3 million in 2002. This decrease in expense was mainly due to increased research and development grant income and a net gain on foreign currency transactions in 2003 compared to a net loss in 2002, partially offset by higher interest expense and loss from equity method investees in 2003.

In 2003, research and development grant income from European as well as German state and federal government grants increased to \$2.2 million from \$801,000 in 2002. We conduct significant research and development activities in Germany, and expect to continue to apply for such research and development grants in the future.

We recorded a gain from foreign currency transactions of \$1.1 million in 2003 as compared to a loss of \$2.2 million in 2002. The gain from foreign currency transactions reflects net effects from conducting business in currencies other than the U.S. dollar. QIAGEN N.V.'s functional currency is the U.S. dollar and its subsidiaries' functional currencies are the European Union euro, the British pound, the Swiss franc, the U.S. dollar, the Australian dollar, the Canadian dollar, the Japanese yen and the Norwegian krone. See Currency Fluctuations under Item 11 Quantitative and Qualitative Disclosures About Market Risk.

For the year ended December 31, 2003, interest income increased to \$1.3 million from \$1.2 million in 2002. Interest income is derived from our investment of funds in investment grade, interest-bearing marketable securities and from cash balances. As of December 31, 2003, we had approximately \$6.5 million invested in marketable securities. The weighted average interest rates on the marketable securities portfolio ranged

from 1.37% to 1.46% in 2003, compared to 1.93% to 2.22% in 2002.

Interest expense increased to \$4.6 million in 2003 compared to \$2.6 million in 2002. Interest costs increased primarily as a result of our additional long-term borrowings related to facility construction.

---

**Table of Contents**

In 2003, we recorded net losses from an equity method investee of \$1.8 million compared to \$1.3 million in 2002. The 2003 loss represents our share of losses from our equity investment in PreAnalytiX. The first product of PreAnalytiX, the PAXgene Blood RNA System was launched in April 2001. In August 2002, PreAnalytiX announced that they had been successful in forming agreements with pharmaceutical companies including GlaxoSmithKline for the use of the PreAnalytiX system. In October 2003, PreAnalytiX announced a collaborative effort with Affymetrix, Inc. to improve gene expression results from whole blood RNA samples. We sell certain products directly as joint venture products and certain products are sold via protocols. The joint venture entity itself, PreAnalytiX GmbH, is expected to report net losses for our fiscal year 2004. As previously disclosed, we intend to continue to make strategic investments in complementary businesses as the opportunities arise. Accordingly, we may continue to record losses on equity investments in start-up companies based on our ownership interest in such companies.

*Provision for Income Taxes*

Our effective tax rate decreased to 36% in 2003 from 41% in 2002. Our operating subsidiaries are exposed to effective tax rates ranging from approximately 8% to approximately 52%. Fluctuation in the distribution of pre-tax income among these entities can lead to fluctuations of the effective tax rate in our consolidated financial statements. Further, we received a tax benefit in 2003 related to the closure of QIAGEN Genomics in 2002.

*Foreign Currency*

QIAGEN N.V.'s functional currency is the U.S. dollar and its subsidiaries' functional currencies are the local currency of the respective countries in which they are headquartered, in accordance with Statement of Financial Accounting Standard No. 52, "Foreign Currency Translation". 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 or loss on foreign currency transactions was a loss of \$67,000 in 2004, a gain of \$1.1 million in 2003, and a loss of \$2.2 million in 2002, and is included in other income.

*Liquidity and Capital Resources*

To date, we have funded our business primarily through internally generated funds, debt and the private and public sales of equity. Our primary use of cash has been to support continuing operations and our capital expenditure requirements including acquisitions. As of December 31, 2004 and December 31, 2003, we had cash and cash equivalents of \$196.4 million and \$99.0 million, respectively, and investments in current marketable securities of \$30.2 million and \$6.5 million, respectively. Cash and cash equivalents are primarily held in U.S. dollars, other than those cash balances maintained in the local currency of the subsidiary to meet local working capital needs. At December 31, 2004, cash and cash equivalents had increased by \$97.4 million over December 31, 2003 primarily due to cash provided by operating activities of \$53.8 million and financing activities of \$95.6 million, offset by cash used in investing activities of \$51.1 million. Marketable securities consist of investments in high-grade corporate securities. As of December 31, 2004 and December 31, 2003, we had working capital of \$299.0 million and \$163.6 million, respectively.

***Operating Activities.*** For the years ended December 31, 2004 and 2003, we generated net cash from operating activities of \$53.8 million and \$64.1 million, respectively. Cash provided by operating activities decreased in 2004 compared to 2003 primarily due to increases in deferred taxes and prepaid expenses, partially offset by a loss on the disposition of a significant portion of our synthetic DNA business unit, a decrease in inventories, and increases in accounts payable and accrued liabilities. Since we rely heavily on cash generated from operating activities to fund

our business, a decrease in demand for our products or significant technological advances of competitors would have a negative impact on our liquidity.

---

## **Table of Contents**

**Investing Activities.** Approximately \$51.1 million of cash was used in investing activities during 2004, compared to \$14.1 million in 2003. Investing activities during 2004 consisted principally of the purchase of intangible assets in connection with our acquisition of MSI, proceeds from the disposition of a portion of our synthetic DNA business unit and the purchases of marketable securities along with the purchases of property and equipment in connection with our operations in the U.S. and Germany. At the end of 2002, we had completed the expansion of our production operation facilities in the U.S. and Germany, and during 2003, had continued to make capital investments related to the new facilities.

**Financing Activities.** Financing activities provided \$95.6 million in cash during 2004, compared to a use of \$1.9 million in 2003. Cash provided during the year was primarily due to the long-term borrowings of the convertible debt proceeds from QIAGEN Finance (Luxembourg) S.A., and the issuance of common shares as a result of stock option exercises, partially offset by the repayment of long-term debt and capital lease payments.

We have credit lines totaling \$12.1 million at variable interest rates none of which was utilized as of December 31, 2004. Additionally, we have capital lease obligations, including interest, in the amount of \$21.9 million. We also carry \$204.2 million of long-term debt that consists of three notes payable.

Two of the notes payable are the long-term borrowings of the proceeds from our issuance of \$150.0 million senior unsubordinated convertible notes, with a 1.5% coupon due in 2024 through QIAGEN Finance (Luxembourg) S.A., which was established for this purpose. According to the provisions of the Financial Accounting Standards Board Interpretation No. 46 (FIN 46) Consolidation of Variable Interest Entities, which is discussed more fully in Note 6 to the Consolidated Financial Statements, QIAGEN Finance is a variable interest entity with no primary beneficiary, thus is not consolidated. Accordingly, the convertible debt is not included in our consolidated financial statements though we do report the full obligation of the debt through our liabilities to QIAGEN Finance. The net proceeds of the convertible debt were loaned by QIAGEN Finance to our consolidated U.S. and Swiss subsidiaries. The long-term notes payable to QIAGEN Finance have an effective rate of 1.95%, and are due in August 2011. The convertible notes issued by QIAGEN Finance are convertible into shares of our common stock at a conversion price of \$12.6449 subject to adjustment. Approximately \$58.0 million of the proceeds was used to repay long-term debt at higher interest rates and approximately \$29.5 million was used to finance the acquisition of MSI. We intend to use the remaining net proceeds for general corporate purposes. The third note is a note payable of EUR 40.0 million, (approximately \$54.2 million at December 31, 2004) which bears interest at a variable interest rate of EURIBOR plus 0.75 percent is due in annual payments of EUR 5.0 million through June 2011.

We believe that funds from operations, existing cash and cash equivalents, together with the proceeds from our public and private sales of equity and convertible notes, and availability of financing facilities as needed, will be sufficient to fund our planned operations and expansion during the coming year.

### ***Currency Hedging***

In the ordinary course of business, we purchase foreign currency exchange options to manage potential losses from foreign currency exposures. The options outstanding at December 31, 2004 expire at various dates through February 2005 and have a fair market value of approximately \$23,000. These options give us the right, but not the requirement, to purchase foreign currencies in exchange for U.S. dollars at predetermined exchange rates. The principal objective of such options is to minimize the risks and/or costs associated with global financial and operating activities. We do not utilize financial instruments for trading or other speculative purposes. Additionally, during 2004, our German and Swiss subsidiaries entered into forward arrangements which qualify for hedge accounting as cash flow hedges of foreign currency denominated liabilities. At December 31, 2004, these forward contracts totaled \$44.0 million as a hedge to currency risk on intercompany loans. The contracts mature in July 2011 and have a fair market value of approximately \$4.8 million, which is included in other liabilities in the accompanying consolidated balance sheet at December 31, 2004.





**Table of Contents****Contractual Obligations**

As of December 31, 2004, our future contractual cash obligations are as follows:

<u>Contractual obligations (in thousands)</u>	<u>Total</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Thereafter</u>
Long-term debt	\$ 204,152	\$ 6,769	\$ 6,769	\$ 6,769	\$ 6,769	\$ 6,769	\$ 170,307
Capital lease obligations	21,870	1,971	1,674	1,519	1,519	1,519	13,668
Operating leases	17,471	5,639	3,002	2,097	1,326	1,115	4,292
Purchase obligations	13,408	10,026	935	267	176	176	1,828
<b>Total contractual cash obligations</b>	<b>\$ 256,901</b>	<b>\$ 24,405</b>	<b>\$ 12,380</b>	<b>\$ 10,652</b>	<b>\$ 9,790</b>	<b>\$ 9,579</b>	<b>\$ 190,095</b>

In addition to the above and pursuant to the purchase agreements for the 2004 acquisition of Molecular Staging Inc., we could be required to make additional contingent cash payments totaling up to \$3.0 million based on revenue milestones in 2005.

**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, 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 to 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 it is reasonably likely that changes in the accounting estimate may occur from period to period that would have 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, accounts receivable, investments, goodwill and other intangibles, and income taxes. We reviewed the development, selection, and disclosure of our critical accounting policies and estimates with the Audit Committee of our Supervisory Board.

**Revenue Recognition.** We recognize revenue in accordance with SEC Staff Accounting Bulletin No. 104, Revenue Recognition in Financial Statements (SAB 104). SAB 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the fee is fixed and determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) could require management's judgments regarding the fixed nature of the fee charged for services rendered and products delivered and the collectibility of those fees. Should changes in conditions cause management to determine that these criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected.

**Accounts Receivable.** Our accounts receivable are unsecured, and we are at risk to the extent such amounts become uncollectible. We continually monitor accounts receivable balances, and provide for an allowance for doubtful accounts at the time collection may become questionable based on payment history or age of the receivable. Since a significant portion of our customers are funded through academic or government funding arrangements, past history may not be representative of the future. As a result, we may have write-offs of accounts

## Edgar Filing: QIAGEN NV - Form 20-F

receivable in excess of previously estimated amounts or may in certain periods increase or decrease the allowance based on management's current estimates.

**Investments.** We have equity investments accounted for under the cost method. We periodically review the carrying value of these investments for permanent impairment, considering factors such as the most recent

**Table of Contents**

stock transactions, book values from the most recent financial statements, and forecasts and expectations of the investee. Estimating the fair value of these non-marketable equity investments in life science companies is inherently subjective, and if actual events differ from management's assumptions, it could require a write-down of the investment that could materially impact our financial position and results of operations.

In addition, generally accepted accounting principles require different methods of accounting for an investment depending on the level of control that we exert. Assessing the level of control involves subjective judgments. If management's assumptions with respect to control differ in future periods and we therefore have to account for these investments under a method other than the cost method, it could have a material impact to our financial statements.

**Goodwill and Other Intangible Assets.** We account for acquisitions under the purchase method of accounting, typically resulting in goodwill. Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets", requires us to assess goodwill for impairment at least annually in the absence of an indicator of possible impairment and immediately upon an indicator of possible impairment. The statement requires estimates of the fair value of our reporting units. If we determine that the fair values are less than the carrying amount of goodwill recorded, we must recognize an impairment in our financial statements. Due to the numerous variables associated with our judgments and assumptions relating to the valuation of the reporting units and the effects of changes in circumstances affecting these valuations, both the precision and reliability of the resulting estimates are subject to uncertainty, and as additional information becomes known, we may change our estimate.

At December 31, 2004, goodwill and intangible assets totaled \$56.3 million and \$34.8 million, respectively, and were included in the following segments:

	<u>Goodwill</u>	<u>Intangibles</u>
Germany	\$ 20,980,000	\$ 19,934,000
United States	5,478,000	2,991,000
Japan	1,405,000	
Norway	28,400,000	3,792,000
Switzerland		1,858,000
The Netherlands		6,183,000
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 56,263,000</u>	<u>\$ 34,758,000</u>

In the fourth quarter 2004, we performed our annual impairment assessment of the goodwill (using data as of October 1, 2004) in our U.S., Japan, Norway and German segments in accordance with the provisions of SFAS No. 142. In testing for potential impairment, we measured the estimated fair value of our reporting units based upon discounted future operating cash flows using a discount rate reflecting our estimated average cost of funds. Differences in assumptions used in projecting future operating cash flows and cost of funds could have a significant impact on the determination of impairment amounts. In estimating future cash flows, we used our internal budgets. Our budgets were based on recent sales data for existing products, planned timing of new product launches or capital projects, and customer commitments related to new and existing products. These budgets also included assumptions of future production volumes and pricing. We concluded that no impairment existed. Even if our estimates of projected future cash flows were too high by 10%, there would be no impact on the reported value of goodwill at December 31, 2004.

## Edgar Filing: QIAGEN NV - Form 20-F

Due to the numerous variables associated with our judgments and assumptions relating to the valuation of the reporting units and the effects of changes in circumstances affecting these valuations, both the precision and reliability of the resulting estimates are subject to uncertainty, and as additional information becomes known, we may change our estimates.

---

**Table of Contents**

**Income Taxes.** The calculation of our tax provision is complex due to the international operations and multiple taxing jurisdictions in which we operate. We have significant deferred tax assets due to net operating losses (NOL) the utilization of which is not assured and is dependent on generating sufficient taxable income in the future. Although Management believes it is more likely than not that we will generate sufficient taxable income to utilize all NOL carryforwards, evaluating the NOLs related to our newer subsidiaries requires us to make estimates that we believe are reasonable, but may also be highly uncertain given that we do not have direct experience with such subsidiaries or their products and thus the estimates also may be subject to significant changes from period to period as we gain that experience. To the extent that our estimates of future taxable income are insufficient to utilize all available NOLs, a valuation allowance will be recorded in the provision for income taxes in the period the determination is made, and the deferred tax assets will be reduced by this amount, which could be material. In the event that actual circumstances differ from management's estimates, or to the extent that these estimates are adjusted in the future, any changes to the valuation allowance could materially impact our financial position and results of operations.

The above listing is not intended to be a comprehensive list of all our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles in the United States, with limited or no need for management's judgment. There are also areas in which management's judgment in selecting available alternatives may or may not produce a materially different result. See our audited consolidated financial statements and notes thereto in Item 18 of this Form 20-F which contain a description of accounting policies and other disclosures required by generally accepted accounting principles in the United States.

***Authoritative Pronouncements***

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS 123R supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS 95, *Statement of Cash Flows*. Generally, the approach in SFAS 123R is similar to the approach described in SFAS 123. However, SFAS 123R requires entities to measure the cost of employee services received in exchange for an award of equity instruments, including grants of employee stock options, based on the grant-date fair value of the award. That cost will be recognized in the income statement over the period during which an employee is required to provide service in exchange for the award (often the vesting period). Pro forma disclosure is no longer an alternative. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as was permitted under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption.

We will continue to apply the accounting provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, in accounting for our stock option plan until the effective date of SFAS No. 123R. Please see Note 2 to our consolidated financial statements in this report for the pro forma impact to net income and earnings per share under SFAS No. 123's fair value method of accounting for employee stock plans. SFAS 123R must be adopted no later than January 1, 2006. Early adoption will be permitted in periods in which financial statements have not yet been issued. We expect to adopt SFAS 123R on January 1, 2006.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs*, an amendment of ARB No. 43, Chapter 4. SFAS No. 151 amends ARB No. 43 Chapter 4, *Inventory Pricing* to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS No. 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this Statement are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is



**Table of Contents**

permitted for inventory costs incurred during fiscal years beginning after the date this Statement was issued. We will adopt SFAS No. 151 effective January 1, 2005, and we do not expect the adoption to have a material impact on our consolidated financial position or results of operations.

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, Consolidation of Variable Interest Entities. This interpretation 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 adopted this standard in the first quarter of 2004 and it did not have a material impact on our results of operations or financial position of the Company.

**Item 6. Directors, Senior Management and Employees**

Supervisory Directors and Managing Directors are appointed annually for the period beginning on the date following the Annual General Meeting up to and including the date of the Annual General Meeting held in the following fiscal year. The Deputy Managing Director is appointed by the Supervisory Board.

Our Supervisory Directors, Managing Directors and executive officers, and their ages as of February 6, 2005, are as follows:

**Managing Directors and Deputy Managing Director:**

<u>Name</u>	<u>Age</u>	<u>Position</u>
Peer M. Schatz	39	Managing Director, Chief Executive Officer
Roland Sackers	36	Deputy Managing Director, Chief Financial Officer
Dr. Joachim Schorr	44	Managing Director, Senior Vice President, Research and Development
Bernd Uder	47	Managing Director, Senior Vice President, Sales and Marketing

**Supervisory Board Members:**

<u>Name</u>	<u>Age</u>	<u>Position</u>
Prof. Dr. Detlev H. Riesner	63	Chairman of the Supervisory Board, Supervisory Director and Chairman of the Compensation Committee
Dr. Heinrich Hornef	73	Deputy Chairman of the Supervisory Board, Supervisory Director, and Chairman of the Audit Committee
Dr. Metin Colpan	50	Supervisory Director
Jochen Walter	57	Supervisory Director and Member of the Audit Committee
Dr. Franz A. Wirtz	72	Supervisory Director and Member of the Compensation Committee



## Edgar Filing: QIAGEN NV - Form 20-F

Erik Hornnaess	67	Supervisory Director and Member of the Audit Committee
Prof. Dr. Manfred Karobath	64	Supervisory Director

Prof. Dr. jur Carsten P. Claussen was appointed as non-voting Special Advisor to the Supervisory Board and Honorary Chairman in 1999.

---

## **Table of Contents**

The following is a brief summary of the background of each of the Supervisory Directors, Managing Directors, Deputy Managing Director, and the Honorary Chairman. Supervisory Directors and Managing Directors are appointed annually for the period beginning on the day following the Annual General Meeting up to and including the date of the Annual General Meeting held in the following fiscal year.

**Peer M. Schatz** joined the Company in 1993 and has been Chief Executive Officer since January 1, 2004. Between 1993 and 2003 he was Chief Financial Officer and became a Managing Director in 1998. Mr. Schatz was previously a partner in a private management buyout group in Switzerland and worked in finance and systems positions in Sandoz, Ltd. and Computerland AG as well as in finance, operations, management and sales positions in various start-up companies in the computer and software trading industry in Europe and the United States. Mr. Schatz graduated from the University of St. Gall, Switzerland, with a Master's degree in Finance in 1989 and obtained an M.B.A. in Finance from the University of Chicago Graduate School of Business in 1991. Mr. Schatz also serves in the capacities of Vice Chairman, Audit Committee Chairman and Compensation Committee member to Evotec OAI AG and as director to Mulligan BioCapital AG and acted as a member of the Advisory Board (Börsenrat) of the Frankfurt Stock Exchange through 2004 and also serves as a member of the German Corporate Governance Commission.

**Roland Sackers** joined the Company in 1999 and has been Chief Financial Officer and Deputy Managing Director since January 1, 2004. Between 1999 and 2003 he was Vice President Finance of the Company. Between 1995 and 1999 Mr. Sackers acted as an auditor with Arthur Andersen Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft. Mr. Sackers graduated from the Westfälische Wilhelms-Universität Münster, Germany with an M.B.A. Mr. Sackers has been a member of the Supervisory Board of IBS AG since 2002, a member of the Audit Committee of IBS AG since 2003, and a member of the Board of Directors of Operon Biotechnologies, Inc. since 2004.

**Dr. Joachim Schorr** joined the Company in 1992 and has been Senior Vice President Research & Development since January 1, 2004. He has also been nominated as a Managing Director. Initially, Dr. Schorr served the Company as Project Manager and later had responsibilities as Business Unit Manager. In 1999 Dr. Schorr became Vice President Research & Development with the responsibility for the world-wide QIAGEN R&D activities. Before joining QIAGEN Dr. Schorr worked for the pharmaceutical company Hoechst AG on the development of oral malaria vaccines and was awarded with the IHK research award in 1991. Dr. Schorr holds a Ph.D. in Molecular Biology and Virology, which he received at the University of Cologne. Dr. Schorr is a co-founder of Coley Pharmaceuticals, EnPharma Pharmaceuticals and QBM Cell Sciences.

**Bernd Uder** joined QIAGEN in 2001 as Vice President Sales & Marketing and has been Senior Vice President Sales & Marketing since January 1, 2004. He has also been nominated as a Managing Director. Between 1987 and 2001, Mr. Uder was active in building up and coordinating world-wide distribution networks as Vice President European Biolab Sales & Marketing with Pharmacia and Vice President global e.business with Amersham Pharmacia Biotech.

**Professor Dr. Detlev H. Riesner** is a co-founder of QIAGEN. He has been on the Company's Supervisory Board since 1984 and was appointed Chairman of the Supervisory Board in 1999. Professor Riesner has held the Chair of Biophysics at the Heinrich-Heine-University in Düsseldorf since 1980. In 1996, he was also appointed to the position of Vice President of Research, and in 1999, he was nominated Director of Technology at the University of Düsseldorf. Prior to that he was Professor of Biophysical Chemistry at the Darmstadt Institute of Technology and, from 1975 to 1977, Lecturer of Biophysical Chemistry at Hannover Medical School. He has held guest professorships at the Institute of Microbiology, Academia Sinica, Beijing, and the Department of Neurology at the University of California, San Francisco. He received his M.S. in Physics from Hannover Institute of Technology and his Ph.D. from the University of Braunschweig, with post-graduate work at Princeton University. Professor Riesner is also either a member of the supervisory board or a director of New Lab Bioquality AG, Erkrath; AC Immune S.A., Lausanne and Neuraxo GmbH, Düsseldorf.

---

**Table of Contents**

**Dr. Heinrich Hornef** has been on the Company's Supervisory Board since 2000 and was appointed Deputy Chairman of the Supervisory Board and Audit Committee Chairman in 2001. He also serves as a deputy chairman on the board of Heidelberg Innovation GmbH, a biotechnology and life-science venture capital company in Heidelberg, Germany and as chairman of the advisory board of m-phasys GmbH, Tuebingen. He was a member of the supervisory board of the pharmaceutical company Merck KGaA, in Darmstadt, Germany until March 2004, as well as a member of the partners' counsel of E. Merck, in Darmstadt, Germany until June 2004. Prior to his retirement in December 1996, Dr. Hornef served as CFO of Boehringer Mannheim GmbH (1973-1991), as CFO of the Berlin-based Treuhandanstalt, the privatization agency in East-Germany (1992-1994), and as president of its successor organization, BvS (1995-1996).

**Dr. Metin Colpan** is a co-founder of the Company and was Chief Executive Officer and a Managing Director from 1985 through 2003. Dr. Colpan obtained his Ph.D. and M.Sc. in Organic Chemistry and Chemical Engineering from the Darmstadt Institute of Technology in 1983. Prior to founding QIAGEN, Dr. Colpan was an Assistant Investigator at the Institute for Biophysics at the University of Düsseldorf. Dr. Colpan has had wide experience in separation techniques and in the separation and purification of nucleic acids in particular, and has filed many patents in the field. Dr. Colpan currently serves as a supervisory board member of GPC Biotech AG, Ingenium Pharmaceuticals AG and Morphosys AG, each in Munich, Germany and Omnitron AG, in Darmstadt, Germany.

**Jochen Walter** joined the Supervisory Board of QIAGEN in 1988 and has served on the Audit Committee since 1996. Since 1985, Mr. Walter has been the Managing Director of RBS GmbH (previously called Innovatives Düsseldorf), a venture capital company, which was the management company for S-Kapitalbeteiligungsgesellschaft Düsseldorf, mbH. Since 1968, he has been involved in a wide range of management positions in commercial banking. Mr. Walter holds a diploma in banking management from the Banking Institute in Bonn. Mr. Walter currently serves in the capacities of supervisory board member of RBB Management AG and managing director of UCV Unternehmensberatung- und Beteiligungsgesellschaft mbH, Meerbusch, Germany. He has also served in the capacities of supervisory board member of Rhein Biotech N.V., TRAPO AG, and NETEC AG; advisory board member of RBB Regionale Beteiligungs- u. Beratungsgesellschaft der Sparkassen, der Oberlausitz/Niederschlesien u. der Saechsischen Schweiz mbH; management board member of BVK Bundesverband Deutscher Kapitalbeteiligungsgesellschaften-German Venture Capital Association e.V.; and managing director and general manager of S-Kapitalbeteiligungsgesellschaft Düsseldorf, mbH.

**Dr. Franz A. Wirtz** has been a member of QIAGEN's Supervisory Board since 1989. Dr. Wirtz was Managing Director of Grünenthal GmbH, Aachen/Germany, a large, private pharmaceutical company from 1962-1997 and a member of its Advisory Board from 1998-2001. He is Vice Chairman of Paion AG, Aachen and Vice Chairman of Dasgip AG, Jülich, two young German biotech companies. For 10 years Dr. Wirtz was treasurer of the German pharmaceutical industry association. Dr. Wirtz holds a doctorate degree in chemistry from the Rheinisch-Westfälische Technische Hochschule in Aachen whose honorary citizen he became in 2001.

**Erik Hornnaess** has been a member of the Supervisory Board since 1998 and joined the Audit Committee in 2002. Mr. Hornnaess worked for Astra Pharmaceuticals, Sweden from 1965 until 1979 in various management positions in Sweden, Australia, and Canada and, for the last three years of this period, as the General Manager for the Benelux region (Belgium, The Netherlands and Luxembourg). In 1979, he joined Abbott Laboratories European Headquarters in Paris, France and from 1982 he was the Area Vice-President of Abbott Diagnostic Division in Europe, Middle-East and Africa, with headquarters in Wiesbaden, Germany. Mr. Hornnaess retired from Abbott Laboratories on March 1, 1997 and currently serves as non-executive Director of AXIS-SHIELDS Group, Scotland, and MEDISTIM A/S, Norway. Additionally, Mr. Hornnaess served as the Vice-President of European Diagnostic Manufacturers Association (EDMA), Brussels in the period 1995 through 1997. Mr. Hornnaess graduated from Aarhus Handelshøjskole, Denmark with an M.B.A. and obtained a PMD from the Harvard Business School.

**Professor Dr. Manfred Karobath** studied medicine and worked from 1967 to 1980; first, in the Dept. of Biochemistry of the University of Vienna and, after a stage as postdoctoral fellow, he joined the Dept. of



**Table of Contents**

Psychiatry where he became professor of biological Psychiatry. In 1980, he joined Sandoz Pharma in Basel, first, in drug discovery, and later, he became Senior Vice President and head of R&D, Switzerland. In 1992, Prof. Dr. Karobath joined Rhone Poulenc Rorer ( RPR ) as President of R&D and Executive Vice President and later he became a member of the Boards of Directors of RPR, Pasteur Mérieux Connought, Centeon and Rhone Poulenc Pharma. He has received several scientific awards and has published 92 scientific papers. Dr. Karobath also serves as a member on the board of directors of Coley Pharmaceutical Group, and as a member on the board of director of IDEA AG.

**Professor Dr. jur. Carsten P. Claussen** was Chairman of the Supervisory Board of the Company from 1988 to June 1999 and was appointed as a Special Advisor and Honorary Chairman in 1999. This position is not required by Dutch law and Professor Claussen is no longer a voting member of the Supervisory Board. For many years he has pursued a career in private banking. Between 1976 and 1987, Professor Claussen was a member of the Executive Board of Norddeutsche Landsbank, Hannover, and Chairman of the Hannover Stock Exchange. Since 1987, he has been a lawyer in Duesseldorf and senior advisor to IKB Deutsche Industriegreditbank, Düsseldorf. At present, he is a partner in the law firm of Hoffmann Liebs and Partner and specializes in corporate law and capital market transactions. He is Chairman of the Board of TON ART AG, Duesseldorf; Flossbach & v. Storch Vermögensmanagement AG, Cologne; and WAS Worldwide Analytical Systems AG, Cleve and is a member of other boards. Professor Claussen received his Ph.D. in law from the University of Cologne.

**Compensation of Directors and Officers**

The table below states amounts earned on an accrual basis by Directors and Officers in 2004. The variable component is based on performance relative to personal goals and corporate goals agreed by the Supervisory Board.

The compensation granted to Supervisory Board directors in 2004 consists of fixed compensation for Board members, an additional amount for Chairman and Vice Chairman, and committee membership fees for audit committee members. Board members also receive a variable component, in the form of Stock Options (see below). We did not pay any agency or advisory service fees to members of the Supervisory Board other than to Dr. Colpan for his scientific consulting services. Stock options granted to the Managing and Supervisory Boards must have an exercise price that is higher than the market price at the time of grant.

Year Ended December 31, 2004	Annual Compensation		Long-Term Compensation		
	Fixed Salary	Variable Cash Bonus (1)	Defined Contribution Benefit Plan	Stock Options	Other (2)
Peer M. Schatz	\$ 865,000	\$ 127,000		117,726(3)	\$ 1,000
Roland Sackers	\$ 267,000		\$ 8,000	53,742(3)	\$ 3,000
Dr. Joachim Schorr	\$ 232,000	\$ 90,000	\$ 8,000	12,664(3)	\$ 41,000
Bernd Uder	\$ 247,000	\$ 12,000	\$ 8,000	30,385(3)	\$ 8,000
Supervisory Board:					
Prof. Dr. Detlev H. Riesner	\$ 24,000			20,000(4)	
Dr. Heinrich Hornef	\$ 21,000			20,000(4)	
Dr. Metin Colpan	\$ 12,000			20,000(4)	\$ 509,000(5)
Jochen Walter	\$ 15,000			20,000(4)	
Dr. Franz A. Wirtz	\$ 12,000			20,000(4)	
Erik Hornnaess	\$ 15,000			20,000(4)	
Prof. Dr. Manfred Karobath	\$ 12,000			20,000(4)	

- 
- (1) Includes one-time payments.
  - (2) Amounts include, among others, inventor bonus and life insurance. Does not include the reimbursement of certain expenses relating to travel incurred at the request of the Company.

**Table of Contents**

- (3) Options granted at exercise prices ranging from \$8.940 to \$10.047, expiring in July and August 2014.
- (4) Options granted at an exercise price of \$13.913, expiring in April 2014.
- (5) Fee for scientific consulting services.

The following table sets forth the vested and unvested options of our officers and directors as of February 6, 2005:

Name	Total Vested	Total Unvested	Expiration Dates	Exercise Prices
	Options	Options (1)		
Peer M. Schatz	1,149,099	1,100,777	5/2006 to 8/2014	\$ 1.188 to \$20.563
Roland Sackers	257,630	78,778	9/2009 to 8/2014	\$ 4.590 to \$20.563
Dr. Joachim Schorr	86,147	126,033	10/2011 to 8/2014	\$ 5.190 to \$17.90
Bernd Uder	68,555	77,996	3/2011 to 8/2014	\$ 4.590 to \$20.563
Prof. Dr. Detlev H. Riesner	93,999	40,001	5/2006 to 4/2014	\$ 1.188 to \$20.563
Dr. Heinrich Hornef	35,999	40,001	1/2010 to 4/2014	\$ 6.018 to \$20.563
Dr. Metin Colpan	1,030,150	320,000	5/2006 to 4/2014	\$ 1.188 to \$20.563
Jochen Walter	29,333	40,001	1/2010 to 4/2014	\$ 6.018 to \$20.563
Dr. Franz A. Wirtz	73,999	40,001	2/2007 to 4/2014	\$ 3.219 to \$20.563
Erik Hornnaess	65,499	40,001	1/2008 to 4/2014	\$ 5.625 to \$20.563
Prof. Dr. Manfred Karobath	35,999	40,001	1/2010 to 4/2014	\$ 6.018 to \$20.563

- (1) Includes 2004 option grants.

**Audit Committee**

The Audit Committee operates pursuant to a charter approved by the Supervisory Board and consists of three members, Dr. Hornef (Chairman), Mr. Walter, and Mr. Hornnaess, and meets at least quarterly. The Audit Committee members are appointed by the Supervisory Board and serve for a term of one year. We believe that all members of our Audit Committee meet the independence requirements as set forth in the Sarbanes-Oxley Act of 2002 and the Marketplace Rules of the NASDAQ. The Audit Committee recommends and is responsible for the appointment of the independent registered public accounting firm to audit the consolidated financial statements and local books and records of QIAGEN and its subsidiaries, along with pre-approving the fees for such services; reviews the performance of the independent registered public accounting firm with management, discussing on a quarterly basis the scope and results of the reviews and audits with the independent registered public accounting firm; discusses our financial accounting and reporting principles and policies and the adequacy of our internal accounting, financial and operating controls and procedures with the independent registered public accounting firm and management; considers and approves any recommendations regarding changes to our accounting policies and processes; reviews with management and the independent registered public accounting firm our quarterly earnings reports prior to their release to the press; and reviews the quarterly and annual reports (reported on Forms 6-K and 20-F) to be furnished to or filed with the Securities Exchange Commission and the Deutsche Boerse.

**Compensation Committee**

The Compensation Committee consists of two members: Professor Riesner (Chairman) and Dr. Wirtz. Members are appointed by the Supervisory Board and serve for a term of one year. We believe that all of the members of the Compensation Committee meet the independence requirements set forth in the Marketplace Rules of the NASDAQ. The Compensation Committee reviews and approves all stock option grants, reviews and approves the annual salaries, bonuses and other benefits of executive officers, and reviews general policies relating to employee compensation and benefits.

**Employment Contracts**

We have entered into employment contracts with our Managing Directors and our Deputy Managing Director. These contracts are listed as Exhibits under Item 19.



**Table of Contents**

We have not entered into contracts with any member of the Supervisory Board that provide for benefits upon a termination of the service of the member. We entered into a consulting agreement with Dr. Colpan pursuant to which Dr. Colpan is paid a fee of EUR 2,750 per day (approximately \$3,700 at the December 31, 2004 exchange rate) for consulting services.

**Employees**

As of December 31, 2004, we employed 1,322 individuals, 21% of whom worked in research and development, 32% in sales, 25% in production/logistics, 7% in marketing and 15% in administration.

<u>Country</u>	<u>Research and Development</u>	<u>Sales</u>	<u>Production</u>	<u>Marketing</u>	<u>Administration</u>	<u>Total</u>
United States	11	161	74	34	53	<b>333</b>
Germany	229	106	213	49	98	<b>695</b>
Switzerland	26	18	39	2	13	<b>98</b>
Canada	0	16	0	0	2	<b>18</b>
United Kingdom	0	36	0	5	5	<b>46</b>
France	0	29	0	1	5	<b>35</b>
Australia	0	15	0	0	3	<b>18</b>
Italy	0	8	0	1	3	<b>12</b>
Japan	0	28	0	5	4	<b>37</b>
Norway	10	2	0	0	1	<b>13</b>
Austria	0	4	0	1	2	<b>7</b>
The Netherlands	0	6	0	0	4	<b>10</b>
<b>12/31/2004</b>	<b>276</b>	<b>429</b>	<b>326</b>	<b>98</b>	<b>193</b>	<b>1322</b>

At December 31, 2003 and 2002, we employed 1,533 and 1,651 individuals, respectively. The decrease in the number of employees to 1,322 at December 31, 2004 is primarily due to the 2004 sale of a majority of our synthetic DNA business unit. None of our employees is represented by a labor union or is subject to a collective bargaining agreement. Management believes that its relations with its employees are good.

Our success depends, to a significant extent, on key members of our management and our scientific staff. The loss of such employees could have a material adverse effect on QIAGEN. Our ability to recruit and retain qualified skilled personnel to perform future research and development work will also be critical to our success. Due to the intense competition for experienced scientists from numerous pharmaceutical and biotechnology companies and academic and other research institutions, there can be no assurance that we will be able to attract and retain such personnel on acceptable terms. Our planned activities will also require additional personnel, including management, with expertise in areas such as manufacturing and marketing, and the development of such expertise by existing management personnel. The inability to acquire such personnel or develop such expertise could have a material adverse impact on our operations.

**Table of Contents****Share Ownership**

The following table sets forth certain information as of February 6, 2005 concerning the ownership of Common Shares by our Directors and Officers. In preparing the following table, we have relied on information furnished by such persons.

<u>Name and Country of Residence</u>	<u>Shares Beneficially Owned (1) Number</u>	<u>Percent Ownership (2)</u>
Peer M. Schatz, Germany	1,482,064(3)	1.01%
Roland Sackers, Germany	0(4)	*
Dr. Joachim Schorr, Germany	0(5)	*
Bernd Uder, Germany	0(6)	*
Prof. Dr. Detlev H. Riesner, Germany	2,677,436(7)	1.82%
Dr. Heinrich Hornef, Germany	1,600(8)	*
Dr. Metin Colpan, Germany	6,454,025(9)	4.39%
Jochen Walter, Germany	40,000(10)	*
Dr. Franz A. Wirtz, Germany	1,000,000(11)	*
Erik Hornnaess, Spain	10,000(12)	*
Professor Dr. Manfred Karobath, UK	0(13)	*

\* Indicates that the person beneficially owns less than 1% of the Common Shares issued and outstanding as of February 6, 2005.

- (1) The number of Common Shares issued and outstanding as of February 6, 2005 was 147,028,657. The persons and entities named in the table have sole voting and investment power with respect to all shares shown as beneficially owned by them and have the same voting rights with respect to Common Shares.
- (2) Does not include Common Shares subject to options held by such persons at February 6, 2005 and exercisable within 60-days thereafter. See footnotes below for such information on options exercisable at February 6, 2005 and within 60-days thereafter.
- (3) Does not include 1,349,099 shares issuable upon the exercise of options to purchase Common Shares at an exercise price ranging from \$1.188 to \$20.563 per share. Options expire in increments during the period between May 2006 and August 2014.
- (4) Does not include 267,630 shares issuable upon the exercise of options to purchase Common Shares at an exercise price ranging from \$4.590 to \$20.563 per share. 33,334 of these options have sales restrictions. Options expire in increments during the period between September 2009 and August 2014.
- (5) Does not include 86,147 shares issuable upon the exercise of options to purchase Common Shares at an exercise price ranging from \$5.190 to \$17.900 per share. Options expire in increments during the period between October 2011 and August 2014.
- (6) Does not include 39,925 shares issuable upon the exercise of options to purchase Common Shares at an exercise price ranging from \$4.590 to \$20.563 per share. Options expire in increments during the period between March 2011 and August 2014.
- (7) Does not include 113,999 shares issuable upon the exercise of options to purchase Common Shares at an exercise price ranging from \$1.188 to \$20.563 per share. Options expire in increments during the period between May 2006 and April 2014. Prof. Riesner also has the option to purchase 162,302 common shares through Credit Suisse First Boston. Includes 2,677,436 shares held by Riesner Verwaltungs GmbH, of which Professor Riesner is the sole stockholder.
- (8) Does not include 55,999 shares issuable upon the exercise of options to purchase Common Shares at an exercise price from \$6.018 to \$20.563 per share. Options expire in increments during the period between January 2010 and April 2014.
- (9) Does not include 1,236,816 shares issuable upon the exercise of options to purchase Common Shares at an exercise price ranging from \$1.188 to \$20.563 per share. Options expire in increments during the period between May 2006 and April 2014. Includes 5,200,000 shares held by CC Verwaltungs GmbH, of which Dr. Colpan is the sole stockholder and 800,000 shares held by Colpan GbR. Dr. Colpan also has the option to purchase 612,397 common shares through Credit Suisse First Boston.

**Table of Contents**

- (10) Does not include 49,333 shares issuable upon the exercise of options to purchase Common Shares at an exercise price ranging from \$6.018 to \$20.563 per share. Options expire in increments during the period between January 2010 and April 2014.
- (11) Does not include 93,999 shares issuable upon the exercise of options to purchase Common Shares at an exercise price ranging from \$3.219 to \$20.563 per share. Options expire in increments during the period between February 2007 and April 2014.
- (12) Does not include 85,499 shares issuable upon the exercise of options to purchase Common Shares at an exercise price ranging from \$5.625 to \$20.563 per share. Options expire in increments during the period between January 2008 and April 2014.
- (13) Does not include 55,999 shares issuable upon the exercise of options to purchase Common Shares at an exercise price ranging from \$6.018 to \$20.563 per share. Options expire in increments during the period between January 2010 and April 2014.

*Stock Option Plan*

In April 1996, the Supervisory Board adopted the QIAGEN N.V. 1996 Employee, Director and Consultant Stock Option Plan (the Option Plan), which was approved by our shareholders on June 3, 1996. Pursuant to the Option Plan, options to purchase our Common Shares may be granted to employees and consultants of QIAGEN and its subsidiaries and to Supervisory Directors. An aggregate of 23,968,000 Common Shares have been reserved for issuance pursuant to the Option Plan, subject to certain antidilution adjustments. Options granted pursuant to the Option Plan may either be incentive stock options within the meaning of Section 422 of the United States Internal Revenue Code of 1986, as amended (the Code), or non-qualified stock options. The Option Plan is administered by the Compensation Committee of the Supervisory Board, which selects participants from among eligible employees, consultants and directors and determines the number of shares subject to the option, the length of time the option will remain outstanding, the manner and time of the option's exercise, the exercise price per share subject to the option and other terms and conditions of the option consistent with the Option Plan. The Compensation Committee's decisions are subject to the approval of the Supervisory Board. The vesting and exercisability of certain options will be accelerated in the event of a Change of Control. A Change of Control means the occurrence of a merger or consolidation of QIAGEN, whether or not approved by the Board of Directors, other than a merger or consolidation which would result in the voting securities of QIAGEN outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or the parent of such corporation) at least 50% of the total voting power represented by the voting securities of QIAGEN or such surviving entity or parent of such corporation, as the case may be, outstanding immediately after such merger or consolidation, or the stockholders of QIAGEN approve an agreement for the sale or disposition by QIAGEN of all or substantially all of QIAGEN's assets.

The Compensation Committee has the power, subject to Supervisory Board approval, to interpret the Option Plan and to adopt such rules and regulations (including the adoption of sub-plans applicable to participants in specified jurisdictions) as it may deem necessary or appropriate. The Compensation Committee or the Supervisory Board may at any time amend the Option Plan in any respect, subject to Supervisory Board approval, and except that (i) no amendment that would adversely affect the rights of any participant under any option previously granted may be made without such participant's consent and (ii) no amendment shall be effective prior to shareholder approval to the extent such approval is required to ensure favorable tax treatment for incentive stock options or to ensure compliance with Rule 16b-3 under the United States Securities Exchange Act of 1934, as amended (the Exchange Act) at such times as any participants are subject to Section 16 of the Exchange Act.

The following table sets forth the total amount of options to purchase Common Shares outstanding under the Option Plan, the range of expiration dates of such options and the prices (in U.S. dollars) at which such options may be exercised, as of February 6, 2005. The exercise price of each of these options is the fair market value of the Common Shares as of the date of grant or at a premium above fair market value.

	<b>Outstanding Options</b>	<b>Expiration Dates</b>	<b>Exercise Price of Shares</b>
1996 Option Plan	12,981,622	5/2006 to 12/2014	\$ 1.060 to \$49.75

---

## **Table of Contents**

During the fourth quarter of 2004 and considering the new accounting implications of SFAS No. 123R, our Supervisory Board approved the acceleration of the vesting of all unvested stock options with a price greater than \$10.62 previously awarded to employees and officers. The accelerated options were given a sales restriction, such that any shares held through the exercise of an accelerated option could not be sold, prior to the original vesting date. Options held by our Supervisory Board and Managing Directors were not subject to the acceleration. Our Supervisory Board took the action based on its belief that it is in the best interest of our shareholders and the Company as it will reduce our reported compensation expense in future periods. The impact of this acceleration will be to reduce future compensation expense by approximately \$1.4 million after-tax. We are currently working with equity based compensation plan experts to evaluate our stock-based compensation plans and incentive strategies along with the provisions of SFAS No. 123R. Our aim is to implement an equity based compensation plan structure that will give our employees a long-term incentive arrangement, while minimizing our compensation expense.

Options granted to members of the Supervisory Board and the Managing Board must have an exercise price that is higher than the market price at the time of grant. Generally, each of the options has a term of ten years, subject to earlier termination in the event of death, disability or other termination of employment. The outstanding options granted prior to October 2004 become exercisable in cumulative annual installments of 33 1/3 percent each, beginning on the first anniversary date of the grant. The vesting and exercisability of certain of these options will be accelerated in the event of a Change of Control, as discussed above. As of February 6, 2005, options to purchase 4,870,000 Common Shares were held by the officers and directors of QIAGEN, as a group.

### **Exemptions from Certain NASDAQ Corporate Governance Rules**

Exemptions from the NASDAQ corporate governance standards are available to foreign private issuers such as QIAGEN when those standards are contrary to a law, rule or regulation of any public authority exercising jurisdiction over such issuer or contrary to generally accepted business practices in the issuer's country of domicile. In connection with QIAGEN's initial public offering, NASDAQ granted QIAGEN exemptions from certain corporate governance standards that are contrary to the laws, rules, regulations or generally accepted business practices of The Netherlands. These exemptions and the practices followed by QIAGEN are described below:

QIAGEN is exempt from NASDAQ's quorum requirements applicable to meetings of ordinary shareholders. In keeping with the law of The Netherlands and generally accepted business practices in The Netherlands, QIAGEN's Articles of Association provide that there are no quorum requirements generally applicable to meetings of shareholders.

QIAGEN is exempt from NASDAQ's requirements regarding the solicitation of proxies and provision of proxy statements for meetings of shareholders. QIAGEN does furnish proxy statements and solicit proxies for meetings of shareholders. However, the laws of The Netherlands do not provide for a record date to be fixed in advance of a meeting of shareholders. As a result, the holder of the shares on the day of the meeting may vote the shares at the meeting. QIAGEN's transfer agent has implemented procedures to check votes by proxy for validity on the day of the meeting.

QIAGEN is exempt from NASDAQ's requirements that shareholder approval be obtained prior to the establishment of, or material amendments to, stock option or purchase plans and other equity compensation arrangements pursuant to which options or stock may be acquired by directors, officers, employees or consultants. QIAGEN is also exempt from NASDAQ's requirements that shareholder approval be obtained prior to certain issuances of stock resulting in a change of control, occurring in connection with acquisitions of stock or assets of another company or issued at a price less than the greater of book or market value other than in a public offering. QIAGEN's Articles of Association do not require stockholder approval prior to the establishment of a stock option plan. The Articles of Association also permit shareholders to grant the Supervisory Board general authority to issue shares without further shareholder approval. QIAGEN's stockholders have granted the Supervisory Board general authority to issue up to a maximum of the authorized capital of the Company without further

**Table of Contents**

shareholder approval. QIAGEN plans to seek shareholder approval of stock plans and stock issuances only where required under the law of The Netherlands or under QIAGEN's Articles of Association.

**Item 7. Major Shareholders and Related Party Transactions**

The following table sets forth certain information as of December 31, 2004, concerning the ownership of Common Shares of each holder of greater than five percent ownership. None of these holders have any different voting rights than other holders of our Common Shares.

<u>Name and Country of Residence</u>	<u>Shares Beneficially Owned (1)</u>	
	<u>Number</u>	<u>Percent Ownership</u>
FMR Corp. United States	22,022,710(2)	14.97%

- (1) The number of Common Shares issued and outstanding as of December 31, 2004 was 147,020,207
- (2) Of the 22,022,710 shares attributed to FMR Corp., it has sole voting power over 5,635,011 shares and sole dispositive power of all 22,022,710 shares. Such voting and dispositive power is also attributable to Edward C. Johnson III and Abigail P. Johnson by virtue of their positions, Chairman and Director, respectively, and ownership interests in FMR Corp. This information is based solely on the Schedule 13G filed jointly by FMR Corp., Edward C. Johnson III, Abigail P. Johnson and Fidelity Management and Research Company with the Securities and Exchange Commission on February 14, 2005, which reported ownership as of December 31, 2004. At December 31, 2003, FMR Corp. beneficially owned 8,003,182 shares representing 5.47% if the total Common Shares issued and outstanding at that time.

Our common stock is traded on the NASDAQ National Market in the United States, and on the Prime Standard Segment of the Frankfurt Stock Exchange in Germany. A significant portion of our shares are held in street name, therefore we generally have no way of determining who our shareholders are, their geographical location or how many shares a particular shareholder owns. Based on the information available to us, we estimate that institutional and retail investors in the United States hold approximately 30% to 40% of our common shares.

*Control of Registrant*

To our knowledge, we are not directly or indirectly owned or controlled by another corporation, by any foreign government, or by any other natural or legal person. As of February 6, 2005, the officers and directors of QIAGEN as a group beneficially owned 11,665,125 Common Shares or 7.93% of the then outstanding Common Shares.

*Related Party Transactions*

From time to time, we have transactions with companies in which we hold an interest all of which are individually and in sum immaterial except for certain transactions with the joint venture PreAnalytiX, Operon Biotechnologies, Inc. and QIAGEN Finance.

## Edgar Filing: QIAGEN NV - Form 20-F

We have a 50% interest in a joint venture company, PreAnalytiX GmbH, which is accounted for under the equity method. To date, both joint venture partners have loaned equal amounts to the venture at a 4.0% interest rate. It is anticipated that both joint venture partners will convert the loan balances to additional capital at some future date. Amounts due to/from PreAnalytiX at year end are summarized as follows:

	As of December 31,	
	2004	2003
Loan receivable	\$ 5,192,000	\$ 4,524,000
Accounts receivable	\$ 5,869,000	\$ 828,000
Accounts payable	\$ 114,000	\$ 287,000

In 2004, we sold a significant portion of our synthetic DNA business unit to Operon Biotechnologies, Inc. (OBI) and agreed to provide certain transition services for a period of six months. We currently have a 16%

## **Table of Contents**

ownership interest in OBI and hold one board seat. We also have a Manufacturing and Supply Agreement with OBI, wherein we granted to OBI an exclusive license to manufacture and supply certain RNA products to us. During the year, we also sold to OBI certain technology and licenses for \$5.9 million. As of December 31, 2004, we had a loan receivable from OBI of \$7.7 million, accounts receivable from OBI of \$905,000 and accounts payable to OBI of \$510,000.

We have a 100% interest in QIAGEN Finance (Luxembourg) S.A. (QIAGEN Finance), a company established for the purpose of issuing our convertible debt. As discussed in Note 6, QIAGEN Finance is a variable interest entity with no primary beneficiary, thus is not consolidated. Accordingly, the convertible debt is not included our consolidated financial statements, though we do report the full obligation of the debt through our liabilities to QIAGEN Finance. As of December 31, 2004, we had a loan payable to QIAGEN Finance of \$150.0 million, accrued interest due to QIAGEN Finance of \$3.5 million, and accounts receivable from QIAGEN Finance of \$2.5 million.

In 2004 we entered into a consulting agreement with Dr. Metin Colpan, our former Chief Executive Officer and current Supervisory Board member, pursuant to which Dr. Colpan is paid a fee of EUR 2,750 per day for consulting services. During 2004 we paid approximately \$509,000 to Dr. Colpan for scientific consulting services under this agreement.

## **Item 8. Financial Information**

See Item 18.

## **Legal Proceedings**

We are not a party to any material litigation in any court, and management is not aware of any contemplated proceeding by any individual, company or government authority against us.

## **Statement of Dividend Policy**

We have not paid any dividends on our Common Shares since our inception and do not intend to pay any dividends on our Common Shares in the foreseeable future. We intend to retain our earnings, if any, for the development of our business.

## **Item 9. The Listing of QIAGEN's Common Shares**

Our shareholders approved a four-for-one stock split during fiscal 2000.

To effect the four-for-one stock split, on June 16, 2000, our shareholders approved the amendment of our Articles of Association to increase the number of authorized shares of common stock from 65 million to 260 million. Our Board of Supervisory Directors and Managing Board

## Edgar Filing: QIAGEN NV - Form 20-F

approved the split in May 2000. Common shareholders of record on July 3, 2000 received three additional shares for each share held on that date. The additional shares were distributed and the stock split was effective on July 13, 2000.

Effective February 15, 2005, our common shares began being quoted on the NASDAQ National Market under the symbol QGEN. Previously, since June 27, 1996, our common shares had been quoted on the NASDAQ National Market under the symbol QGENF. The following table sets forth the annual high and low closing sale prices for the last five years, the quarterly high and low closing sale prices for the last two fiscal years, and the monthly high and low closing sale prices for the last six months of our common shares on the NASDAQ National Market. All share prices prior to July 13, 2000 have been restated to reflect the stock split.

	<b>High (\$)</b>	<b>Low (\$)</b>
Annual		
2000	57.375	18.813
2001	35.375	12.380
2002	20.810	4.510
2003	12.850	5.200
2004	15.610	8.740



**Table of Contents**

	<b>High (\$)</b>	<b>Low (\$)</b>
	<u>          </u>	<u>          </u>
Quarterly 2003:		
First Quarter	6.200	5.340
Second Quarter	10.090	5.200
Third Quarter	12.850	8.480
Fourth Quarter	12.250	10.330
	<b>High (\$)</b>	<b>Low (\$)</b>
	<u>          </u>	<u>          </u>
Quarterly 2004:		
First Quarter	15.610	12.210
Second Quarter	13.640	10.880
Third Quarter	11.500	8.740
Fourth Quarter	11.670	10.260
2005:		
First Quarter (through March 24, 2005)	12.700	10.560
	<b>High (\$)</b>	<b>Low (\$)</b>
	<u>          </u>	<u>          </u>
Monthly:		
September 2004	11.450	8.740
October 2004	11.670	10.360
November 2004	11.160	10.260
December 2004	11.430	10.400
January 2005	11.150	10.560
February 2005	12.700	10.750

Since September 25, 1997, our common shares were traded officially on the Frankfurt Stock Exchange, Neuer Markt under the symbol QIA and with the security code number 901626. As of January 1, 2003, the trading of our common shares was transferred from the Neuer Markt segment of the Frankfurt Stock Exchange to the Prime Standard Segment of the Frankfurt Stock Exchange. The Neuer Markt segment was discontinued in 2004. The following table sets forth the annual high and low closing sale prices for the last five years, the quarterly high and low closing sale prices for the last two fiscal years, and the monthly high and low closing sale prices for the last six months of our common shares on the Neuer Markt or the Prime Standard, as applicable. Share prices prior to July 13, 2000 have been restated to reflect the stock splits.

	<b>High (EUR)</b>	<b>Low (EUR)</b>
	<u>          </u>	<u>          </u>
Annual		
2000	60.400	17.650
2001	38.250	13.600
2002	23.450	4.460
2003	12.230	4.930
2004	12.400	7.150
	<b>High (EUR)</b>	<b>Low (EUR)</b>
	<u>          </u>	<u>          </u>

Edgar Filing: QIAGEN NV - Form 20-F

Quarterly 2003:		
First Quarter	5.770	4.930
Second Quarter	8.590	5.200
Third Quarter	12.230	7.430
Fourth Quarter	10.250	8.800

**Table of Contents**

	<b>High</b>	<b>Low</b>
	<b>(EUR)</b>	<b>(EUR)</b>
	<b>_____</b>	<b>_____</b>
Quarterly 2004:		
First Quarter	12.400	9.550
Second Quarter	11.300	8.950
Third Quarter	9.310	7.150
Fourth Quarter	9.370	7.980
2005:		
First Quarter (through March 24, 2005)	9.620	8.200
	<b>High</b>	<b>Low</b>
	<b>(EUR)</b>	<b>(EUR)</b>
	<b>_____</b>	<b>_____</b>
Monthly:		
September 2004	9.050	7.250
October 2004	9.370	8.250
November 2004	8.710	7.980
December 2004	8.500	8.030
January 2005	8.500	8.140
February 2005	9.640	8.230

**Item 10. Additional Information***Memorandum and Articles of Association*

We are registered in the commercial register of the Chamber of Commerce and Industries (Kamer van Koophandel), Limburg-Noord, under the entry number 12036979. Set forth is a summary of certain provisions of our Articles of Association, as amended on July 3, 2000 (the Articles) and Dutch law, where applicable. Furthermore a Dutch Corporate Governance Code has been published on December 9, 2003 including principles of good corporate governance and best practice provisions (the Code). The Code contains the principles and concrete provisions which the persons involved in a listed company (including management board members and supervisory board members) and stakeholders should observe in relation to one another. A listed company should explain in its annual report whether, and if so why and to what extent, it does not comply with the best practice provisions of the Code. The Code has been taken into account in the summary below.

Such summary does not purport to be complete and is qualified in its entirety by reference to the Articles, Dutch Law and the Code.

**Our Objects**

Our objects are found in Article 2 of the Articles. Our objects include, without limitation, the performance of activities in the biotechnology industry, as well as incorporating, acquiring, participating in, financing, managing and having any other interest in companies or enterprises of any nature, raising and lending funds and such other acts as may be conducive to our business.

**Managing Directors**

QIAGEN shall be managed by a Managing Board consisting of one or more Managing Directors under the supervision of the Supervisory Board. Managing Directors shall be appointed by the general meeting upon the joint meeting of the Supervisory board and the Managing Board (the Joint Meeting ) having made a binding nomination for each vacancy. The majority view in Dutch law is that in managing QIAGEN, the Managing Directors must take into account our interests and our business and the interests of all stakeholders (which includes but is not limited to our shareholders). However, the general meeting may at all times overrule the binding nature of such a nomination by a resolution adopted by at least a two-thirds majority of the votes cast, if

## **Table of Contents**

such majority represents more than half the issued share capital. This is different from the provisions of many American corporate statutes, including the Delaware General Corporation Law, which give the directors of a corporation greater authority in choosing the executive officers of a corporation. Under our Articles, the general meeting may suspend or dismiss a managing director at any time. The Supervisory Board shall also at all times be entitled to suspend (but not to dismiss) a Managing Director. The Articles provide that the Supervisory Board may adopt management rules governing the internal organization of the Managing Board.

Furthermore, the Supervisory Board shall determine the salary, the bonus, if any, and the other compensation terms and conditions of employment of the Managing Directors within the scope of the remuneration policy. The remuneration policy of the Managing Board has been adopted in our annual general meeting on June 16, 2004. The remuneration policy should at least include periodic payments, rewards upon termination of their employment and options to acquire shares and the conditions under which such options can be exercised.

Under Dutch law, in the event that there is a conflict of interest between a Managing Director and us, we are represented by the Supervisory Board. However, the general meeting should at all times in an event of a conflict of interest be given the opportunity to appoint a person who is authorized to represent QIAGEN in such event. According to the Code any conflict of interest or apparent conflict of interest between the company and Managing Directors should be avoided. Decisions to enter into transactions under which Managing Directors would have a conflict of interest that are material significance to the company and/or to the relevant Managing Director require the approval of the Supervisory Board.

## **Supervisory Directors**

The Supervisory Board shall be responsible for supervising the policy pursued by the Managing Board and our general course of affairs. Under our Articles, the Supervisory Directors are required to serve our interests and our business and the interest of all stakeholders (which includes but is not limited to our shareholders) in fulfilling their duties. The Supervisory Board shall consist of such number of members as the Joint Meeting may from time to time determine, with a minimum of three members. The Supervisory Directors shall be appointed by the General Meeting upon the Joint Meeting having made a binding nomination for each vacancy. If during a financial year a vacancy occurs in the Supervisory Board, the Supervisory Board may appoint a Supervisory Director who will cease to hold office at the next Annual General Meeting. Under Dutch law and the Code, a Supervisory Director must excuse him or herself in the case of any conflict of interest. Decisions to enter into transactions under which a Supervisory Director would have a conflict of interest that are of material significance to QIAGEN and/or to the Supervisory Director concerned, require the approval the Supervisory Board.

Under Dutch law the General Meeting determines the compensation of the members of the Supervisory Board upon the proposal of the compensation committee. Any shares held by a Supervisory Director in the company on whose board he sits should be long term investments.

Under our Articles, the General Meeting may suspend or dismiss a Supervisory Director at any time. This is different from the provisions of many American corporate statutes, including the Delaware General Corporation Law, which provides that directors may vote to fill vacancies in the board of directors of a corporation.

## **Liability of Managing Directors and Supervisory Directors**

Under Dutch law, as a general rule, Managing Directors are not liable for obligations we incur. Under certain circumstances, however, they may become liable, either towards QIAGEN (internal liability) or to others (external liability), although some exceptions are described below:

**Liability Towards QIAGEN**

Failure of a Managing or Supervisory Director to perform his or her duties does not automatically lead to liability. Liability is only incurred in case of a clear, indisputable shortcoming about which no reasonably judging

## **Table of Contents**

business-person would have any doubt. In addition, the Managing or Supervisory Director must be deemed to have been grossly negligent. Managing Directors and Supervising Directors are jointly and severally liable for failure of the Managing Board and Supervisory Board as a whole, respectively, but an individual Managing or Supervisory Director will not be held liable if he or she is determined not to have been responsible for the mismanagement and has not been negligent in preventing its consequences.

## **Liability for Misrepresentation in Annual Accounts**

Managing and Supervisory Directors are also jointly and severally liable to any third party for damage suffered as a result of misrepresentation in the annual accounts, annual report or interim statements of QIAGEN, although a Managing or Supervisory Director will not be held liable if found not to be personally responsible for the misrepresentation. Moreover, a Managing or Supervisory Director may be found to be criminally liable if he deliberately publishes false annual accounts or deliberately allows the publication of such false annual accounts.

## **Tort Liability**

Under Dutch law, there can be liability if one has committed a tort ( *onrechtmatige daad* ) against another person. Although there is no clear definition of *tort* under Dutch law, breach of a duty of care towards a third party is generally considered to be a tort. Therefore, a Dutch corporation may be held liable by any third party under the general rule of Dutch laws regarding tort claims. In exceptional cases, Managing Directors and Supervisory Directors have been found liable on the basis of tort under Dutch common law, but it is generally difficult to hold a Managing or Supervisory Director personally liable for a tort claim. Shareholders cannot base a tort claim on any losses which derive from and coincide with losses we suffered. In such cases, only we can sue the Managing or Supervisory Directors.

## **Criminal Liability**

Under Dutch law, if a legal entity has committed a criminal offence, criminal proceedings may be instituted against the legal entity itself as well as against those who gave order to or were in charge of the forbidden act. As a general rule, it is held that a Managing Director is only criminally liable if he played a reasonably active role in the criminal act.

## **Indemnification**

Article 27 of our Articles provide that we shall indemnify every person who is or was a Managing Director or Supervisory Directors against all expenses (including attorneys' fees) judgments, fines and amounts paid in settlement with respect to any threatened pending or completed action, suit or proceeding as well as against expenses (including attorneys' fees) actually and reasonably incurred in connection with the defense or settlement of an action or proceeding, if such person acted in good faith and in a manner he reasonably could believe to be in or not opposed to our best interests. An exception is made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for gross negligence or willful misconduct in the performance of his duty to us.

## **Classes of Shares**

The authorized classes of our shares consist of Common Shares, Financing Preference Shares and Preference Shares. No Financing Preference Shares or Preference Shares have been issued.

**Common Shares**

Common Shares are issued in registered form only. Common Shares are available either without issue of a share certificate ( Type I shares ) or with issue of a share certificate ( Type II shares ), in either case in the form



## **Table of Contents**

of an entry in the share register. The Type II shares are registered with American Stock Transfer & Trust Company, our transfer agent and registrar in New York (the New York Transfer Agent). At the discretion of the Supervisory Board, Type I shares may be issued and will be registered with TMF Management B.V. in Amsterdam, The Netherlands.

The transfer of registered shares requires that we issue a written instrument of transfer and the written acknowledgment of such transfer (or, in the case of Type II shares, the New York Transfer Agent (in our name)), and surrender of the share certificates, if any, to us or (in our name) to the New York Transfer Agent. Upon surrender of a share certificate for the purpose of transfer of the relevant shares, we (or the New York Transfer Agent in our name) acknowledge the transfer by endorsement on the share certificate or by issuance of a new share certificate to the transferee, at the discretion of the Managing Board.

## **Financing Preference Shares**

No Financing Preference Shares are outstanding. If issued, Financing Preference Shares will be issued in registered form only. No share certificates are issued for Financing Preference Shares. Financing Preference Shares must be fully paid up upon issue. The preferred dividend rights attached to Financing Preference Shares are described under Dividends below. We have no present plans to issue any such Financing Preference Shares.

## **Preference Shares**

No Preference Shares are outstanding. If issued, Preference Shares will be issued in registered form only. No share certificates are issued for Preference Shares. Only 25% of the par value thereof is required to be paid upon subscription for Preference Shares. The obligatory payable part of the nominal amount (call) must be equal for each Preference Share. The Managing Board may, subject to the approval of the Supervisory Board, resolve on which day and up to which amount a further call must be paid on Preference Shares which have not yet been paid up in full. The preferred dividend rights attached to Preference Shares are described under Dividends below.

Pursuant to our Articles and the resolution adopted by our general meeting on June 16, 2004, QIAGEN's Supervisory Board is entitled to resolve to issue Preference Shares. If our Supervisory Board opposes an intended take-over of our Company and Preference Shares are issued, the nature of the Preference Shares is such that the bidder may as a result withdraw its bid. Alternatively, the bidder could enter into negotiations with our Managing Board and/or Supervisory Board and agree on a higher offer price for our shares. There are currently no Preference Shares outstanding. Preference Shares may only be issued in the event that (i) in the opinion of the Supervisory Board, any person who did not acquire shares at our incorporation, shall, alone or pursuant to a mutual arrangement for co-operation jointly with one or more other persons, directly or indirectly, have acquired or given notice of an intent to acquire (beneficial) ownership of an amount of Common Shares or Financing Preference Shares, which in aggregate equals 20% or more of our share capital then outstanding in the form of Common Shares and Financing Preference Shares; (ii) the Supervisory Board shall declare any person to be an adverse person upon a determination that such person, alone or together with its affiliates or associates, has become the (beneficial) owner of an amount of Common Shares or Financing Preference Shares which the Supervisory Board determines to be substantial (which amount shall in no event be less than 10% of the shares then outstanding), and a determination that (a) such ownership is intended to cause or pressure us to enter into transactions intended to provide such person with short-term financial gain under circumstances that would not be in the interest of QIAGEN and our shareholders or (b) such ownership is reasonably likely to cause a material adverse impact on our business prospects.

On August 2, 2004 we entered into an agreement (the Option Agreement) with Stichting Preferente Aandelen QIAGEN (SPAQ). Pursuant to the Option Agreement SPAQ was granted an option to acquire such a number of Preference Shares as are equal to the total number of all

outstanding ordinary shares minus one in our

## **Table of Contents**

share capital at the time of the relevant exercise of the right. The right to acquire Preference Shares is granted subject to the conditions referred to in the previous paragraph.

SPAQ was incorporated on August 2, 2004. Its principal office is located at Spoorstraat 50, 5911 KJ Venlo, The Netherlands. Its statutory objectives are to protect the interest of QIAGEN and its enterprise and the enterprises of companies which are linked to QIAGEN. SPAQ shall attempt to accomplish its objects by way of acquiring Preference Shares in the share capital of QIAGEN and to exercise the voting rights in the interest of QIAGEN and its stakeholders.

The board of SPAQ shall consist of at least two directors. Upon incorporation of SPAQ two members have been appointed. A board member shall be appointed by the board SPAQ. Board resolutions will be adopted by unanimity of the votes cast. SPAQ will be represented either by the board or by the chairman of the board.

## **Pre-emptive Rights**

Under the Articles, existing holders of Common Shares will have pre-emptive rights in respect of future issuances of Common Shares in proportion to the number of Common Shares held by them, unless limited or excluded as described below. Holders of Common Shares shall not have pre-emptive rights in respect of future issuances of Financing Preference Shares or Preference Shares. Holders of Financing Preference Shares and Preference Shares shall not have pre-emptive rights in respect of any future issuances of share capital. Pre-emptive rights do not apply with respect to shares issued against contributions other than in cash or shares issued to our employees or one of our group companies. Under the Articles, the Supervisory Board has the power to limit or exclude any pre-emptive rights to which shareholders may be entitled provided that it has been authorized by the General Meeting to do so. The Supervisory Board has been granted such authority through June 16, 2009. The authority of the Supervisory Board to limit or exclude pre-emptive rights can only be exercised if at that time the authority to issue shares is in full force and effect. The authority to limit or exclude pre-emptive rights may be extended in the same manner as the authority to issue shares. If there is no designation of the Supervisory Board to limit or exclude pre-emptive rights in force, the general meeting of shareholders shall have authority to limit or exclude such pre-emptive rights, but only upon the proposal of the Supervisory Board.

Resolutions of the General Meeting (i) to limit or exclude pre-emptive rights or (ii) to designate the Supervisory Board as the corporate body that has authority to limit or exclude pre-emptive rights, require a majority of at least two-thirds of the votes cast in a meeting of shareholders if less than 50% of the issued share capital is present or represented. For these purposes, issuances of shares include the granting of rights to subscribe for shares, such as options and warrants, but not the issue of shares upon exercise of such rights.

## **Acquisition of our Own Shares**

We may acquire our own shares, subject to certain provisions of Dutch law and the Articles, if (i) shareholders' equity less the payment required to make the acquisition does not fall below the sum of paid-up and called up capital and any reserves required by Dutch law or the Articles and (ii) we and our subsidiaries would not thereafter hold shares with an aggregate par value exceeding one-tenth of our issued share capital. Shares that we hold in our own capital or shares held by one of our subsidiaries may not be voted. The Managing Board, subject to the approval of the Supervisory Board, may effect our acquisition of shares in our own capital. Our acquisitions of shares in our own capital may only take place if the General Meeting has granted to the Managing Board the authority to effect such acquisitions. Such authority may apply for a maximum period of 18 months and must specify the number of shares that may be acquired, the manner in which shares may be acquired and the price limits within which shares may be acquired.

**Capital Reduction**

Subject to the provisions of Dutch law and the Articles, the General Meeting may, upon the proposal of the Supervisory Board, resolve to reduce the issued share capital by (i) canceling shares or (ii) reducing the par value

## **Table of Contents**

of shares through an amendment of the Articles. Cancellation with repayment of shares or partial repayment on shares or release from the obligation to pay up may also be made or given exclusively with respect to Common Shares, Financing Preference Shares or Preference Shares.

## **Annual Accounts**

We have a calendar fiscal year. Dutch law requires that within five months after the end of our fiscal year, unless the General Meeting has extended this period by a maximum period of six months on account of special circumstances, the Managing Board must submit to the shareholders a report with respect to such fiscal year, including our financial statements for such year accompanied by a report of an independent accountant. The annual report is submitted to the annual General Meeting for adoption.

## **Dividends**

Subject to certain exceptions, dividends may only be paid out of profits as shown in our annual financial statements as adopted by the General Meeting. Distributions may not be made if the distribution would reduce shareholders' equity below the sum of the paid-up capital and any reserves required by Dutch law or the Articles.

Out of profits, dividends must first be paid on any outstanding Preference Shares (the Preference Share Dividend) in a percentage (the Preference Share Dividend Percentage) of the obligatory amount (call) paid up on such shares as at the beginning of the fiscal year in respect of which the distribution is made. The Preference Share Dividend Percentage is equal to the Average Main Refinancing Rates during the financial year for which the distribution is made. Average Main Refinancing Rate shall be understood to mean the average value on each individual day during the financial year for which the distribution is made of the Main refinancing Rates prevailing on such day. Main refinancing Rate shall be understood to mean the rate of the Main Refinancing Operation as determined and published from time to time by the European Central Bank. If and to the extent that profits are not sufficient to pay the Preference Share Dividend in full, the deficit shall be paid out of the reserves, with the exception of any reserve, which was formed as share premium reserve upon the issue of Financing Preference Shares. If in any fiscal year the profit is not sufficient to make the distributions referred to above and if no distribution or only a partial distribution is made from the reserves referred to above, such that the deficit is not fully made good no further distributions will be made as described below until the deficit has been made good.

Out of profits remaining after payment of any dividends on Preference Shares, such amounts shall be kept in reserve as determined by the Supervisory Board. Out of any remaining profits not allocated to reserve, a dividend (the Financing Preference Share Dividend) shall be paid on the Financing Preference Shares in a percentage (the Financing Preference Share Dividend Percentage) over the par value, increased by the amount of share premium that was paid upon the first issue of Financing Preference Shares, which percentage is related to the average effective yield on the prime interest rate on corporate loans in the United States as quoted in the Wall Street Journal. If and to the extent that the profits are not sufficient to pay the Financing Preference Share Dividend in full, the deficit may be paid out of the reserves if the Managing Board so decides with the approval of the Supervisory Board, with the exception of the reserve which was formed as share premium upon the issue of Financing Preference Shares.

Insofar as the profits have not been distributed or allocated to reserves as specified above, they are at the free disposal of the General Meeting provided that no further dividends will be distributed on the Preference Shares or the Financing Preference Shares.

## Edgar Filing: QIAGEN NV - Form 20-F

The General Meeting may resolve, on the proposal of the Supervisory Board, to distribute dividends or reserves, wholly or partially, in the form of QIAGEN shares.

Distributions as described above are payable as from a date to be determined by the Supervisory Board. The date of payment on Type I shares may differ from the date of payment on Type II shares. Distributions will be

## **Table of Contents**

made payable at an address or addresses in The Netherlands to be determined by the Supervisory Board, as well as at least one address in each country where the shares are listed or quoted for trading. The Supervisory Board may determine the method of payment of cash distributions, provided that cash distributions in respect of Type II shares will, subject to certain exceptions, be paid in the currency of a country where our shares are listed or quoted for trading, converted at the close of business on a day to be determined for that purpose by the Supervisory Board.

Dutch law, making the declaration of dividends out of the profits that are at the free disposal of the General Meeting the exclusive right of the General Meeting, is different from the corporate law of most jurisdictions in the United States, which permit a corporation's board of directors to declare dividends.

## **Shareholder Meetings, Voting Rights and Other Shareholder Rights**

The annual General Meeting is held within six months after the end of each fiscal year for the purpose of, among other things, adopting the annual accounts and the filling of any vacancies on the Managing and Supervisory Boards.

Extraordinary General Meetings are held as often as deemed necessary by the Managing Board or Supervisory Board, or upon the request of one or more shareholders and other persons entitled to attend meetings jointly representing at least 40% of our issued share capital or by one or more shareholders jointly representing at least 10% of our issued share capital as provided for under the laws of The Netherlands.

General Meetings are held in Amsterdam, Haarlemmermeer (Schiphol Airport), Arnhem, Maastricht, Rotterdam, Venlo or The Hague. The notice convening a General Meeting must be given to the shareholders by mail and by advertisement in at least one national daily newspaper published in The Netherlands no later than the fifteenth day prior to the meeting. The notice will contain or be accompanied by the agenda for the meeting.

The agenda shall contain such subjects to be considered at the General Meeting, as the persons convening or requesting the meeting shall decide. One or more shareholders representing at least 10% of the issued share capital may request the Managing Board or Supervisory Board in writing, at least sixty days but not more than ninety days before the anniversary of the date on which the prior year's meeting was convened, to include certain subjects in the agenda. No valid resolutions can be adopted at a General Meeting in respect of subjects which are not mentioned in the agenda. Under Dutch law holders of shares representing solely or jointly at least one hundredth part of the issued share capital, or represents a value of at least EUR 50,000,000 may request the company not later than on the sixtieth day prior to the day of the general meeting to include certain subjects on the notice convening a meeting, provided that it is not detrimental to the vital interest of the company.

General Meetings are presided over by the chairman of the Supervisory Board or, in his absence, by any person nominated by the Supervisory Board.

At the General Meeting, each share shall confer the right to cast one vote, unless otherwise provided by law or the Articles. No votes may be cast in respect of shares that we or our subsidiaries hold, or by usufructuaries and pledges of shares. All shareholders and other persons entitled to vote at General Meetings are entitled to attend General Meetings, to address the meeting and to vote. They must notify the Managing Board in writing of their intention to be present or represented not later than on the third day prior to the day of the meeting, unless the Managing Board permits notification within a shorter period of time prior to any such meeting. Subject to certain exceptions, resolutions may be passed by a simple majority of the votes cast.

## Edgar Filing: QIAGEN NV - Form 20-F

Except for resolutions to be adopted by the meeting of holders of Preference Shares, our Articles do not allow the adoption of shareholders resolutions by written consent (or otherwise without holding a meeting).

A resolution of the General Meeting to amend the Articles, dissolve QIAGEN, issue shares or grant rights to subscribe for shares or limit or exclude any pre-emptive rights to which shareholders shall be entitled is valid only if proposed to the General Meeting by the Supervisory Board.



## **Table of Contents**

A resolution of the General Meeting to amend the Articles is further only valid if the complete proposal has been made available for inspection by the shareholders and the other persons entitled to attend General Meetings at our offices as from the day of notice convening such meeting until the end of the meeting. A resolution to amend the Articles to change the rights attached to the shares of a specific class requires the approval of the relevant class meeting.

Resolutions of the General Meeting in a meeting that has not been convened by the Managing Board and/or the Supervisory Board, or resolutions included on the agenda for the meeting at the request of shareholders, will be valid only if adopted with a majority of two-thirds of votes cast representing more than half the issued share capital, unless the Articles require a greater majority or quorum. Our Articles do not provide for shareholders to act by written consent outside of a General Meeting.

A resolution of the General Meeting to approve a legal merger or the sale of all or substantially all of our assets is valid only if adopted by a vote of at least two-thirds of the issued share capital, unless proposed by the Supervisory Board, in which case a simple majority of the votes cast shall be sufficient.

A shareholder shall upon request be provided, free of charge, with written evidence of the contents of the share register with regard to the shares registered in its name. Furthermore any shareholder shall, upon written request, have the right, during normal business hours, to inspect our share register and a list of our shareholders and their addresses and shareholdings, and to make copies or extracts therefrom. Such request must be directed to our Managing Directors at our registered office in the Netherlands or at our principal place of business. Financial records and other company documents (other than made public) are not available in this manner for shareholder review but an extract of the minutes of the general meeting shall be made available.

According to Dutch law certain resolutions of the Managing Board regarding a significant change in the identity or nature of the company are subject to the approval of the general meeting. The following resolutions of the Managing Board acquire the approval of the general meeting in any event:

- (i) The transfer of the enterprise or practically the entire enterprise to a third party;
- (ii) To conclude or cancel any long lasting cooperation by the company or an affiliate (*dochtermaatschappij*) with any other legal person or company or as a fully liable general partner of a limited partnership or a general partnership, provided that such cooperation or the cancellation thereof is of essential importance to the company;
- (iii) To acquire or dispose of a participation interest in the capital of a company with a value of at least one-third of the sum of the assets according to the consolidated balance sheet with explanatory notes thereto according to the last adopted annual accounts of the company, by the company or an affiliate (*dochtermaatschappij*).

## **No Derivative Actions; Right to Request Independent Inquiry**

Dutch law does not afford shareholders the right to institute actions on behalf of or in our interest. Shareholders holding at least one-tenth of our issued capital or EUR 225,000 in nominal amount of our shares may inform the Managing Board and the Supervisory Board of their objections as to the policy or the course of our affairs and, within a reasonable time thereafter, may request the Enterprises Division of the Court of Appeal in Amsterdam to order an inquiry into the policy and the course of our affairs by independent investigators. If such an inquiry is ordered and the

investigators conclude that there has been mismanagement, the shareholders can request the Division to order certain measures such as a suspension or annulment of resolutions.

**Liquidation Rights**

In the event of our dissolution and liquidation, the assets remaining after payment of all debts and liquidation expenses will be distributed among registered holders of Common Shares in proportion to the par

## **Table of Contents**

value of their Common Shares, subject to liquidation preference rights of holders of Preference Shares and Financing Preference Shares, if any.

### **Restrictions on Transfer of Preference Shares**

The Supervisory board upon application in writing must approve each transfer of Preference Shares. If approval is refused, the Supervisory Board will designate prospective purchasers willing and able to purchase the shares, otherwise the transfer will be deemed approved.

### **Limitations on Rights to Own Securities**

Other than with respect to usufructuaries and pledges who have no voting rights, our Articles do not impose limitations on rights to own securities.

### **Provisions which may Defer or Prevent a Change in Control**

The Option Agreement and our Articles could, under certain circumstances, prevent a third party from obtaining a majority of the voting control of our shares by issuing preference shares. Pursuant to the Articles (and pursuant to the resolution adopted by our general meeting on June 16, 2004), the Supervisory Board is authorized to issue preference shares if (i) a person has (directly or indirectly) acquired or has expressed a desire to acquire, more than 20% of our issued capital or (ii) a person holding at least a 10% interest in us has been designated as a hostile person by the Supervisory Board. Under the Option Agreement, SPAQ could acquire preference shares subject to the provisions mentioned in this paragraph.

If the Supervisory Board opposes an intended take-over 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.

### **Ownership Threshold Requiring Disclosure**

Our Articles do not provide an ownership threshold above which ownership must be disclosed.

### **Exchange Controls**

There are currently no limitations either under the laws of The Netherlands or in our Articles, to the rights of shareholders from outside The Netherlands to hold or vote Common Shares. Under current foreign exchange regulations in The Netherlands, there are no material limitations on the amount of cash payments that we may remit to residents of foreign countries.

**Obligation of Shareholders to Disclose Major Holdings**

Holders of our ordinary shares or rights to acquire ordinary shares (which includes convertible bonds) may be subject to notification obligations under the Dutch 1996 Act on the Disclosure of Holding in Listed Companies (the 1996 Disclosure Act ) and the Dutch 1995 Act on the Supervision of the Securities Trade (the 1995 Securities Act ).

Under the 1996 Disclosure Act, any person who, directly or indirectly, acquires or disposes of an interest or a potential interest (which includes convertible bonds) in the capital or the voting rights of a public limited liability company incorporated under Dutch law with an official listing on a stock exchange within the European Economic Area, including the Prime Standard trading segment of the Frankfurt Stock Exchange, must immediately give written notice to the company and the Netherlands Authority for the Financial Markets ( AFM ) if, as a result of such acquisition or disposal, the percentage of our capital or voting rights held by such

---

## **Table of Contents**

person falls within another percentage range as compared to the percentage range applicable to the rights held by such person previously. The percentage ranges referred to in the Disclosure Act are 0-5%, 5-10%, 10-25%, 25-50%, 50-66<sup>2</sup>/<sub>3</sub>% and over 66<sup>2</sup>/<sub>3</sub>%.

On July 3, 2003, a draft bill to amend the 1996 Disclosure Act was submitted to the Second Chamber of the Dutch Parliament. According to the Explanatory Notes to the proposed bill, it is anticipated that the following percentage ranges will be introduced: 0% to less than 5%, 5% to less than 10%, 10% to less than 15%, 15% to less than 20%, 20% to less than 25%, and 25% or more. Under the proposed bill, above 25%, all direct or indirect transactions in our capital or voting rights must be reported.

For the purpose of the notification obligation, the following interests must be taken into account: (i) ordinary shares directly held (or acquired or disposed of) by any person, (ii) ordinary shares held (or acquired or disposed of) by such person's subsidiaries or by a third party for such person's account or by a third party with whom such person has concluded an oral or written voting agreement and (iii) ordinary shares which such person, or any subsidiary or third party referred to above, may acquire pursuant to any option or other right which such person has (or acquires or disposes of), including through the exercise of options or warrants. Special rules apply to the attribution of the ordinary shares which are part of the property of a partnership or other community of property. A holder of a pledge or right of usufruct in respect of ordinary shares can also be subject to a notification obligation if such person has, or can acquire, the right to vote on ordinary shares. If a pledgor or usufructuary acquires such voting rights, this may trigger a notification obligation for the holder of the ordinary shares.

Under section 2A of the Disclosure Act, each of our managing and supervisory directors must without delay notify both the AFM and us of any changes in his interest or potential interest in our capital or voting rights, unless such change is not caused by the relevant director himself.

The AFM will publish all disclosures made public by means of an advertisement in a newspaper distributed throughout The Netherlands as well as on its public website ([www.afm.nl](http://www.afm.nl)).

In addition, pursuant to the 1995 Securities Act and a decree based thereon, a holder that directly or indirectly has a capital interest of more than 25% in QIAGEN must by means of a standard form within ten days after the end of the month in which the transaction took place notify the AFM of any and all transactions (including, without limitation, an acquisition or disposal of ordinary shares) that it carries out or causes to be carried out in our issued securities (including convertible bonds). If that shareholder is a legal entity and not an individual, the obligation is extended to its managing directors and members of its supervisory board. The notification obligation also rests on the spouses of the 25% shareholders, relations by blood or affinity to the first degree and other persons who share a household with these persons, and relations by blood or affinity to the first degree who do not share a household with these persons but hold at least 5% of our shares or will obtain this percentage through the transaction. The AFM keeps a public register of all notifications made pursuant to the 1996 Disclosure Act and the 1995 Securities Act and publishes any notification it receives.

Non-compliance with the notification obligations under the 1996 Disclosure Act or the 1995 Securities Act can lead to imprisonment or criminal fines, or administrative fines or other administrative sanctions. In addition, non-compliance with the notification obligations under the 1996 Disclosure Act may lead to civil sanctions, including, without limitation, suspension of the voting rights attaching to our shares held by the offender for a period of not more than three years, suspension of a resolution of our general meeting of shareholders, nullification of a resolution adopted by our general meeting of shareholders (insofar as it can be assumed that such resolution would not have been adopted if the offender had not voted) and a prohibition for the offender to acquire our ordinary shares for a period of not more than five years.

### *Taxation*

## Edgar Filing: QIAGEN NV - Form 20-F

The following is a general summary of certain material United States federal income and The Netherlands tax consequences to holders of our Common Shares (collectively, U.S. Holders ) who are (i) citizens or

## **Table of Contents**

residents of the United States, (ii) entities subject to U.S. corporate tax, (iii) certain pension trusts and other retirement or employee benefits organizations established in the United States but generally exempt from U.S. tax, (iv) certain not-for-profit organizations established in the United States but generally exempt from U.S. tax, (v) United States regulated investment companies, United States real estate investment trusts, and United States real estate mortgage conduits, and (vi) partnerships or similar pass-through entities, estates, and trusts to the extent the income of such partnerships, similar entities, estates, or trusts is subject to tax in the United States as income of a resident in its hands or the hands of its partners, beneficiaries, or grantors. This summary does not discuss every aspect of such taxation that may be relevant to U.S. Holders. Therefore, all prospective purchasers of our Common Shares who would be U.S. Holders are advised to consult their own tax advisor with respect to the United States federal, state and local tax consequences, as well as the Netherlands tax consequences, of the ownership of our Common Shares. This summary is based upon the advice of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. with respect to tax consequences for U.S. Holders and Baker & McKenzie with respect to tax consequences under Netherlands law.

The statements of The Netherlands and United States tax laws set out below are based on the laws in force as of the date of this Annual Report on Form 20-F, and as a consequence are subject to any changes in United States or The Netherlands law, or in the double taxation conventions between the United States and The Netherlands, occurring after such date.

## **Netherlands Tax Considerations**

The following describes the material tax consequences under Netherlands law of an investment in our Common Shares. Such description is based on current Netherlands law as interpreted under officially published case law, and is limited to the tax implications for an owner of our Common Shares who is not, or is not deemed to be, a resident of The Netherlands for purposes of the relevant tax codes (a non-resident Shareholder or Shareholder ).

### ***Dividend Withholding Tax***

**General.** Dividends we distribute are subject to a withholding tax imposed by The Netherlands at a rate of generally 25%. The term dividends means income from shares or other rights participating in profits, as well as income from other corporate rights that is subjected to the same taxation treatment as income from shares by the laws of the Netherlands. Dividends include dividends in cash or in kind, constructive dividends, certain repayments of capital qualified as dividends, interest on loans that are treated as equity for Netherlands corporate income tax purposes and liquidation proceeds in excess of, for Netherlands tax purposes, recognized paid-in capital. Stock dividends are also subject to withholding tax derived from our paid-in share premium which is recognized for Netherlands tax purposes.

No withholding tax applies on the proceeds resulting from the sale or disposition of our Common Shares to persons other than QIAGEN and our affiliates.

A Shareholder can be eligible for a reduction or a refund of Netherlands dividend withholding tax under a tax convention which is in effect between the country of residence of the Shareholder and The Netherlands. The Netherlands has concluded such conventions with, among others, the United States, Canada, Switzerland, Japan and all EU Member States. Under most of those conventions, Netherlands dividend withholding tax is reduced to 15% or a lower rate.

## Edgar Filing: QIAGEN NV - Form 20-F

***U.S. Shareholders.*** Under the Tax Convention between The Netherlands and the United States (the Convention ), the withholding tax on dividends we pay to a resident of the United States (as defined in the Convention) who is entitled to the benefits of the Convention, may be reduced to 5% (in the case of a corporate U.S. Shareholder that holds 10% or more of the voting power of a Netherlands company) or 15% (in the case of other U.S. Shareholders), unless such U.S. shareholders have a permanent establishment in The Netherlands with which the shares are effectively connected.



---

## **Table of Contents**

On December 28, 2004, the protocol amending the Convention entered into force. The protocol provides, amongst other things, for a full exemption of Netherlands withholding tax for certain U.S. corporate shareholders owning at least 80% of QIAGEN voting power for a period of at least twelve months prior to the distribution, again provided such U.S. shareholders do not have a permanent establishment in The Netherlands with which the shares are effectively connected. The protocol generally will be effective for taxable periods beginning on or after January 1, 2005. The provisions of the protocol relating to withholding taxes will be effective for amounts paid or credited on or after February 1, 2005.

Dividends we pay to U.S. pension funds and U.S. tax exempt organizations may be eligible for an exemption from dividend withholding tax. The Netherlands and the United States have entered into a mutual agreement to clarify the entitlement of exempt pension funds to the benefits under the Convention.

***Dividend Stripping.*** A refund, reduction, exemption, or credit of Netherlands dividend withholding tax on the basis of Netherlands tax law or on the basis of a tax treaty between the Netherlands and another state, will only be granted if the dividends are paid to the beneficial owner ( *uiteindelijk gerechtigde* ) of the dividends. A recipient of a dividend is not considered to be the beneficial owner of a dividend in an event of dividend stripping , in which he has paid a consideration related to the receipt of such dividend. In general terms, dividend stripping can be described as the situation in which a foreign or domestic person (usually, but not necessarily, the original shareholder) has transferred his shares or his entitlement to the dividend distributions to a party that has a more favorable right to a refund or reduction of Netherlands dividend withholding tax than the foreign or domestic person. In these situations, the foreign or domestic person (usually the original shareholder) avoids Netherlands dividend withholding tax while retaining his beneficial interest in the shares and the dividend distributions, by transferring his shares or his entitlement to the dividend distributions.

### ***Income Tax and Corporate Income Tax***

***General.*** A non-resident Shareholder will not be subject to Netherlands income tax with respect to dividends we distribute on our Common Shares or with respect to capital gains derived from the sale or disposition of our Common Shares, provided that:

(a) the non-resident Shareholder has not made an election for the application of the rules of the Netherlands 2001 Income Tax Act as they apply to residents of the Netherlands; and

(b) the non-resident Shareholder does not carry on or have an interest in a business in The Netherlands through a permanent establishment or a permanent representative to which or to whom the Common Shares are attributable or deemed to be attributable;

(c) the non-resident Shareholder does not have a direct or indirect substantial or deemed substantial interest ( *aanmerkelijk belang* , as defined in the Netherlands tax code) in our share capital or, in the event the Shareholder does have such a substantial interest, such interest is a business asset ; and

(d) the non-resident Shareholder is not entitled to a share in the profits of an enterprise, to which our Common Shares are attributable and that is effectively managed in The Netherlands, other than by way of securities or through an employment contract.

## Edgar Filing: QIAGEN NV - Form 20-F

In general terms, a substantial interest ( *aanmerkelijk belang* ) in our share capital does not exist if the Shareholder (individuals as well as corporations), alone or together with his partner, does not own, directly or indirectly, 5% or more of the nominal paid-in capital of, or any class of our shares, does not have the right to acquire 5% or more of the nominal paid-in capital of, or any class of our shares (including a call option) and does not have the right to share in our profit or liquidation revenue amounting to 5% or more of the annual profits or liquidation revenue.

There is no all-encompassing definition of the term *business asset* ; whether this determination can be made in general depends on the facts presented and in particular on the activities performed by the Shareholder.

## **Table of Contents**

If the Shareholder materially conducts a business activity, while the key interest of his investment in our Shares will not be his earnings out of the investment in our Shares but our economic activity, an investment in our Shares will generally be deemed to constitute a business asset, in particular if the Shareholder's involvement in our business will exceed regular monitoring of his investment in our Shares.

***U.S. Shareholders.*** Pursuant to the Convention, the gain derived by a U.S. Shareholder from an alienation of our Common Shares constituting a substantial interest of the Shareholder in QIAGEN, not effectively connected or deemed connected with a permanent establishment or permanent representative of the Shareholder in The Netherlands, is not subject to Netherlands income tax or corporate income tax, provided that the gain from the alienation of our Common Shares is not derived by an individual Shareholder who has, at any time during the five-year period preceding such alienation, been a resident of The Netherlands according to Netherlands tax law and who owns, at the time of the alienation, either alone or together with close relatives, at least 25% of any class of our shares.

### ***Gift and Inheritance Tax***

A gift or inheritance of our Common Shares from a non-resident Shareholder will generally not be subject to a Netherlands gift and inheritance tax, provided that the Shareholder does not own a business which is, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands to which or to whom our Common Shares are attributable. The Netherlands has concluded a tax convention with the United States based on which double taxation on inheritances may be avoided if the inheritance is subject to Netherlands and/or U.S. inheritance tax and the deceased was a resident of either the Netherlands or the United States.

### **United States Federal Income Tax Considerations**

The following summarizes the material U.S. federal income tax consequences of the ownership of our Common Shares by an investor that purchases such Common Shares and that will hold the Common Shares as capital assets. This summary does not purport to be a complete analysis or listing of all potential tax considerations and does not address holders subject to special treatment under U.S. federal income tax laws (including insurance companies, tax-exempt organizations, regulated investment companies, financial institutions, broker dealers or holders that own, actually or constructively, 10% or more of our voting shares).

As used herein, references to a U.S. Holder are to a holder of our Common Shares that is (i) a citizen or resident of the United States, (ii) a corporation organized under the laws of the United States or any political subdivision thereof, or (iii) a person or entity otherwise subject to United States federal income taxation on a net income basis with respect to our Common Shares (including a non-resident alien or foreign corporation that holds, or is deemed to hold, our Common Shares in connection with the conduct of a U.S. trade or business); and references to a non-U.S. Holder are to a holder that is not a U.S. person for U.S. federal income tax purposes.

### ***Taxation of Dividends***

To the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, distributions, if any, made with respect to our Common Shares will be includable for U.S. federal income tax purposes in the income of a U.S. Holder as ordinary dividend income in an amount equal to the sum of any cash and the fair market value of any property that we distribute, before reduction for Netherlands withholding tax. During the years 2004-2008 such dividends will be eligible to be treated by U.S. Holder individuals as qualified dividend income subject to a maximum tax rate of 15 percent, if the shareholder receiving the dividend satisfies the holding period

## Edgar Filing: QIAGEN NV - Form 20-F

requirements, and if we are not treated for our taxable year in which the dividend is paid, or our preceding taxable year, as a passive foreign investment company (see Taxation United States Federal Income Tax Considerations Passive Foreign Investment Company Status ). To the extent that such distribution exceeds our current or accumulated earnings and profits, it will be treated as a

**Table of Contents**

non-taxable return of capital to the extent of the U.S. Holder's adjusted tax basis in our Common Shares and thereafter as taxable capital gain. Dividends generally will be treated as income from sources outside the United States and generally will be passive income (or, in the case of certain holders, financial services income) for purposes of the foreign tax credit limitation. Dividends we pay will not be eligible for the dividends received deduction allowed to corporations in certain circumstances under the United States Internal Revenue Code of 1986, as amended (the Code). A U.S. Holder may elect annually to either deduct The Netherlands withholding tax (see Taxation Netherlands Tax Considerations Dividend Withholding Tax) against their income or take the withholding taxes as a credit against their U.S. tax liability, subject to U.S. foreign tax credit limitation rules. If the dividends are qualified for the lower applicable capital gains rate (as discussed in the above paragraph), the amount of the dividend income taken into account for calculating the foreign tax credit limitation will be in general be limited to the gross amount of the dividend, multiplied by the reduced, divided by the highest rate of tax normally applicable to dividends. For the purposes of computing the foreign tax credit, dividends paid on our Common Shares will be treated as income from sources outside the United States, but generally will be grouped separately, together with other items of passive or financial services income. Recently enacted legislation (the American Jobs Creation Act of 2004, or the Act) will modify the foreign tax credit limitation by reducing the number of classes of foreign source income to two for taxable years beginning after December 31, 2006. Under the Act, dividends paid on our Common Shares will generally constitute passive category income but could, in the case of certain US holders, constitute general category income. The rules governing the foreign tax credit are complex. We urge you to consult with your own tax advisors regarding the availability of the foreign tax credit in your particular circumstances.

Dividends we pay in a currency other than the U.S. dollar will be included in the income of a U.S. Holder in a U.S. dollar amount based upon the exchange rate in effect on the date of receipt. A U.S. Holder will have a tax basis in such foreign currency for U.S. federal income tax purposes equal to its U.S. dollar value on the date of receipt. Any gain or loss on a subsequent disposition of such foreign currency (including a subsequent conversion into U.S. dollars) will be ordinary income or loss. Such gain or loss will generally be income from sources within the U.S. for foreign tax credit limitation purposes.

A non-U.S. Holder generally will not be subject to U.S. federal income tax or withholding tax on distributions with respect to our Common Shares that are treated as dividend income for U.S. federal income tax purposes unless such dividends are effectively connected with the conduct of a trade or business within the United States by such non-U.S. Holder, (and are attributable to a permanent establishment maintained in the United States by such non-U.S. Holder, if an applicable income tax treaty so requires as a condition for such non-U.S. Holder to be subject to U.S. taxation on a net income basis in respect of income from our Common Shares), in which case the non-U.S. Holder generally will be subject to tax in respect of such dividends in the same manner as a U.S. Holder. Any such effectively connected dividends received by a non-United States corporation may also, under certain circumstances, be subject to an additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. A non-U.S. Holder generally will not be subject to U.S. federal income tax or withholding tax on distributions with respect to our Common Shares that are treated as capital gain for U.S. federal income tax purposes unless such holder would be subject to U.S. federal income tax on gain realized on the sale or other disposition of our Common Shares, as discussed below.

***Taxation of Capital Gains***

Subject to the PFIC rules discussed below, upon the sale or other disposition of our Common Shares, a U.S. Holder will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the disposition of our Common Shares and the U.S. Holder's adjusted tax basis in our Common Shares. Such gain or loss generally will be subject to U.S. federal income tax. An individual U.S. Holder is generally subject to a maximum capital gains rate of 15% for our Common Shares held for more than a year. For U.S. federal income tax purposes, capital losses are subject to limitations on deductibility. Gain realized by a U.S. Holder on the sale or other disposition of our Common Shares generally will be treated as income from sources within the United States for purposes of the foreign tax credit limitation.

## **Table of Contents**

A non-U.S. Holder will not be subject to U.S. federal income tax or withholding tax on gain realized on the sale or other disposition of our Common Shares unless (i) the gain is effectively connected with a trade or business of the non-U.S. Holder in the United States (and is attributable to a permanent establishment maintained in the United States by such non-U.S. Holder, if an applicable income tax treaty so requires as a condition for such non-U.S. Holder to be subject to U.S. taxation on a net income basis in respect of gain from the sale or other disposition of our Common Shares) or (ii) such holder is an individual who is present in the United States for 183 days or more in the taxable year of the sale, and certain other conditions are met. Effectively connected gains realized by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

### ***Passive Foreign Investment Company Status***

We may be classified as a passive foreign investment company ( PFIC ) for U.S. federal income tax purposes if certain tests are met. We will be a PFIC with respect to a U.S. Holder if for any taxable year in which the U.S. Holder held our 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. Passive income means, in general, dividends, interest, royalties, rents (other than rents and royalties derived in the active conduct of a trade or business and not derived from a related person), annuities, and gains from assets which would produce such income other than sales of inventory. For the purpose of the PFIC tests, if a foreign corporation owns at least 25% by value of the stock of another corporation, the foreign corporation is treated as owning its proportionate share of the assets of the other corporation, and as if it had received directly its proportionate share of the income of such other corporation. The effect of this special provision with respect to QIAGEN and our ownership of our subsidiaries is that we, for purposes of the income and assets tests described above, will be treated as owning directly our proportionate share of the assets of our subsidiaries and of receiving directly our proportionate share of each of those companies' income, if any, so long as we own, directly or indirectly, at least 25% by value of the particular company's stock. Active business income of our subsidiaries will be treated as our active business income, rather than as passive income. Based on our current income, assets and activities, we do not believe that we are currently a PFIC. No assurances can be made, however, that the IRS will not challenge this position or that we will not subsequently become a PFIC.

A determination as to PFIC status is made annually (although an initial determination that we are a PFIC will generally be binding on a shareholder who does not make the qualified election discussed below with respect to the first year such shareholder holds or is deemed to hold our Common Shares). Whether we are a PFIC in any year and the tax consequences relating to PFIC status will depend on the composition of our income and assets. For example, we retain in our business a substantial amount of cash and cash equivalents, and such cash balances are considered by the IRS to be passive assets, even if held as working capital for an active business. Accurate predictions of the composition of our income are particularly difficult in light of the volatile nature of earnings patterns in technological industries. In addition, U.S. tax law is not entirely clear as to the proper classification of all types of income that we may realize or all types of assets that we may hold. We will, however, monitor our income and assets closely in order to make an annual determination as to whether we are a PFIC. Following the close of any tax year, we intend to promptly send a notice to all shareholders of record at any time during such year, if we determine that we are a PFIC.

If we are a PFIC, each of our direct and certain indirect shareholders that is a U.S. person ( U.S. Shareholders ) either (i) may make an election to report currently its *pro rata* share of our ordinary earnings and net capital gain even if no distributions are actually received from us (the qualified election ), or (ii) upon a disposition of our Common Shares, including a disposition pursuant to an otherwise tax-free reorganization, or receipt of an excess distribution (as defined in the Code), will be subject to tax (including an interest charge) generally as if the gain or distribution were earned ratably over the period in which our Common Shares were held and face other adverse tax consequences. Alternatively, under the Taxpayer Relief Act of 1997, effective for taxable years of U.S. persons beginning after December 31, 1997, U.S. Shareholders may make a mark-to-market election with respect to our Common Shares under which the U.S. Shareholder would include in income

---

**Table of Contents**

each year an amount equal to the excess, if any, of the market value of our Common Shares as of the close of the taxable year over the U.S. Shareholder's adjusted basis in such stock. Under this election, the U.S. Shareholder would be allowed a deduction for the excess, if any, of the adjusted basis of our Common Shares over the market value of the shares as of the close of the taxable year but only to the extent of any net mark-to-market gains with respect to our Common Shares included by the shareholder for prior taxable years. The U.S. Shareholder's adjusted basis in our Common Shares would be adjusted to reflect the amounts included or deducted under this election. Amounts included in income pursuant to a mark-to-market election, as well as gain on the actual sale or other disposition of our Common Shares would be treated as ordinary income. Ordinary loss treatment would also apply to the deductible portion of any mark-to-market loss on our Common Shares, as well as to any loss realized on the actual sale or other disposition of our Common Shares to the extent that the amount of such loss did not exceed the net mark-to-market gains previously included with respect to such stock. An election to mark to market will apply to the taxable year for which made and all subsequent taxable years, unless our Common Shares cease to be treated as marketable stock or the Secretary of the Treasury consents to the revocation of such election.

A shareholder who makes a qualified election may recognize ordinary income or loss as a result of currency fluctuations between the dates of our deemed and actual distributions.

If we become a PFIC, each U.S. Shareholder would be required annually to file IRS Form 8621 (Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund) with such shareholder's timely filed income tax return and with the Internal Revenue Service, whether or not the qualified election (or, for tax years after 1997, the mark-to-market election) is made. A U.S. Shareholder choosing to make a qualified election must also include a shareholder election statement and the PFIC annual information statement that we will provide (as described below) when filing IRS Form 8621 and its income tax return, and should send a copy of the shareholder election statement to the Internal Revenue Service. If we determine that we have become a PFIC, within two months after the end of each year we intend to supply the PFIC annual information statement necessary to make the qualified election for such year to each U.S. Shareholder of record at the end of such year. In such case, we also intend to supply the PFIC annual information statement to any shareholder or former shareholder who requests it.

Prospective purchasers of our Common Shares are urged to consult their tax advisors regarding the PFIC rules and their effect on an investment in our Common Shares, with particular regard to (i) the advisability of making the qualified election in the event that we notify the shareholders that we have become a PFIC in any taxable year, or (ii) the advisability of making the mark-to-market election provided in the tax law.

***Backup Withholding and Information Reporting***

In general, dividend payments, or other taxable distributions, paid within the United States or through certain U.S.-related financial intermediaries on our Common Shares will be subject to information reporting requirements and backup withholding tax at the rate of 28% for a non-corporate United States person and, who also:

fails to provide an accurate taxpayer identification number;

is notified by the Internal Revenue Service that the individual has failed to report all interest or dividends required to be shown on the Federal income tax returns; or

in certain circumstances, fails to comply with applicable certification requirements.

## Edgar Filing: QIAGEN NV - Form 20-F

Certain corporations and persons that are not United States persons may be required to establish their exemption from information reporting and backup withholding by certifying their status on Internal Revenue Service Form W-8 or W-9.

If a United States person sells our Common Shares to or through a United States office of a broker, the payment of the proceeds is subject to both United States backup withholding and information reporting unless the



## **Table of Contents**

individual can certify that they are a non-U.S. person, under penalties of perjury, or they otherwise establish an exemption. If a United States person sells our Common Shares through a non-U.S. office of a non-U.S. broker and the sale proceeds are paid to the person outside the United States then information reporting and backup withholding generally will not apply to that payment. However, United States information reporting requirements, but not backup withholding, will apply to a payment of sales proceeds, even if that payment is made to the United States person outside the United States, if the person sells our Common Shares through a non-U.S. office of a broker that is a U.S. person or has certain other contacts with the United States.

An individual generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed the individual's income tax liability by filing a refund claim with the United States Internal Revenue Service.

## **Foreign Currency Issues**

If dividends are paid in euros, the amount of the dividend distribution included in the income of a U.S. Holder will be the U.S. dollar value of the payments made in euros, determined at a spot, euro/U.S. dollar rate applicable to the date such dividend is includible in the income of the U.S. Holder, regardless of whether the payment is in fact converted into U.S. dollars. Generally, gain or loss (if any) resulting from currency exchange fluctuations during the period from the date the dividend is paid to the date such payment is converted into U.S. dollars will be treated as ordinary income or loss. We have never paid cash dividends on our share capital and do not intend to do so for the foreseeable future.

## ***Documents on Display***

Documents referred to in this Annual Report may be inspected at our principal executive office located at Spoorstraat 50, 5911 KJ Venlo, The Netherlands.

## **Item 11. 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 transactions. The overall objective of our risk management is to reduce the potential negative earnings effects from changes in interest and foreign exchange rates. Exposures are managed through operational methods and financial instruments. We do not use financial instruments for trading or other speculative purposes.

### ***Interest Rate Risk***

Interest income earned on our investment portfolio is affected by changes in the relative levels of market interest rates. We only invest in high-grade investment securities. For the year ended December 31, 2004, the weighted average interest rate on our marketable securities portfolio was from 1.27% to 1.45%.

## Edgar Filing: QIAGEN NV - Form 20-F

Borrowings against lines of credit are at variable interest rates. We had no outstanding lines of credit at December 31, 2004. A hypothetical adverse 10 percent movement in market interest rates would not have materially impacted our financial statements.

At December 31, 2004, we had \$204.2 million in long-term debt, of which \$54.2 million was at a variable rate. A hypothetical adverse 10% movement in market interest rates would decrease 2004 earnings by approximately \$136,000, based on the quarter-end interest rate, a loan balance consistent with that at quarter-end and a constant foreign exchange rate.

### *Currency Fluctuations*

We operate on an international basis. A significant portion of our revenues and expenses are earned and incurred in currencies other than the U.S. dollar. The euro is the most significant such currency, with others including the British pound, Japanese yen, Swiss franc, Norwegian krone and Canadian and Australian dollars. Fluctuations in the value of the currencies in which we conduct our business relative to the U.S. dollar have

---

## **Table of Contents**

caused and will continue to cause U.S. dollar translations of such currencies to vary from one period to another. Due to the number of currencies involved, the constantly changing currency exposures, and the potential substantial volatility of currency exchange rates, we cannot predict the effect of exchange rate fluctuations upon future operating results. However, because we have substantial expenses as well as revenues in each of our principal functional currencies, the exposure of our financial results to currency fluctuations is reduced. In general terms, depreciation of the U.S. dollar against our other foreign currencies, such as occurred in 2004 with respect to the euro, will increase reported net sales. However, this impact normally will be at least partially offset in the results of operations by gains or losses from foreign currency transactions.

### ***Currency Hedging***

In the ordinary course of business, we purchase instruments with which we intend to hedge foreign currency fluctuations with the principal objective of minimizing the risks and/or costs associated with global financial and operating activities. Generally, we hedge a majority of the anticipated cash flow that we expect to exchange into other currencies, subject to our short-term financing needs. We do not utilize financial instruments for trading or other speculative purposes.

At December 31, 2004, these foreign currency instruments consisted of options, which give us the right, but not the obligation, to purchase foreign currencies in exchange for U.S. dollars at predetermined exchange rates. These options are marked to market through our statements of income and are not designated as effective hedges according to the provisions of SFAS 133. At December 31, 2004, we held two foreign currency exchange options each totaling \$750,000. One option had a notional exchange rate of EUR/USD 1.355 and expired the end of January 2005. The second totals had an interest rate of EUR/USD 1.360 and expired the end of February 2005.

During 2004, our German and Swiss subsidiaries entered into forward arrangements which qualify for hedge accounting as cash flow hedges of foreign currency denominated liabilities. At December 31, 2004, these forward contracts totaled \$44.0 million as a hedge to currency risk on intercompany loans. The contracts mature in July 2011. The gain or loss on the change in the fair values of the derivatives are included in earnings to the extent they offset the earnings impact of changes in the fair values of the hedged obligations. Any difference is deferred in accumulated comprehensive income, a component of shareholders' equity. These contracts effectively fix the exchange rate at which the intercompany loans will be settled in, so that gains or losses on the forward contracts offset the losses or gains from changes in the value of the underlying intercompany loans.

### ***Foreign Currency Exchange Rate Risk***

We have production and manufacturing facilities located in Germany and Switzerland, and intercompany sales of inventory expose us to foreign currency exchange rate risk. Intercompany sales of inventory are generally denominated in the local currency of the subsidiary purchasing the inventory in order to centralize foreign currency risk with the manufacturing subsidiary. Payment for intercompany purchases of inventory is required within 30 days from invoice date. The delay between the date the manufacturing subsidiaries record revenue and the date when the payment is received from the purchasing subsidiaries exposes us to foreign exchange risk. The exposure results primarily from those transactions between the manufacturing subsidiaries and the U.S.

The foreign currency exchange rate risk is partially offset by transactions of the manufacturing subsidiary denominated in U.S. dollars. Hedging instruments include foreign currency put options that are purchased to protect the majority of the existing and/or anticipated receivables resulting from intercompany sales from the manufacturing subsidiary to the U.S. These options give us the right, but not the obligation, to purchase

foreign currencies in exchange for U.S. dollars at predetermined exchange rates. Management does not believe that our exposure to foreign currency exchange rate risk is material.

**Item 12. Description of Securities other than Equity Securities**

Not Applicable

**Table of Contents**

**PART II**

**Item 13. Defaults, Dividend Arrearages and Delinquencies**

Not applicable.

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

Not applicable.

**Item 15. Controls and Procedures**

Our Managing Directors, with the assistance of other members of management, performed an evaluation of our disclosure controls and procedures, as that term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, within 90 days of the date of this report. Based on that evaluation, they concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed in this report is recorded, processed, summarized and reported on a timely basis.

There were no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date of the evaluation. No significant deficiencies and material weaknesses were identified that required corrective actions.

**Item 16A. Audit Committee Financial Expert**

The Board has designated Dr. Heinrich Hornef as an audit committee financial expert as that term is defined in the SEC rules adopted pursuant to the Sarbanes-Oxley Act. Dr. Hornef is independent as defined in the Marketplace Rules of the NASDAQ as applicable to Audit Committees.

**Item 16B. Code of Ethics**

QIAGEN has in place a Code of Conduct that applies to all Directors, officers and employees which qualifies as a code of ethics, as required by SEC and NASDAQ Marketplace Rules. The Code of Conduct applies to all QIAGEN's employees, including our principal executive officer and principal financial officer, principal accounting officer or controller and other persons performing similar functions. The full text of the Code of Conduct is available on our website at [www.qiagen.com](http://www.qiagen.com).

**Item 16C. Principal Accountant Fees and Services**

At our 2004 Annual General Meeting of Shareholders held on June 16, 2004, our shareholders reappointed Ernst & Young LLP to serve as our auditors for the fiscal year ended December 31, 2004. Set forth below are the total fees billed (or expected to be billed with respect to 2004), on a consolidated basis, by Ernst & Young LLP for providing audit services and other professional services in each of the last two fiscal years:

	<b>2004</b>	<b>2003</b>
	<u>          </u>	<u>          </u>
Audit fees	\$ 487,000	\$ 550,000
Audit related fees	122,000	200,000
Tax fees	216,000	300,000
All other fees	704,000	350,000
	<u>          </u>	<u>          </u>
<b>Total</b>	<b>\$ 1,529,000</b>	<b>\$ 1,400,000</b>
	<u>          </u>	<u>          </u>

Audit fees consist of fees and expenses billed for the annual audit and quarterly review of QIAGEN's consolidated financial statements. They also include fees billed for other audit services, which are those services

**Table of Contents**

that only the statutory auditor can provide, and include the review of documents filed with the Securities Exchange Commission. Audit-related fees consist of fees and expenses billed for assurance and related services that are related to the performance of the audit or review of QIAGEN s financial statements and include consultations concerning financial accounting and reporting standards; internal control reviews; and statutory audit of subsidiaries financial statements. Tax fees include fees and expenses billed for tax compliance services, including assistance on the preparation of tax returns and claims for refund; tax consultations, such as assistance and representation in connection with tax audits and appeals, tax advice related to mergers and acquisitions, transfer pricing, and requests for rulings or technical advice from taxing authorities; tax planning services; and expatriate tax compliance, consultation and planning services. All other fees include fees and expenses billed for services such as information technology projects, transaction due diligence and cost segregation studies as allowed by the Sarbanes Oxley Act of 2002.

***Audit Committee Pre-Approval Policies and Procedures***

The Audit Committee has adopted a pre-approval policy that requires the pre-approval of all services performed for us by Ernst & Young LLP. All audit related services, tax services and other services rendered by Ernst & Young LLP were pre-approved by the Audit Committee.

**Item 16D. Exemptions From the Listing Standards for Audit Committees**

Not applicable

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

Not applicable

**Table of Contents**

**PART III**

**Item 17. Financial Statements**

See Item 18.

**Item 18. Financial Statements**

See pages F-1 through F-33 included herein.

**Item 19. Exhibits**

(A) The following financial statements, together with the reports of Ernst & Young LLP thereon, are filed as part of this annual report:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Income

Consolidated Statements of Shareholders' Equity and Comprehensive Income

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

Schedule II Valuation and Qualifying Accounts

(B) For a list of exhibits filed with this Form 20-F, refer to the exhibit index beginning on page 105.



**Table of Contents**

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

QIAGEN N.V.

/s/ PEER M. SCHATZ

By: \_\_\_\_\_

**Peer M. Schatz,**

**Chief Executive Officer**

Dated: April 18, 2005

70

**Table of Contents**

**QIAGEN N.V. AND SUBSIDIARIES**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets</u>	F-3
<u>Consolidated Statements of Income</u>	F-5
<u>Consolidated Statements of Shareholders' Equity and Comprehensive Income</u>	F-6
<u>Consolidated Statements of Cash Flows</u>	F-7
<u>Notes to Consolidated Financial Statements</u>	F-9

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of QIAGEN N.V. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of QIAGEN N.V. and Subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and comprehensive income and cash flows for each of three years in the period ended December 31, 2004. Our audits also include the financial statement schedule listed in the Index at Item 19(A). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in certain circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of QIAGEN N.V. and subsidiaries at December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

McLean, Virginia

February 11, 2005

**Table of Contents****QIAGEN N.V. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	<b>As of December 31,</b>	
	<b>2004</b>	<b>2003</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	<b>\$ 196,375,000</b>	\$ 98,993,000
Marketable securities	<b>30,153,000</b>	6,527,000
Notes receivable	<b>4,630,000</b>	5,583,000
Accounts receivable, net of allowance for doubtful accounts of \$2,647,000 and \$3,046,000 in 2004 and 2003, respectively	<b>66,098,000</b>	60,962,000
Income taxes receivable	<b>3,551,000</b>	3,182,000
Inventories, net	<b>60,164,000</b>	65,160,000
Deferred income taxes	<b>11,785,000</b>	8,094,000
Prepaid expenses and other	<b>14,328,000</b>	10,360,000
<b>Total current assets</b>	<b>387,084,000</b>	258,861,000
Long-Term Assets:		
Property, plant and equipment, net	<b>217,108,000</b>	232,860,000
Long-term marketable securities		498,000
Goodwill	<b>56,263,000</b>	30,117,000
Intangible assets, net of accumulated amortization of \$8,818,000 and \$6,036,000 in 2004 and 2003, respectively	<b>34,758,000</b>	14,521,000
Deferred income taxes	<b>3,114,000</b>	4,604,000
Other assets	<b>16,272,000</b>	10,469,000
<b>Total long-term assets</b>	<b>327,515,000</b>	293,069,000
<b>Total assets</b>	<b>\$ 714,599,000</b>	\$ 551,930,000

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

**Table of Contents****QIAGEN N.V. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	As of December 31,	
	2004	2003
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current Liabilities:		
Current portion of long-term debt	\$ 6,769,000	\$ 7,909,000
Current portion of capital lease obligations	1,201,000	1,320,000
Accounts payable (of which \$1.0 million due to QIAGEN Finance in 2004, see Note 6)	20,157,000	19,481,000
Accrued and other liabilities (of which \$2.4 million due to QIAGEN Finance in 2004, see Note 6)	46,879,000	31,344,000
Income taxes payable	10,283,000	23,233,000
Deferred income taxes	2,766,000	11,991,000
<b>Total current liabilities</b>	<b>88,055,000</b>	<b>95,278,000</b>
Long-Term Liabilities:		
Long-term debt, net of current portion (of which \$150.0 million due to QIAGEN Finance in 2004, see Note 6)	197,383,000	100,444,000
Capital lease obligations, net of current portion	13,737,000	13,716,000
Deferred income taxes	10,372,000	4,119,000
Other	4,676,000	3,587,000
<b>Total long-term liabilities</b>	<b>226,168,000</b>	<b>121,866,000</b>
Commitments and Contingencies (Note 16)		
Shareholders' Equity:		
Common shares, .01 EUR par value:		
Authorized 260,000,000 shares		
Issued and outstanding 147,020,207 shares in 2004 and 146,217,518 shares in 2003	1,495,000	1,485,000
Additional paid-in capital	146,231,000	140,039,000
Retained earnings	211,975,000	163,270,000
Accumulated other comprehensive income	40,675,000	29,992,000
<b>Total shareholders' equity</b>	<b>400,376,000</b>	<b>334,786,000</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 714,599,000</b>	<b>\$ 551,930,000</b>

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

Table of Contents

## QIAGEN N.V. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

	Years ended December 31,		
	2004	2003	2002
Net sales	\$ 380,629,000	\$ 351,404,000	\$ 298,607,000
Cost of sales	125,658,000	118,786,000	96,508,000
Cost of sales acquisition and restructuring	1,454,000	3,618,000	
Gross profit	253,517,000	229,000,000	202,099,000
Operating Expenses:			
Research and development	35,767,000	31,789,000	28,177,000
Sales and marketing	87,506,000	83,005,000	75,086,000
General and administrative	41,715,000	42,269,000	42,030,000
Acquisition and related costs	572,000		2,848,000
Relocation, restructuring and related costs	3,817,000	3,048,000	10,773,000
Total operating expenses	169,377,000	160,111,000	158,914,000
Income from operations	84,140,000	68,889,000	43,185,000
Other Income (Expense):			
Interest income	2,887,000	1,284,000	1,234,000
Interest expense	(5,101,000)	(4,647,000)	(2,565,000)
Research and development grants	1,608,000	2,221,000	801,000
Gain (loss) on foreign currency transactions, net	(67,000)	1,069,000	(2,208,000)
Loss from equity method investees	(2,243,000)	(1,847,000)	(1,340,000)
Other miscellaneous (expense) income, net	(8,537,000)	286,000	(247,000)
Total other expense	(11,453,000)	(1,634,000)	(4,325,000)
Income before provision for income taxes and minority interest	72,687,000	67,255,000	38,860,000
Provision for income taxes	23,982,000	24,405,000	15,723,000
Minority interest income			(5,000)
Net income	\$ 48,705,000	\$ 42,850,000	\$ 23,142,000
Basic net income per common share	\$ 0.33	\$ 0.29	\$ 0.16
Diluted net income per common share	\$ 0.33	\$ 0.29	\$ 0.16
Shares used in computing basic net income per common share	146,658,000	145,832,000	144,795,000
Shares used in computing diluted net income per common share	148,519,000	147,173,000	145,787,000



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

F-5

**Table of Contents****QIAGEN N.V. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME**

	<u>Common Shares</u>		<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Shareholders Equity</u>
	<u>Shares</u>	<u>Amount</u>				
BALANCE AT DECEMBER 31, 2001	143,463,800	\$ 1,458,000	\$ 123,117,000	\$ 97,278,000	\$ (8,878,000)	\$ 212,975,000
Net income				23,142,000		23,142,000
Unrealized loss, net on marketable securities					(2,044,000)	(2,044,000)
Realized loss, net on marketable securities					38,000	38,000
Translation adjustment					17,470,000	17,470,000
Comprehensive income						38,606,000
Exercise of stock options	538,114	5,000	2,325,000			2,330,000
Common stock issued in connection with the acquisition of Xeragon, Inc.	561,123	5,000	7,950,000			7,955,000
Common stock issued in connection with the acquisition of GenoVision, A.S.	930,426	9,000	13,874,000			13,883,000
Common stock issued for intangible asset	40,126	1,000	249,000			250,000
Tax benefit in connection with nonqualified stock options, net of reclass related to vested stock options			(12,968,000)			(12,968,000)
BALANCE AT DECEMBER 31, 2002	145,533,589	1,478,000	134,547,000	120,420,000	6,586,000	263,031,000
Net income				42,850,000		42,850,000
Unrealized gain, net on marketable securities					1,239,000	1,239,000
Realized gain, net on marketable securities					(201,000)	(201,000)
Translation adjustment					22,368,000	22,368,000
Comprehensive income						66,256,000
Exercise of stock options	375,508	4,000	2,109,000			2,113,000
Common stock issued in connection with the acquisition of GenoVision, A.S.	308,421	3,000	2,943,000			2,946,000
Tax benefit in connection with nonqualified stock options, net of reclass related to vested stock options			440,000			440,000
BALANCE AT DECEMBER 31, 2003	146,217,518	\$ 1,485,000	\$ 140,039,000	\$ 163,270,000	\$ 29,992,000	\$ 334,786,000
Net income				48,705,000		48,705,000
Unrealized loss, net on forward contracts					(500,000)	(500,000)
Unrealized gain, net on marketable securities					47,000	47,000
Realized gain, net on marketable securities					(481,000)	(481,000)
Translation adjustment					11,617,000	11,617,000
Comprehensive income						59,388,000
Exercise of stock options	802,689	10,000	5,122,000			5,132,000
Tax benefit in connection with nonqualified stock options, net of reclass related to vested stock options			775,000			775,000
Option vesting accelerated in connection with sale of synthetic DNA business unit			295,000			295,000



Edgar Filing: QIAGEN NV - Form 20-F

<b>BALANCE AT DECEMBER 31, 2004</b>	<b>147,020,207</b>	<b>\$ 1,495,000</b>	<b>\$ 146,231,000</b>	<b>\$ 211,975,000</b>	<b>\$ 40,675,000</b>	<b>\$ 400,376,000</b>
-------------------------------------	--------------------	---------------------	-----------------------	-----------------------	----------------------	-----------------------

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

F-6

Table of Contents

## QIAGEN N.V. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,		
	2004	2003	2002
<b>Cash Flows From Operating Activities:</b>			
Net income	\$ 48,705,000	\$ 42,850,000	\$ 23,142,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	22,961,000	25,788,000	24,709,000
Noncash restructure costs		4,128,000	7,882,000
In-process research and development			1,200,000
Tax effect from non-qualified stock options, net	775,000	440,000	(12,968,000)
Provision for losses on accounts receivable	128,000	1,749,000	631,000
Deferred income taxes	(10,474,000)	12,183,000	5,027,000
Loss on disposition of synthetic DNA business unit	9,796,000		
Loss on disposition of property and equipment	159,000	417,000	2,000
(Gain) loss on sale of marketable securities	(481,000)	(201,000)	38,000
Loss on equity method investee	2,243,000	1,847,000	1,340,000
Minority interest			(5,000)
Net changes in operating assets and liabilities:			
(Increase) decrease in:			
Notes receivable	1,109,000	(783,000)	(83,000)
Accounts receivable	(4,193,000)	(5,738,000)	(6,909,000)
Income taxes receivable	(368,000)	8,117,000	543,000
Inventories	2,019,000	(6,396,000)	(18,183,000)
Prepaid expenses and other	(5,282,000)	1,745,000	(601,000)
Other assets	(5,213,000)	(4,102,000)	(1,563,000)
Increase (decrease) in:			
Accounts payable	599,000	(6,610,000)	(424,000)
Accrued liabilities	2,450,000	(885,000)	3,155,000
Income taxes payable	(13,009,000)	(11,035,000)	9,778,000
Other	1,874,000	546,000	(25,000)
<b>Net cash provided by operating activities</b>	<b>53,798,000</b>	<b>64,060,000</b>	<b>36,686,000</b>
<b>Cash Flows From Investing Activities:</b>			
Purchases of property, plant and equipment	(12,621,000)	(19,558,000)	(59,136,000)
Proceeds from sale of equipment	1,584,000	1,795,000	1,440,000
Purchases of intangible assets	(32,971,000)	(2,777,000)	(2,130,000)
Purchases of investments			(189,000)
Net proceeds from disposition of synthetic DNA business unit	16,087,000		
Purchases of marketable securities	(37,963,000)	(6,000)	
Sales of marketable securities	14,860,000	6,489,000	10,958,000
Loan to related party			(1,675,000)
Investment in unconsolidated subsidiary	(125,000)		
Cash paid for acquisitions, net of cash acquired			(14,060,000)
<b>Net cash used in investing activities</b>	<b>(51,149,000)</b>	<b>(14,057,000)</b>	<b>(64,792,000)</b>

Edgar Filing: QIAGEN NV - Form 20-F

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

F-7

Table of Contents

## QIAGEN N.V. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(CONTINUED)

	Years ended December 31,		
	2004	2003	2002
<b>Cash Flows From Financing Activities:</b>			
Repayment of lines of credit		(972,000)	(5,757,000)
Proceeds from short-term debt		3,221,000	
Repayment of short-term debt		(3,409,000)	(295,000)
Principal payments on capital leases	<b>(1,115,000)</b>	(1,249,000)	(1,366,000)
Proceeds from long-term debt	<b>150,077,000</b>	4,705,000	13,140,000
Repayment of long-term debt	<b>(58,471,000)</b>	(6,293,000)	(1,929,000)
Issuance of common shares	<b>5,132,000</b>	2,113,000	2,330,000
<b>Net cash (used in) provided by financing activities</b>	<b>95,623,000</b>	(1,884,000)	6,123,000
Effect of exchange rate changes on cash and cash equivalents	<b>(890,000)</b>	5,981,000	10,416,000
Net increase (decrease) in cash and cash equivalents	<b>97,382,000</b>	54,100,000	(11,567,000)
Cash and cash equivalents, beginning of year	<b>98,993,000</b>	44,893,000	56,460,000
<b>Cash and cash equivalents, end of year</b>	<b>\$ 196,375,000</b>	\$ 98,993,000	\$ 44,893,000
<b>Supplemental Cash Flow Disclosures:</b>			
Cash paid for interest	<b>\$ 3,664,000</b>	\$ 4,670,000	\$ 4,083,000
Cash paid for taxes	<b>\$ 27,755,000</b>	\$ 14,038,000	\$ 13,731,000
<b>Noncash Investing and Financing Activities:</b>			
Common stock issued for intangible asset	\$	\$	\$ 250,000
Note receivable in connection with disposition of assets	<b>\$ 6,189,000</b>	\$	\$
Equipment purchased through capital leases	\$	\$ 1,757,000	\$ 21,000
<b>Acquisitions of:</b>			
Net assets and liabilities assumed	\$	\$	\$ 5,119,000
Developed technology and know-how	\$	\$	\$ 8,600,000
Goodwill	\$	\$ 2,946,000	\$ 8,164,000
In-process research and development	\$	\$	\$ 1,200,000

Edgar Filing: QIAGEN NV - Form 20-F

Issuance of common stock	\$	\$ 2,946,000	\$ 21,883,000
--------------------------	----	--------------	---------------

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

F-8

**Table of Contents**

**QIAGEN N.V. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2004**

**1. Description of Business**

QIAGEN N.V. and Subsidiaries (the Company) operates exclusively in the life sciences industry developing, producing and distributing biotechnology products and services, primarily for the handling, separation and purification of nucleic acids (DNA/RNA). In addition, QIAGEN sells and/or licenses technologies to others. The Company's products are used in biological research by universities and research institutions as well as in the diagnostic and applied testing industries. The Company's products are sold throughout the world, primarily in the United States, Europe and Japan. Similar to most companies in this line of business, the Company's products are subject to rapid technological change. Because of these technological changes, the Company needs to continuously expend resources toward research and development.

**2. Summary of Significant Accounting Policies**

*Principles of Consolidation*

The accompanying consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States (GAAP) and include the accounts of the Company and its wholly owned subsidiaries that are not considered variable interest entities. All significant intercompany accounts and transactions have been eliminated. All amounts are presented in U.S. dollars, unless otherwise indicated. Investments in companies where the Company exercises significant influence over the operations, and where the Company is not the primary beneficiary, are accounted for using the equity method. All other investments are accounted for under the cost method.

*Cash and Cash Equivalents*

Cash and cash equivalents consist of cash on deposit in banks and other cash invested temporarily in various instruments that are short-term, highly liquid and have an original maturity of less than 90 days at the date of purchase. The Company maintains its cash accounts in highly qualified institutions.

*Marketable Securities*

## Edgar Filing: QIAGEN NV - Form 20-F

The Company accounts for marketable securities in accordance with Statement of Financial Accounting Standard (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. All investments are classified available for sale and stated at fair value, interest income is accrued when earned, and changes in market values are reflected as unrealized gains and losses, calculated on the specific identification method, as a component of accumulated other comprehensive income.

Investments are evaluated at least quarterly to determine if declines in value are other-than-temporary. In making that determination, the Company considers all available evidence relating to the realizable value of a security. This evidence includes, but is not limited to, the following:

adverse financial conditions of a specific issuer, segment, industry, region or other variables;

the length of the time and the extent to which the fair value has been less than cost;

the financial condition and near-term prospects of the issuer;

the Company's intent and ability to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value;

Temporary declines in value of investments classified as available-for-sale are netted with unrealized gains and reported as a net amount in a separate component of shareholders' equity. A decline in fair value below amortized cost that is judged to be other-than-temporary is accounted for as a realized loss and the write down is included in earnings. Realized gains and losses on the sale of investments are determined on a specific identification basis.

**Table of Contents****QIAGEN N.V. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Accounts Receivable*

The Company's accounts receivable are unsecured and the Company is at risk to the extent such amounts become uncollectible. The Company continually monitors account receivable balances, and provides for an allowance for doubtful accounts at the time collection becomes questionable based on payment history or age of the receivable. Write-offs of accounts receivable totaled \$383,000, \$1.3 million and \$253,000 while provisions for doubtful accounts totaled \$128,000, \$1.7 million and \$631,000 for the years ended December 31, 2004, 2003 and 2002, respectively. For all years presented, no single customer represented more than ten percent of accounts receivable or consolidated net sales.

*Inventories*

Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or market and consist of the following as of December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Raw materials	<b>\$ 15,999,000</b>	\$ 15,501,000
Work in process	<b>23,596,000</b>	21,179,000
Finished goods	<b>20,569,000</b>	28,480,000
	<u>                    </u>	<u>                    </u>
Total inventories	<b>\$ 60,164,000</b>	<b>\$ 65,160,000</b>

*Property, Plant and Equipment*

Property, plant and equipment, including equipment under capital lease, are stated at cost. Depreciation is computed using the straight-line and declining balance methods over the estimated useful lives of the assets (one to 40 years). Amortization of leasehold improvements is computed on a straight-line basis over the lesser of the remaining life of the lease or the estimated useful life. The Company has a policy of capitalizing expenditures that materially increase assets' useful lives and charging ordinary maintenance and repairs to operations as incurred. When property or equipment is disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts and any gain or loss is included in other miscellaneous income (expense).

*Long-Lived Assets*



The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or a group of assets may not be recoverable. The Company considers a history of operating losses or a change in expected sales levels to be indicators of potential impairment. Assets are grouped and evaluated for impairment at the lowest level for which there are identified cash flows that are largely independent of the cash flows of other groups of assets. The Company deems an asset to be impaired if a forecast of undiscounted projected future operating cash flows directly related to the asset, including disposal value, if any, is less than its carrying amount. If an asset is determined to be impaired, the loss is measured as the amount by which the carrying amount of the asset exceeds fair value. The Company generally measures fair value by discounting projected future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows. Accordingly, actual results could differ from such estimates.

*Revenue Recognition*

The Company recognizes revenue in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin No. 104, Revenue Recognition in Financial Statements (SAB 104). SAB 104 requires that

---

**Table of Contents**

**QIAGEN N.V. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the fee is fixed and determinable; and (4) collectibility is reasonably assured. Revenue from consumable product sales is generally recognized upon shipments, when all of the criteria of SAB 104 are achieved. Revenue from the sale and/or licensing of technologies is generally recognized upon delivery to the customer, when all of the criteria of SAB 104 are achieved. The Company maintains a small amount of consignment inventory at certain customer locations. Revenues for the consumable products which are consigned in this manner are recognized upon consumption. Revenue from instrumentation equipment is generally not recognized until title passes to the customer, either upon shipment in the case of sales to distributors or written customer acceptance in the case of sales to end users after satisfying any installation and training requirements. For instrumentation equipment sales that contain other obligations, such as providing consumables, advanced training, extended warranty services or preventative maintenance contracts, revenue is allocated based on the relative fair values of the individual components as determined by list prices. Revenues for extended warranty services or product maintenance contracts are deferred and recognized on a straight-line basis over the contract period. The Company generally recognizes sequencing and other service revenues on a completed contract basis. For the years ended December 31, 2004, 2003 and 2002, revenues from the sale of all services constitute less than 10 percent of total net sales.

*Research and Development*

Research and product development costs are expensed as incurred. Research and development expenses consist primarily of salaries and related expenses, facility costs and amounts paid to contract research organizations, and laboratories for the provision of services and materials. Acquired in-process research and development is expensed if technological feasibility has not been demonstrated and there is no alternative use for the in-process technology.

*Shipping and Handling Income and Costs*

The Company accounts for income and costs related to shipping and handling activities in accordance with the Emerging Issues Task Force Issue No. 00-10, Accounting for Shipping and Handling Revenues and Costs. Income from shipping and handling is included with revenue from product sales. Associated costs of shipping and handling are included in sales and marketing expenses. For the years ended December 31, 2004, 2003 and 2002, shipping and handling costs totaled \$7.8 million, \$10.6 million and \$10.8 million, respectively.

*Advertising Costs*

The Company accounts for advertising costs according to Statement of Position 93-7, Reporting on Advertising Costs, (SOP 93-7). Accordingly, the costs of advertising are expensed as incurred. Sales materials, such as brochures and catalogues, are accounted for as prepaid supplies and expensed over the expected period of use. Advertising costs for the years ended December 31, 2004, 2003 and 2002 were \$1.8 million, \$1.4 million and \$2.9 million, respectively.

*Warranty*

The Company warrants its products against defects in materials and workmanship for a period of one year. A provision for estimated future warranty costs is recorded when consumables are shipped and when title to instrumentation equipment passes to the customer.

*Income Taxes*

The Company accounts for income taxes in accordance with SFAS No. 109 Accounting for Income Taxes. The deferred tax assets and/or liabilities are determined by multiplying the differences between the

---

**Table of Contents**

**QIAGEN N.V. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

financial reporting and tax reporting bases for assets and liabilities by the enacted tax rates expected to be in effect when such differences are recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

In accordance with SFAS No. 5, Accounting for Contingencies, the Company records tax contingencies when the exposure item becomes probable and reasonably estimable. The Company establishes reserves for tax contingencies that reflect its best estimate of the deductions and credits that it may be unable to sustain, or that it could be willing to concede as part of a broader tax settlement. The tax contingency liability is based on the Company's estimate of whether additional taxes will be due in the future. Any additional taxes will be determined only upon the completion of current and future tax audits. The timing of such payments cannot be estimated, but the Company expects that they will not be made within one year.

*Foreign Currency Translation*

The Company's reporting currency is the U.S. dollar. The subsidiaries' functional currencies are the local currency of the respective country. Balance sheets prepared in their functional currencies are translated to the reporting currency at exchange rates in effect at the end of the accounting period except for shareholders' equity accounts, which are translated at rates in effect when these balances were originally recorded. Revenue and expense accounts are translated at a weighted average of exchange rates during the period. The cumulative effect of translation is included in accumulated other comprehensive income in the accompanying consolidated balance sheets.

*Fair Value of Financial Instruments*

The carrying value of the Company's cash and cash equivalents, notes receivable, accounts receivable, accounts payable and accrued liabilities approximate their fair values because of the short maturities of those instruments. The carrying value of the Company's variable rate debt and capital leases approximate their fair values because of the short maturities and/or interest rates which are comparable to those available to the Company on similar terms. The fair value of the notes payable to QIAGEN Finance, further discussed in Note 14, was estimated by using available over-the-counter market information on the convertible bond which was issued by QIAGEN Finance, the value of which correlates to the fair value of the loan arrangement the Company has with QIAGEN Finance which includes the notes payable, the guarantee and the warrant agreement (further discussed in Note 6).

*Derivative Instruments*

Derivative instruments are recorded on the balance sheet at fair value. Changes in fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if so, depending on the type of hedge transaction.

During 2004, QIAGEN's German and Swiss subsidiaries entered into forward arrangements which qualify for hedge accounting as cash flow hedges of foreign currency denominated liabilities. At December 31, 2004, these forward contracts totaled \$44.0 million as a hedge to currency risk on intercompany loans. The contracts mature in July 2011 and have a fair market value of approximately \$4.8 million, which is included in other liabilities in the accompanying consolidated balance sheet at December 31, 2004. The gain or loss on the change in the fair values of the derivatives are included in earnings to the extent they offset the earnings impact of changes in the fair values of the hedged obligations. Any difference is deferred in accumulated comprehensive income, a component of shareholders' equity. These contracts effectively fix the exchange rate at which the intercompany loans will be settled, so that gains or losses on the forward contracts offset the losses or gains from changes in the value of the underlying intercompany loans.

**Table of Contents****QIAGEN N.V. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In the ordinary course of business, the Company purchases foreign currency exchange options to manage potential losses from foreign currency exposures. These options give the Company the right, but not the requirement, to purchase foreign currencies in exchange for U.S. dollars at predetermined exchange rates. The principal objective of such options is to minimize the risks and/or costs associated with global financial and operating activities. The Company does not utilize financial instruments for trading or other speculative purposes.

The table below presents the notional amounts and the weighted average exchange rates for foreign currency exchange options as of December 31, 2004 and 2003. The options outstanding at December 31, 2004 expire at various dates through February 2005 and have a fair market value of approximately \$23,000. The options outstanding at December 31, 2003 expired at various dates through February 2004 and had a fair market value of approximately \$77,000. Gains or losses from changes in the fair market values are included in other miscellaneous income (expense), net.

<b>Functional Currency:</b>	<b>2004</b>		<b>2003</b>	
	<b>Notional Amount</b>	<b>Notional Weighted Average Exchange Rate</b>	<b>Notional Amount</b>	<b>Notional Weighted Average Exchange Rate</b>
European Union euro	\$ 750,000	1.3550	\$ 1,000,000	1.1600
European Union euro	\$ 750,000	1.3600		

*Stock-Based Compensation*

At December 31, 2004, the Company has a stock option plan, which is described more fully in Note 15. The Company accounts for the plan under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations as permitted under SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123). No stock-based employee compensation cost is reflected in net income, as all options granted under the plan had an exercise price equal to or in excess of the market value of the underlying common stock on the date of grant.

SFAS No. 123, as amended by SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, an Amendment of FASB Statement No. 123, requires the presentation of certain pro forma information as if the Company had accounted for its stock-based employee compensation under the fair value method. For purpose of this disclosure, the fair value of the option grants was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions for option grants:

<b>2004</b>	<b>2003</b>	<b>2002</b>
-------------	-------------	-------------

## Edgar Filing: QIAGEN NV - Form 20-F

Risk-free interest rate	3.00%	2.56%	3.44%
Stock price volatility	66%	73%	76%
Expected life (in years)	5.45	6	6
Dividend rate	0.0%	0.0%	0.0%
Weighted average fair value of options granted	\$ 6.82	\$ 5.41	\$ 5.18

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option value models also require the input of highly subjective assumptions such as expected option life and expected stock price volatility. Because the Company's stock-based compensation plans have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, the Company believes that the existing option valuation model does not necessarily provide a reliable single measure of the fair value of awards from this plan.

F-13

**Table of Contents****QIAGEN N.V. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

During the fourth quarter of 2004 and considering the new accounting implications of SFAS No. 123 (revised 2004) Share-based Payment (SFAS 123R), the Company accelerated the vesting of 829,000 stock options that had a price greater than or equal to the fair market value of the Company's common shares (out-of-the-money) as of the close of day that the plan was approved by the Supervisory Board, or \$10.62. The accelerated options were given a sales restriction, such that any shares held through the exercise of an accelerated option could not be sold, prior to the original vesting date. Options held by the Supervisory and Managing Boards were not subject to the acceleration. Under the accounting guidance of APB 25, the accelerated vesting did not result in any compensation expense as these options had no intrinsic value. The acceleration, however, will allow the Company to avoid recording approximately \$1.4 million, after tax, of future compensation expense that would have been required to be recognized under SFAS 123R. Upon adoption of SFAS 123R in the third fiscal quarter of 2005, the Company will not have any stock-based compensation expense from these accelerated options. The Supervisory Board took the action based on its belief that it is in the best interest of the Company's shareholders and the Company as it will reduce reported compensation expense in future periods. The Company is currently working with equity based compensation plan experts to evaluate its stock-based compensation plans and incentive strategies in light of the provisions of SFAS 123R. The Company's aim is to implement an equity based compensation plan structure that will give the employees a long-term incentive arrangement while minimizing compensation expense.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net income, as reported	<b>\$ 48,705,000</b>	\$ 42,850,000	\$ 23,142,000
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	<b>(12,224,000)</b>	(11,740,000)	(5,689,000)
Proforma net income	<b>\$ 36,481,000</b>	\$ 31,110,000	\$ 17,453,000
Earnings per share:			
Basic as reported	<b>\$ 0.33</b>	\$ 0.29	\$ 0.16
Basic proforma	<b>\$ 0.25</b>	\$ 0.21	\$ 0.12
Diluted as reported	<b>\$ 0.33</b>	\$ 0.29	\$ 0.16
Diluted proforma	<b>\$ 0.25</b>	\$ 0.21	\$ 0.12

*Risks and Uncertainties*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingencies at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



*Authoritative Pronouncements*

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued SFAS 123R, which is a revision of FASB Statement No. 123 (SFAS 123), Accounting for Stock-Based Compensation. SFAS 123R supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in SFAS 123R is similar to the approach described in SFAS 123.

---

**Table of Contents**

**QIAGEN N.V. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using Opinion 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. However, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values over the expected period of service. Accordingly, the adoption of SFAS 123R's fair value method will have a significant impact on our result of operations, although it will have no impact on our overall financial position.

The full impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS 123R in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the disclosure of pro forma net income and earnings per share in Note 2 to the consolidated financial statements. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. Management is unable to estimate what those amounts will be in the future because they depend on, among other things, when employees exercise stock options.

The Company will continue to apply the accounting provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, in accounting for the stock option plan until the effective date of SFAS 123R. Please see Note 2 to the consolidated financial statements in this report for the pro forma impact to net income and earnings per share under SFAS No. 123's fair value method of accounting for employee stock plans. SFAS 123R must be adopted no later than January 1, 2006. The Company expects to adopt SFAS 123R on January 1, 2006.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4. SFAS No. 151 amends ARB No. 43 Chapter 4, Inventory Pricing to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS No. 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of so abnormal. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this Statement are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after the date this Statement was issued. The Company will adopt SFAS No. 151 effective January 1, 2005, and the adoption will not have a material impact on the consolidated financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities. This interpretation 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. The Company adopted this standard in the first quarter of 2004 and it did not have a material impact on our results of operations or financial position of the Company.

Table of Contents

## QIAGEN N.V. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**3. Net Income per Common Share**

The following schedule summarizes the information used to compute earnings per common share:

	Years ended December 31,		
	2004	2003	2002
Weighted average number of common shares used to compute basic net income per common share	<b>146,658,000</b>	145,832,000	144,795,000
Dilutive effect of stock options	<b>1,861,000</b>	1,341,000	992,000
Weighted average number of common shares used to compute diluted net income per common share	<b>148,519,000</b>	147,173,000	145,787,000
Outstanding stock options having no dilutive effect, not included in above calculation	<b>5,430,000</b>	7,166,000	5,730,000
Outstanding warrants having no dilutive effect, not included in above calculation	<b>11,862,000</b>		

**4. Acquisitions and Disposals**

In September 2004, the Company completed the acquisition of key assets of Molecular Staging, Inc. (MSI) of New Haven, Connecticut. MSI is a privately held company which had developed a range of proprietary products and services based on its Multiple Displacement Amplification (MDA) and Rolling Circle Amplification (RCAT) technology. The key application of MDA is whole genome amplification (WGA) which is designed to eliminate limitations created by the scarce quantities of DNA samples available for customers to perform an increasing number of analyses. The technology portfolio acquired from MSI adds a new dimension of customer benefit and is in the Company's core focus on pre-analytical solutions. The primary reason for the acquisition was to enable the Company to provide customers a solution for the limitations of scarce DNA samples. Following QIAGEN-based nucleic acid purification, WGA provides precise, complete and nearly unlimited copies of the entire genome and thereby creates a sufficient quantity of DNA from even the smallest amounts of starting material enabling a practically unlimited number of analyses. QIAGEN intends to launch a series of kits integrating the newly acquired technology to address specific customer needs in early 2005. MSI's WGA activities are in the process of being integrated into the Company's operations in Hilden, Germany.

Under the terms of the acquisition agreement, QIAGEN acquired the major assets of MSI for \$28.5 million in cash and incurred direct acquisition costs of \$1.0 million. The Company agreed to pay additional potential earn-out amounts of up to \$6.75 million based on revenue

## Edgar Filing: QIAGEN NV - Form 20-F

milestones in 2004 and 2005 of which the first milestone of \$3.75 million was earned in 2004 and paid in February 2005. In connection with the acquisition, the Company expensed costs of approximately \$2.1 million, which includes a \$1.5 million charge to cost of sales related to inventory which will be replaced with products integrating the newly acquired technologies and a \$572,000 charge to operating expenses related to the impairment of other assets as a result of the acquisition. Using the results of an independent appraisal, the purchase price was initially allocated as follows: \$1.2 million to license agreement, \$13.0 million to developed technology (both to be amortized over 14 years), and \$15.3 million to goodwill, which is deductible for income tax purposes. Based on the estimated fair market value at September 27, 2004, \$100,000 was allocated to equipment acquired.

In June 2004, the Company sold a significant portion of its synthetic DNA business unit to a group of investors, including a former member of management for \$24.3 million, of which \$17.8 million was paid in cash and the remainder is to be paid over a five year period ending in June 2009. The synthetic DNA business unit had operations located in the United States, Germany and Japan. The Company incurred a net loss related to the sale

**Table of Contents****QIAGEN N.V. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

of such business of approximately \$9.8 million, which was included in other miscellaneous expense in 2004. The net loss included net costs of \$4.1 million on the transaction, severance costs of \$2.7 million and lease termination and facility exit costs of \$3.0 million.

In June 2002, the Company completed the acquisition of GenoVision A.S. and subsidiaries. GenoVision was formed in 1998 and is located in Oslo, Norway. Subject to the terms of the acquisition agreement, the Company paid approximately \$14.3 million in cash and issued 930,426 shares of common stock (valued at approximately \$13.9 million) in exchange for all the capital stock of GenoVision. The Company agreed to pay an earn-out of up to \$3.0 million based on GenoVision's performance in the twelve months following the acquisition. The earn out was paid in August 2003 by issuing 308,421 additional shares of the Company's common stock (valued at approximately \$2.9 million) and paying related expenses of approximately \$118,000. These amounts are reflected as an increase to goodwill. In 2002, in connection with this merger, the Company expensed costs of approximately \$2.8 million, which include \$1.2 million of in-process research and development and \$1.6 million for equipment impairment. The acquisition, accounted for as a purchase under SFAS No. 141 Business Combinations, included the purchase of all of the stock of GenoVision, which, including acquisition costs, resulted in a total purchase price of \$29.5 million. A portion of the purchase price has been allocated to the assets acquired and liabilities assumed based on the estimated fair market value. Independent appraisers utilizing proven valuation procedures and techniques determined the value of the intangible assets acquired. These intangible assets include acquired in-process research and development, developed technology and know-how, and goodwill. As a result of the appraisal, \$3.6 million was allocated to developed technology and is being amortized on a straight line basis over ten years, \$700,000 was allocated for contractual worldwide rights of sequence specific primers for gene-based tissue typing, and is being amortized on a straight line basis over three and one-half years, and approximately \$18.9 million was allocated to goodwill. A charge of \$1.2 million for purchased in-process research and development was included in acquisition and related costs in the Company's 2002 results. This charge represents the estimated fair value based on risk-adjusted cash flows related to the in-process research and development projects. At the date of acquisition, the development of these projects had not yet reached technological feasibility and the research and development in progress had no alternative future uses. The results of GenoVision's operations prior to the date of acquisition were not significant. The results of operations of the acquired company are included in the consolidated results for the Company from the date of acquisition.

In April 2002, the Company completed the acquisition of Xeragon, Inc. of Huntsville, Alabama, pursuant to an agreement and plan of merger. In connection with this acquisition, the Company issued 561,123 common shares valued at \$8.0 million, to the shareholders of Xeragon in exchange for all of the outstanding capital stock of Xeragon. Established in 2001, Xeragon is a market and technology leader for products and services focusing on synthetic nucleic acids, particularly siRNA. The acquisition, accounted for as a purchase under SFAS No. 141, included the purchase of all of the stock of Xeragon, which, including acquisition costs, resulted in a total purchase price of \$8.2 million. A portion of the purchase price was allocated to the assets acquired and liabilities assumed based on the estimated fair market value when acquired. Independent appraisers utilizing proven valuation procedures and techniques determined the value of the intangible assets acquired. These intangible assets include developed technology and goodwill. As a result of the appraisal, approximately \$3.8 million was allocated to goodwill, \$4.0 million was allocated to developed technology and is being amortized on a straight line basis over ten years, \$300,000 was allocated to non-compete agreements which was once amortized straight line based over three years until June 2004, at which time the remaining balance of approximately \$80,000 was expensed in connection with the sale of the synthetic DNA business unit. The results of operations of the acquired company are included in the consolidated results for the Company from the date of acquisition. Since Xeragon was established late in 2001, the results of its operations prior to the date of acquisition were not significant.

**Table of Contents****QIAGEN N.V. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. Relocation and Restructure**

In line with the Company's focus of streamlining and strengthening its operations, during 2004 the Company completed the realignment of certain operating functions, primarily in the United States, including the relocation of some of these functions to the Company's North American Headquarters in Germantown, Maryland, which opened in 2002. In the second quarter of 2004 restructuring costs were incurred in connection with the sale of the majority of the Company's synthetic DNA business unit. The Company expensed approximately \$3.8 million of restructuring and relocation costs in 2004. These costs consisted primarily of relocation and severance costs of \$2.5 million, lease and facility costs of \$1.0 million, and other costs of \$297,000. In 2003, the Company realigned research and development programs, discontinued certain product lines related to the microarray business and refocused resources dedicated to certain products. During 2003, the Company expensed costs incurred in connection with these activities of \$5.1 million, consisting of \$798,000 due to employee relocation and severance, \$3.6 million related to inventory write-downs, \$511,000 for investment write-off, and \$190,000 related to lease and facility costs. These relocation and restructuring efforts were substantially completed at the end of 2004 at a total cost of approximately \$8.9 million.

During December 2002, the Company decided to close the QIAGEN Genomics site in Bothell, Washington. As a result of the closure and related re-focus of this business, the Company expensed approximately \$10.8 million in the fourth quarter of 2002. Relocation and restructure costs consisted of severance and other costs of \$2.7 million, a non-cash write-off of facilities, equipment and other assets of \$4.7 million and a non-cash write-off of intangible assets, including developed technology and goodwill, of \$3.2 million. Additional costs in the first quarter of 2003 associated with the closure were approximately \$1.6 million, primarily for lease termination. The closure and relocation was completed in the second quarter of 2003.

Changes in the relocation and restructure accrual for the years ended December 31, 2004 and 2003, including accruals for severance, lease termination and facility exit costs incurred in connection with the sale of the synthetic DNA business unit discussed in Note 4, are as follows:

	<b>Accrual Balance 12/31/2003</b>	<b>2004 Amounts Accrued</b>	<b>Amounts Paid in Cash or Settled</b>	<b>Accrual Balance 12/31/2004</b>
Relocation, severance and employee related	\$ 488,000	\$ 3,358,000	\$ (2,863,000)	\$ 983,000
Lease and facility	698,000	2,624,000	(1,537,000)	1,785,000
Inventory	324,000	132,000	(380,000)	76,000
Other	19,000	292,000	(241,000)	70,000
	<b>\$ 1,529,000</b>	<b>\$ 6,406,000</b>	<b>\$ (5,021,000)</b>	<b>\$ 2,914,000</b>
	<b>Accrual Balance 12/31/2002</b>	<b>2003 Amounts Accrued</b>	<b>Amounts Paid in Cash or Settled</b>	<b>Accrual Balance 12/31/2003</b>

Edgar Filing: QIAGEN NV - Form 20-F

Relocation, severance and employee related	\$ 1,670,000	\$ 480,000	\$ (1,662,000)	\$ 488,000
Lease and facility	30,000	1,194,000	(526,000)	698,000
Inventory		324,000		324,000
Other	395,000	166,000	(542,000)	19,000
	<u>2,095,000</u>	<u>2,164,000</u>	<u>\$ (2,730,000)</u>	<u>\$ 1,529,000</u>

**6. Variable Interest Entities**

In December 2003, the Financial Accounting Standards Board (FASB) issued a revised Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, replacing the original interpretation issued in January

**Table of Contents****QIAGEN N.V. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

2003. This interpretation 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.

The Company has a 50% interest in a joint venture company, PreAnalytiX GmbH, for which neither joint venture partner is the primary beneficiary within the provisions of FIN 46. Thus, the investment continues to be accounted for under the equity method. QIAGEN AG has been a 50% joint venture partner in PreAnalytiX since November 1999, when the joint venture was formed. 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, the Company's maximum exposure to loss as a result of its involvement with PreAnalytiX is limited to the Company's share of losses from the equity method investment itself. The joint venture entity, PreAnalytiX GmbH, is expected to report net losses at least through the end of 2005.

The Company has a 100% interest in QIAGEN Finance (Luxembourg) S.A. (QIAGEN Finance), a company established for the purpose of issuing the Company's convertible debt. In August 2004, the Company issued \$150.0 million of 1.5% Senior Convertible Notes due in 2024 (the Notes) through QIAGEN Finance, and in turn the proceeds were loaned to subsidiaries within the consolidated QIAGEN N.V. group. QIAGEN N.V. has guaranteed the Notes, and has an agreement with QIAGEN Finance to issue shares to the investors in the event of conversion. According to the provisions of FIN 46, QIAGEN Finance is a variable interest entity with no primary beneficiary, thus is 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. QIAGEN N.V. accounts for its investment in QIAGEN Finance as an equity investment pursuant to APB No. 18, and accordingly records 100% of the profit or loss of QIAGEN Finance in the loss from equity method investees.

The Company has concluded that the rest of its equity investments, which are not material to the Company's financial position, do not require consolidation as they are either not variable interest entities or in the event they are variable interest entities, QIAGEN is not considered to be the primary beneficiary.

**7. Comprehensive Income**

SFAS No. 130, Reporting Comprehensive Income requires that comprehensive income, which is the total of net income and all other non-owner changes in equity, be displayed in the financial statements. The components of the Company's comprehensive income or loss as presented in the Consolidated Statements of Shareholders' Equity include net income, unrealized gains and losses from foreign currency translation, forward contracts and available-for-sale marketable securities. Deferred taxes on the unrealized gains and losses are not significant. The following table is a summary of the components of accumulated other comprehensive income:

2004

2003



Edgar Filing: QIAGEN NV - Form 20-F

Net unrealized (loss) gain on marketable securities	\$ (338,000)	\$ 96,000
Net unrealized (loss) gain on forward contracts	(500,000)	
Foreign currency translation adjustments	41,513,000	29,896,000
Accumulated other comprehensive income	<b>\$ 40,675,000</b>	<b>\$ 29,992,000</b>

**8. Marketable Securities**

At December 31, 2004 and 2003, the Company had investments in marketable securities classified as current, as the Company's plan is generally not to hold its investments until maturity in order to take advantage

**Table of Contents****QIAGEN N.V. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

of market conditions. Unrealized gains and losses, net of any realized amounts are included in other comprehensive income.

At December 31, 2004, the company held one investment with a fair market value of \$30.2 million and cost of \$30.5 million. This investment has been in a loss position for less than 12 months and the Company believes that the loss is a result of the change in market interest rates and is not related to any specific event. Therefore the Company believes that it will fully recover the initial cost of this investment. There is no fixed maturity date on this investment.

The contractual maturities of corporate debt securities at December 31, 2003 were as follows:

<b>Maturities due:</b>	<b>2003</b>	
	<b>Cost</b>	<b>Fair Value</b>
One to five years	\$ 5,057,000	\$ 5,035,000
Over ten years	1,500,000	1,492,000
	<b>\$ 6,557,000</b>	<b>\$ 6,527,000</b>

At December 31, 2003, the gross unrealized losses on these securities were \$30,000.

At December 31, 2003, the Company held 50,000 shares in Genome Pharmaceuticals Corporation AG (GPC), classified as a long-term marketable security. At December 31, 2003, these shares had a fair market value of \$498,000 with a gross unrealized gain of \$127,000 included in other comprehensive income. In February 2004, the Company sold the shares and realized a gain of approximately \$552,000.

For the years ended December 31, 2004, 2003 and 2002, proceeds from sales of available-for-sale securities totaled \$14.9 million, \$6.5 million and \$11.0 million, respectively, and, calculated on the specific identification method, realized gains during 2004 totaled \$481,000, realized gains during 2003 totaled \$201,000 and realized loss during 2002 totaled \$38,000.

**9. Property, Plant and Equipment**

Edgar Filing: QIAGEN NV - Form 20-F

Property, plant and equipment, including equipment under capital lease, are summarized as follows as of December 31, 2004 and 2003:

	2004	2003
	<u>                    </u>	<u>                    </u>
Land and buildings	<b>\$ 172,866,000</b>	\$ 164,997,000
Machinery and equipment	<b>69,073,000</b>	82,349,000
Computer software	<b>23,329,000</b>	22,841,000
Furniture and office equipment	<b>37,026,000</b>	39,450,000
Leasehold improvements	<b>8,928,000</b>	11,717,000
Construction in progress	<b>6,242,000</b>	4,020,000
	<u>                    </u>	<u>                    </u>
	<b>317,464,000</b>	325,374,000
Less: Accumulated depreciation and amortization	<b>(100,356,000)</b>	(92,514,000)
	<u>                    </u>	<u>                    </u>
Property, plant and equipment, net	<b>\$ 217,108,000</b>	\$ 232,860,000
	<u>                    </u>	<u>                    </u>

Amortization of assets reported under capital leases is included within accumulated depreciation and amortization above for the years ended December 31, 2004 and 2003, respectively. For the years ended

**Table of Contents****QIAGEN N.V. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

December 31, 2004, 2003 and 2002 depreciation and amortization expense totaled \$20.2 million, \$23.5 million and \$21.4 million, respectively. Repairs and maintenance expense was \$4.5 million, \$5.2 million and \$4.2 million in fiscal years 2004, 2003 and 2002, respectively.

During 2001, QIAGEN Sciences, Inc. received state and county loans totaling \$3.6 million to be used for land purchase and facility construction costs. Upon QIAGEN Sciences' achievement of certain employment levels, these loans are permanently forgiven. Upon forgiveness, the amounts will be recorded as a reduction to the cost of the assets. Should the criteria not be met, the loans become payable. At December 31, 2004, \$2.2 million of the loans had been converted to a grant as determined by the ratio of the actual employment level to the target level. At December 31, 2004 and 2003, the balance of \$1.4 million and \$1.6 million, respectively, is included in other long-term liabilities in the accompanying consolidated balance sheets.

**10. Investments**

The Company has made strategic investments in certain companies that are accounted for using the equity or cost method of accounting. A summary of these investments as of December 31, 2004 and 2003 is as follows:

Company	Ownership Percentage	Equity Investments		Share of income (loss)		
		As of December 31,		for the years ended December 31,		
		2004	2003	2004	2003	2002
PreAnalytiX GmbH	50.0%	\$ 1,319,000	\$ 1,119,000	\$ (2,243,000)	\$ (1,847,000)	\$ (1,340,000)
QBM Cell Science	19.5%	\$ 571,000	\$ 553,000	\$ 18,000	\$	\$
QIAGEN Finance	100.0%	\$ 176,000	\$	\$ 51,000	\$	\$

Company	Ownership Percentage	Cost Investment at December 31	
		2004	2003
Zeptosens AG	17.3%	\$	\$ 2,589,000
Coley Pharmaceutical Group, Inc	1.2%	\$ 1,414,000	\$ 1,414,000
Operon Biotechnologies, Inc.	16.0%	\$ 4,000,000	

The method of accounting for an investment depends on the extent of the Company's control. The Company monitors changes in circumstances that may require a reassessment of the level of control. The Company periodically reviews the carrying value of these investments for impairment, considering factors such as the most recent stock transactions and book value from the most recent financial statements. These

investments are included in other long-term assets and other long-term liabilities in the accompanying consolidated balance sheets.

## **11. Intangible Assets**

In June 2001, the FASB issued SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 addresses how intangible assets should be accounted for upon their acquisition as well as how goodwill and other intangible assets should be accounted for after they have been initially recognized in the consolidated financial statements. With the adoption of this statement on January 1, 2002, goodwill and indefinite life intangibles are no longer subject to amortization over the estimated useful life. Goodwill is assessed for impairment each year using a fair-value-based test.

**Table of Contents****QIAGEN N.V. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following sets forth the intangible assets by major asset class as of December 31, 2004 and December 31, 2003:

	Weighted Average Life	2004		2003	
		Gross Carrying Amount	Gross Accumulated Amortization	Carrying Amount	Accumulated Amortization
<b>Amortized Intangible Assets:</b>					
Patent and license rights	9 years	\$ 20,780,000	\$ (6,438,000)	\$ 12,194,000	\$ (4,593,000)
Developed technology	12 years	22,792,000	(2,380,000)	8,363,000	(1,443,000)
		<u>\$ 43,572,000</u>	<u>\$ (8,818,000)</u>	<u>\$ 20,557,000</u>	<u>\$ (6,036,000)</u>
<b>Unamortized Intangible Assets:</b>					
Goodwill		<u>\$ 56,263,000</u>		<u>\$ 30,117,000</u>	

The changes in the carrying amount of goodwill, by geographical segment, for the year ended December 31, 2004, are as follows:

	Norway	United States	Japan	Germany	Total
Balance at December 31, 2003	\$ 24,659,000	\$ 3,758,000	\$ 1,340,000	\$ 360,000	\$ 30,117,000
Molecular Staging, Inc. acquisition				19,062,000	19,062,000
Adjustment to deferred taxes	1,490,000	1,720,000			3,210,000
Effect of foreign currency translation	2,251,000		65,000	1,558,000	3,874,000
Balance at December 31, 2004	<u>\$ 28,400,000</u>	<u>\$ 5,478,000</u>	<u>\$ 1,405,000</u>	<u>\$ 20,980,000</u>	<u>\$ 56,263,000</u>

The acquisition of Molecular Staging, Inc. on September 27, 2004 resulted in the addition of \$1.2 million to patent and license rights and \$13.0 million to developed technology, both of which will be amortized over 14 years.

The Company has completed the fair-value based test for impairment of goodwill and intangible assets. For the year ended December 31, 2004 and 2003, the fair value of goodwill and intangible assets exceeded their book value and consequently the Company had no impairment charges. As a result of the closure of the QIAGEN Genomics facility, the balances of \$1.2 million of goodwill and \$1.8 million of developed technology were written off and included in relocation and restructure costs in the accompanying consolidated statement of income for the year ended

## Edgar Filing: QIAGEN NV - Form 20-F

December 31, 2002.

Amortization expense on intangible assets totaled approximately \$2.5 million, \$2.1 million and \$1.9 million, respectively, for the years ended December 31, 2004, 2003 and 2002. Amortization of intangibles for the next five years is expected to be approximately:

	<b>Amortization</b>
	<b>_____</b>
Years ended December 31:	
2005	\$ 3,588,000
2006	\$ 3,324,000
2007	\$ 3,322,000
2008	\$ 3,197,000
2009	\$ 2,774,000

In connection with the adoption of SFAS No. 142, intangibles are assessed for recoverability considering the contract life as well as the period of time over which the intangible will contribute to future cash flow. The

F-22

Table of Contents

## QIAGEN N.V. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

unamortized cost of intangible assets is evaluated periodically and adjusted, if necessary, if later events and circumstances indicate that a permanent decline in value below the current unamortized historical cost has occurred.

**12. Income Taxes**

The Company has recorded a net deferred tax asset of \$1.8 million and a net deferred tax liability of \$3.4 million at December 31, 2004 and 2003, respectively.

The components of the net deferred tax (liability) asset at December 31, 2004 and 2003 are as follows:

	2004	2003
	<u>          </u>	<u>          </u>
Deferred tax asset:		
Allowance for bad debts	\$ 809,000	\$ 683,000
Bonus/commission accrual	151,000	191,000
Vacation accrual	296,000	519,000
Warranty accrual	186,000	155,000
Accrued liabilities	2,441,000	937,000
Depreciation and amortization	372,000	722,000
Tax credits	377,000	516,000
Net operating loss carryforward	6,400,000	9,923,000
Inventories	3,236,000	2,799,000
Deferred revenues	1,115,000	936,000
Capitalized start-up costs	1,796,000	1,773,000
Capital leases	632,000	486,000
United States state income taxes	118,000	
Other	808,000	896,000
Valuation allowance	(1,029,000)	(2,346,000)
	<u>17,708,000</u>	<u>18,190,000</u>
Deferred tax liability:		
Depreciation and amortization	(10,163,000)	(10,204,000)
Devaluation of Intercompany loan		(7,681,000)
Inventory	(683,000)	(602,000)
Accrued liabilities	(739,000)	(746,000)
Intangibles	(3,999,000)	(1,688,000)
United States state income taxes	(39,000)	(334,000)
Other	(324,000)	(347,000)



Edgar Filing: QIAGEN NV - Form 20-F

	<u>(15,947,000)</u>	<u>(21,602,000)</u>
Net deferred tax assets (liabilities)	<b>\$ 1,761,000</b>	<b>\$ (3,412,000)</b>

The net deferred tax asset and liability are reflected on the Company's consolidated balance sheets at December 31, 2004 and 2003 as follows:

	<u>2004</u>	<u>2003</u>
Current deferred tax asset	<b>\$ 11,785,000</b>	\$ 8,094,000
Current deferred tax liabilities	<b>(2,766,000)</b>	(11,991,000)
Non-current deferred tax asset	<b>3,114,000</b>	4,604,000
Non-current deferred tax liabilities	<b>(10,372,000)</b>	(4,119,000)
Net deferred tax (liabilities) assets	<b>\$ 1,761,000</b>	<b>\$ (3,412,000)</b>

F-23

Table of Contents**QIAGEN N.V. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of December 31, 2004 and 2003, the Company had net operating loss (NOL) carryforwards in the U.S. of approximately \$2.2 million and \$3.1 million, respectively. In addition, the Company had state NOL carryforwards equal to approximately \$2.3 million and \$6.3 million at December 31, 2004 and 2003, respectively. These U.S. NOLs as of December 31, 2004 do not expire but are subject to certain limitations. As of December 31, 2004 and 2003, the Company had NOL carryforwards outside of the U.S. totaling approximately \$19.5 million and \$22.4 million, respectively. These NOLs were primarily generated from operating losses from the Company's subsidiaries. A portion of these NOLs, approximately \$13.8 million at December 31, 2004, expire in various years through 2014. The balance does not expire.

Deferred tax assets as of December 31, 2004 and 2003, relating primarily to net operating loss carryforwards have been reduced by a valuation allowance of \$1.0 million and \$2.3 million, respectively, to a net amount that management believes is more likely than not to be realized. The decrease of this valuation allowance in 2004 from \$2.3 million to \$1.0 million is primarily due to changes in circumstances which caused a change in judgment about the realizability of the related deferred tax asset in future years. To the extent that future valuation allowances are required, the effect of the allowance will be recorded in the provision for income taxes in the period the determination is made. During 2004, adjustments were made to correct the deferred tax liability related to the recent acquisitions, resulting in corresponding adjustments to goodwill. This correction did not have a material impact on the results of operations or the financial position of the Company.

Income before income taxes for the years ended December 31, 2004, 2003 and 2002 consisted of:

	<b>Years Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
United States pretax income	<b>\$ 22,151,000</b>	\$ 24,253,000	\$ 2,962,000
Non-United States pretax income	<b>50,536,000</b>	43,002,000	35,898,000
	<b>\$ 72,687,000</b>	\$ 67,255,000	\$ 38,860,000

The provisions for income taxes for the years ended December 31, 2004, 2003 and 2002 are as follows:

	<b>Years Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Current United States federal taxes	<b>\$ 7,957,000</b>	\$ 383,000	\$ 312,000
United States state taxes	<b>1,468,000</b>	(522,000)	1,147,000
Non-United States taxes	<b>17,122,000</b>	11,013,000	10,318,000

Edgar Filing: QIAGEN NV - Form 20-F

	<b>26,547,000</b>	10,874,000	11,777,000
Deferred United States federal taxes	<b>(1,325,000)</b>	6,605,000	1,074,000
United States state taxes	<b>214,000</b>	1,515,000	(252,000)
Non-United States taxes	<b>(1,454,000)</b>	5,411,000	3,124,000
	<b>(2,565,000)</b>	13,531,000	3,946,000
Total provision for income taxes	<b>\$ 23,982,000</b>	\$ 24,405,000	\$ 15,723,000

F-24

**Table of Contents****QIAGEN N.V. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Differences between the provision for income taxes and income taxes at the United States statutory federal income tax rate for the years ended December 31, 2004, 2003 and 2002 are as follows:

	Years Ended December 31,					
	2004		2003		2002	
	Amount	Percent	Amount	Percent	Amount	Percent
Income taxes at United States statutory federal rate	\$ 25,440,000	35.0%	\$ 22,867,000	34.0%	\$ 13,213,000	34.0%
United States state income taxes, net of federal income tax effect	1,307,000	1.8	783,000	1.2	389,000	1.0
Non-United States taxes at rates greater than United States statutory federal rate	(1,534,000)	(2.1)	1,793,000	2.7	900,000	2.3
Benefit from facility closure			(1,985,000)	(3.0)		
Nondeductible goodwill amortization					446,000	1.2
Nondeductible purchased in- process research & development					336,000	0.9
Other items, net	(1,231,000)	(1.7)	947,000	1.4	439,000	1.1
<b>Total provision for income taxes</b>	<b>\$ 23,982,000</b>	<b>33.0%</b>	<b>\$ 24,405,000</b>	<b>36.3%</b>	<b>\$ 15,723,000</b>	<b>40.5%</b>

**13. Accrued Liabilities**

Accrued liabilities at December 31, 2004 and 2003 consist of the following:

	2004	2003
Royalties	\$ 6,754,000	\$ 8,760,000
Payroll and related accruals	9,734,000	7,420,000
Deferred revenue	5,881,000	4,122,000
Sales and other taxes	1,200,000	2,796,000
Professional and other fees	1,845,000	2,238,000
Relocation and restructuring costs	2,914,000	1,529,000
Warranty	1,229,000	1,247,000
Acquisition and related costs	4,007,000	
Accrued Interest on long-term debt, due to QIAGEN Finance	2,410,000	
Other	10,905,000	3,232,000

Total accrued liabilities	<u>\$ 46,879,000</u>	<u>\$ 31,344,000</u>
---------------------------	----------------------	----------------------

#### 14. Lines of Credit and Debt

The Company has six separate lines of credit amounting to \$12.1 million, with interest rates ranging from 4.61 percent to 6.75 percent, none of which was utilized at December 31, 2004. There were no short-term borrowings outstanding at December 31, 2004 and 2003. Interest expense on line of credit and short-term borrowings was \$9,000 and \$115,000 for the years ended December 31, 2003 and 2002, respectively.

**Table of Contents****QIAGEN N.V. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Long-term debt consists of the following:

	<u>2004</u>	<u>2003</u>
3.75% note due in semi-annual payments of EUR 639,000, repaid in 2004	\$	\$ 8,856,000
EUR 40.0 million note payable bearing interest at EURIBOR (2.13% and 2.10% at December 31, 2004 and 2003, respectively) plus 0.75%, payment of EUR 5.0 million (approximately \$6.8 million at December 31, 2004) due annually through June 2011	<b>54,152,000</b>	56,022,000
Note payable bearing interest at LIBOR plus 1.28%, repaid in 2004		43,475,000
Notes payable bearing interest at an effective rate of 1.95% due in one payment of \$150,000,000 in August 2011	<b>150,000,000</b>	
Total long-term debt	<b>204,152,000</b>	108,353,000
Less current portion	<b>6,769,000</b>	7,909,000
Long-term portion	<b>\$ 197,383,000</b>	\$ 100,444,000

The loan agreement related to the note payable of EUR 40.0 million contains certain financial and non-financial covenants, including but not limited to restrictions on the encumbrance of land, restrictions on the transfer of any patents to third parties and the maintenance of certain financial ratios. The Company was in compliance with these covenants at December 31, 2004.

In August 2004, the Company completed the sale of \$150.0 million principal amount of 1.50% convertible unsubordinated notes (Notes) due 2024, through its unconsolidated subsidiary QIAGEN Finance. The net proceeds of the Notes were loaned by QIAGEN Finance to consolidated subsidiaries in the U.S. and Switzerland. At December 31, 2004, \$150.0 million is included in long-term debt for the amount of Note proceeds payable to QIAGEN Finance. These long-term notes payable to QIAGEN Finance have an effective interest rate of 1.95% and are due in August 2011. Interest on the Notes is payable semi-annually in February and August. The Notes were issued at 100% of principal value, and are convertible into 11.9 million shares of common shares at the option of the holder upon the occurrence of certain events at a price of \$12.6449 per share, subject to adjustment. The Notes may be redeemed, in whole or in part, at QIAGEN's option on or after 7 years, at 100% of the principal amount provided the actual trading price of our common stock exceeds 120% of the conversion price for twenty consecutive trading days. In addition, the holders of the Notes may require QIAGEN to repurchase all or a portion of the 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 Notes at December 31, 2004 was approximately \$164.6 million. The Company has reserved the 11.9 million shares of common stock for issuance in the event of conversion.

Future principal maturities of long-term debt as of December 31, 2004 are as follows:

Year ending December 31,

Edgar Filing: QIAGEN NV - Form 20-F

---

2005	\$ 6,769,000
2006	6,769,000
2007	6,769,000
2008	6,769,000
2009	6,769,000
Thereafter	170,307,000
	<hr/>
	\$204,152,000
	<hr/>

Table of Contents

## QIAGEN N.V. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Interest expense, net of capitalized interest of approximately \$3.2 million in 2002, on long-term debt was \$3.8 million, \$3.1 million and \$1.7 million for the years ended December 31, 2004, 2003 and 2002, respectively.

**15. Stock Options**

On April 30, 1996, the Company adopted the QIAGEN N.V. 1996 Employee, Director and Consultant Stock Option Plan (the Option Plan). The Option Plan allows for incentive stock options, as well as for non-qualified options, generally with terms of up to 10 years, subject to earlier termination in certain situations. Generally, the options granted prior to October 2004 vest over a three-year period. During 2004 the Company accelerated the vesting of certain options, as discussed in Note 2. The vesting and exercisability of certain options will be accelerated in the event of a Change of Control, as defined in the Option Plan. The exercise price of the options is determined by the Supervisory Board or by the Compensation Committee, and to date all grants have been at the market value on the grant date or at a premium above the closing market price on the grant date. The Company has reserved approximately 18.6 million shares of common stock for issuance under this plan.

Information regarding the Option Plan as of December 31, 2002, 2003 and 2004, and changes during the years then ended is summarized as follows:

	<b>Option Shares</b>	<b>Weighted Average Exercise Price</b>
	<u>          </u>	<u>          </u>
December 31, 2001	8,231,657	\$ 16.28
Granted	4,468,457	\$ 9.65
Exercised	(538,114)	\$ 4.59
Forfeited	(903,220)	\$ 20.40
December 31, 2002	11,258,780	\$ 13.88
Granted	3,347,097	\$ 8.91
Exercised	(375,508)	\$ 5.64
Forfeited	(874,369)	\$ 7.53
December 31, 2003	13,356,000	\$ 12.62
Granted	2,193,500	\$ 11.43
Exercised	(802,689)	\$ 6.44
Forfeited	(1,699,072)	\$ 15.92
<b>December 31, 2004</b>	<b>13,047,739</b>	<b>\$ 12.36</b>





F-27

**Table of Contents****QIAGEN N.V. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

At December 31, 2004, 2003 and 2002, options were exercisable with respect to 9,479,455, 6,791,673 and 5,108,991 common shares at a weighted average price of \$13.39, \$14.83 and \$13.72 per share, respectively. The options outstanding at December 31, 2004 expire in various years through 2014. Information about stock options outstanding at December 31, 2004 is summarized as follows:

<u>Range of Exercise Prices</u>	<u>Number Outstanding at 12/31/04</u>	<u>Weighted Average Remaining Contract Life</u>	<u>Weighted Average Exercise Price</u>	<u>Number Exercisable at 12/31/04</u>	<u>Weighted Average Exercise Price</u>
\$ 1.06 - \$ 4.59	1,320,874	3.47 Years	\$ 2.86	1,178,318	\$ 2.65
\$ 4.88 - \$ 6.01	2,028,383	7.31 Years	\$ 5.67	1,132,212	\$ 5.57
\$ 6.02 - \$ 8.76	1,312,891	5.68 Years	\$ 7.71	1,064,807	\$ 7.86
\$ 8.77 - \$ 9.40	1,306,311	7.44 Years	\$ 8.99	1,075,562	\$ 8.93
\$ 9.85 - \$10.81	1,434,738	8.84 Years	\$ 10.36	389,279	\$ 10.48
\$10.94 - \$13.03	1,411,896	8.98 Years	\$ 12.16	1,000,846	\$ 12.13
\$13.10 - \$15.48	1,627,227	7.48 Years	\$ 14.74	1,072,085	\$ 14.80
\$16.75 - \$20.56	1,356,914	6.26 Years	\$ 19.25	1,317,841	\$ 19.25
\$20.80 - \$47.75	1,207,395	5.82 Years	\$ 33.12	1,207,395	\$ 33.12
\$49.75 - \$49.75	41,110	5.58 Years	\$ 49.75	41,110	\$ 49.75
<b>\$ 1.06 - \$49.75</b>	<b>13,047,739</b>	<b>6.89 Years</b>	<b>\$ 12.36</b>	<b>9,479,455</b>	<b>\$ 13.39</b>

**16. Commitments and Contingencies***Lease Commitments*

The Company leases facilities and equipment under operating lease arrangements expiring in various years through 2018. Certain facility and equipment leases constitute capital leases. The accompanying consolidated financial statements include the assets and liabilities arising from these capital lease obligations.

Minimum future obligations under capital and operating leases at December 31, 2004 are as follows:

<b>Capital Leases</b>	<b>Operating Leases</b>
-----------------------	-------------------------

Edgar Filing: QIAGEN NV - Form 20-F

2005	\$ 1,971,000	\$ 5,639,000
2006	1,674,000	3,002,000
2007	1,519,000	2,097,000
2008	1,519,000	1,326,000
2009	1,519,000	1,115,000
Thereafter	13,668,000	4,292,000
	<u>21,870,000</u>	<u>\$ 17,471,000</u>
Less: Amount representing interest	(6,932,000)	
	<u>14,938,000</u>	
Less: Current portion	(1,201,000)	
	<u>\$ 13,737,000</u>	

Rent expense under noncancelable operating lease agreements was \$7.5 million, \$6.5 million and \$7.9 million for the years ended December 31, 2004, 2003 and 2002, respectively.

**Table of Contents**

**QIAGEN N.V. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Purchase Commitments*

At December 31, 2004, the Company had commitments with several vendors to purchase certain products during 2005, 2006, 2007, 2008 and 2009 totaling approximately \$10.0 million, \$935,000, \$267,000, \$176,000 and \$176,000, respectively.

*Contingencies*

From time to time the Company may be party to legal proceedings incidental to its business. As of December 31, 2004 and 2003, certain claims, suits or complaints arising out of the normal course of business have been filed or were pending against the Company. Although it is not possible to predict the outcome of such litigation, based on the facts known to the Company and after consultation with legal counsel, management believes that such litigation will not have a material adverse effect on its financial position or results of operations.

In the ordinary course of business, the Company warrants to customers that its products are free of defect 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 customer or of site acceptance, if required. Additionally, the Company typically provides limited warranties with respect to its services. From time to time, the Company also makes other warranties to customers, including warranties that its products are manufactured in accordance with applicable laws and not in violation of third party rights. The Company provides for estimated warranty costs at the time of the product sale. The Company believes its warranty reserve as of December 31, 2004 appropriately reflects the estimated cost of such warranty obligations.

Pursuant to the purchase agreements for the acquisition of MSI, QIAGEN could be required to make additional contingent cash payments totaling up to \$6.75 million based on revenue milestones in 2004 and 2005. Any contingent payments will be accounted for as additions to the purchase price. As of December 31, 2004, the first milestone of \$3.75 million was achieved and was paid in February 2005.

**17. Employee Benefits**

In September 1992, QIAGEN, Inc. (Valencia) adopted the QIAGEN, Inc. Employees 401(k) Savings Plan (the Plan). The purpose of the Plan is to provide retirement benefits to all eligible employees, which include employees of QIAGEN, Inc., QIAGEN Sciences, Inc. and QIAGEN Genomics, Inc. Matching contributions and profit sharing contributions may be made to the Plan at the discretion of the Supervisory Board. In 2004, 2003 and 2002, total matching contributions to the Plan were approximately \$556,000, \$852,000 and \$293,000, respectively.

## Edgar Filing: QIAGEN NV - Form 20-F

QIAGEN Operon, a subsidiary in our synthetic DNA business unit which was sold during 2004, adopted a defined contribution plan effective January 1, 1994, benefiting substantially all QIAGEN Operon employees. QIAGEN Operon made matching contributions at the discretion of the Supervisory Board. In 2004, 2003 and 2002 matching contributions to the plan totaled approximately \$127,000, \$215,000 and \$272,000, respectively.

As of December 31, 2004, QIAGEN GmbH has a retirement plan for one employee. In 2003, this plan also covered one officer. The present value of the future compensation obligation of \$506,000 and \$416,000 has been accrued in the accompanying consolidated financial statements at December 31, 2004 and 2003, respectively.

During 2003, QIAGEN GmbH established a defined contribution plan for certain executives. The Company makes matching contributions up to an established maximum. In 2004 and 2003, matching contributions to the plan totaled approximately \$82,000 and \$48,000, respectively.

F-29

**Table of Contents****QIAGEN N.V. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

During 1999, QIAGEN KK established a retirement plan for one officer. The employee is entitled to a lump sum distribution based on a formula tied to years of service. As such, an amount of \$609,000, \$390,000 and \$295,000 has been accrued in the accompanying consolidated financial statements at December 31, 2004, 2003 and 2002, respectively.

**18. Licensing Agreements**

The Company has licensing agreements with companies, universities and individuals, some of which require certain up-front payments. Royalty payments are required on net product sales ranging from one to ten percent of covered products. Several of these agreements have minimum royalty requirements. The accompanying consolidated financial statements include accrued royalties relating to these agreements in the amount of \$6.8 million and \$8.8 million at December 31, 2004 and 2003, respectively. Royalty expense relating to these agreements amounted to \$20.9 million, \$17.4 million and \$13.3 million for the years ended December 31, 2004, 2003 and 2002, respectively. Royalty expense is primarily recorded in cost of sales, with a small portion recorded as research and development expense depending on the use of the technology under license. Some of these agreements also have minimum raw material purchase requirements and requirements to perform specific types of research.

**19. Related Party Transactions**

From time to time, the Company has transactions with companies in which the Company holds an interest all of which are individually and in sum immaterial except for certain transactions with the joint venture PreAnalytiX, Operon Biotechnologies, Inc. and QIAGEN Finance.

The Company has a 50% interest in a joint venture company, PreAnalytiX GmbH, which is accounted for under the equity method. To date, both joint venture partners have loaned equal amounts to the venture at a 4.0% interest rate. It is anticipated that both joint venture partners will convert the loan balances to additional capital at some future date. Amounts due to/from PreAnalytiX at year end are summarized as follows:

	<b>As of December 31,</b>	
	<b>2004</b>	<b>2003</b>
Loan receivable	\$ 5,192,000	\$ 4,524,000
Accounts receivable	\$ 5,869,000	\$ 828,000
Accounts payable	\$ 114,000	\$ 287,000

In 2004, the Company sold a significant portion of its synthetic DNA business unit to Operon Biotechnologies, Inc. (OBI) and agreed to provide certain transition services for a period of six months. The Company also has a Manufacturing and Supply Agreement with OBI, wherein

## Edgar Filing: QIAGEN NV - Form 20-F

QIAGEN granted to OBI an exclusive license to manufacture and supply certain RNA products to the Company. During the year, the Company also sold to OBI certain technology and licenses for \$5.9 million. As of December 31, 2004, the Company had a loan receivable from OBI of \$7.7 million, accounts receivable from OBI of \$905,000 and accounts payable to OBI of \$510,000.

The Company has a 100% interest in QIAGEN Finance (Luxembourg) S.A. (QIAGEN Finance), a company established for the purpose of issuing the Company's convertible debt. As discussed in Note 6, QIAGEN Finance is a variable interest entity with no primary beneficiary, thus is 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. As of December 31, 2004, the Company had a loan payable to QIAGEN Finance of \$150.0 million, amounts due to QIAGEN Finance of \$3.5 million, and accounts receivable from QIAGEN Finance of \$2.5 million.

**Table of Contents****QIAGEN N.V. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In 2004 QIAGEN entered into a consulting agreement with Dr. Metin Colpan, the Company's former Chief Executive Officer and current Supervisory Board member, pursuant to which Dr. Colpan shall be paid a fee of EUR 2,750 per day for consulting services. During 2004 the Company paid approximately \$509,000 to Dr. Colpan for scientific consulting services under this agreement.

**20. Segment and Related Information**

The Company operates exclusively in the life sciences industry generating revenue from the sale of products and services primarily for the separation and purification of nucleic acids (DNA/RNA). In addition, the Company markets synthetic nucleic acids (RNAi products) and sells and/or licenses technologies to others. Reportable segments are based on the geographic locations of the subsidiaries. The reportable segments derive revenues from all of the Company's product and service offerings. It is not practicable to provide a detail of revenues for each group of similar products and services offered by the Company.

The Company's reportable segments include the Company's production and manufacturing facilities in Germany, the United States, Switzerland and Norway, and distribution subsidiaries in the United States, Switzerland, Japan, the United Kingdom and Other Countries (consisting of the Company's subsidiaries in Canada, France, Australia, Italy and Austria). The Company's holding company and a sales subsidiary are located in the Netherlands.

The Company evaluates performance based on several factors, of which the primary financial measure is operating income. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 2 of the Notes to Consolidated Financial Statements.

Summarized financial information concerning the Company's reportable segments is shown in the following tables:

	2004	2003	2002
<b>Net Sales</b>			
Germany	\$ 163,841,000	\$ 153,143,000	\$ 136,334,000
United States	271,107,000	261,366,000	221,762,000
Switzerland	37,936,000	34,916,000	30,953,000
Japan	41,563,000	46,839,000	34,937,000
United Kingdom	31,511,000	24,651,000	19,252,000
Norway	100,000	1,974,000	1,859,000
Other Countries	55,857,000	46,172,000	27,871,000



Edgar Filing: QIAGEN NV - Form 20-F

Subtotal	<b>601,915,000</b>	569,061,000	472,968,000
Intersegment Elimination	<b>(221,286,000)</b>	(217,657,000)	(174,361,000)
Total	<b>\$ 380,629,000</b>	\$ 351,404,000	\$ 298,607,000

F-31

**Table of Contents****QIAGEN N.V. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Net sales are attributed to countries based on the location of the Company's subsidiary. During 2004, 2003 and 2002, no single customer represented more than ten percent of consolidated net sales. United States export sales did not exceed ten percent of consolidated net sales during fiscal 2004, 2003 or 2002.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Intersegment Sales</b>			
Germany	\$ (90,220,000)	\$ (82,639,000)	\$ (86,432,000)
United States	(103,740,000)	(106,980,000)	(65,754,000)
Switzerland	(24,592,000)	(19,676,000)	(20,454,000)
Japan	(2,596,000)	(6,293,000)	(60,000)
Norway	(68,000)	(1,811,000)	(1,471,000)
Other Countries	(70,000)	(258,000)	(190,000)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total	\$ (221,286,000)	\$ (217,657,000)	\$ (174,361,000)

All intersegment sales are accounted for by a formula based on local list prices and eliminated in consolidation.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Operating Income (Loss)</b>			
Germany	\$ 28,670,000	\$ 22,355,000	\$ 28,573,000
United States	36,473,000	32,641,000	4,802,000
Switzerland	1,492,000	(798,000)	269,000
Japan	8,206,000	8,432,000	7,090,000
United Kingdom	6,348,000	3,967,000	3,525,000
Norway	(2,577,000)	(2,623,000)	(2,874,000)
Other Countries	9,620,000	6,932,000	2,410,000
The Netherlands	(3,455,000)	(3,047,000)	(2,326,000)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Subtotal	84,777,000	67,859,000	41,469,000
Intersegment elimination	(637,000)	1,030,000	1,716,000
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total	\$ 84,140,000	\$ 68,889,000	\$ 43,185,000

The Netherlands component of operating income (loss) is primarily general and administrative expenses. The intersegment elimination represents the elimination of intercompany profit.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Depreciation and Amortization</b>			
Germany	<b>\$ 11,331,000</b>	\$ 12,158,000	\$ 11,037,000
United States	<b>7,506,000</b>	9,719,000	10,817,000
Switzerland	<b>1,680,000</b>	1,524,000	995,000
Japan	<b>393,000</b>	592,000	707,000
United Kingdom	<b>271,000</b>	242,000	91,000
Norway	<b>702,000</b>	767,000	412,000
Other Countries	<b>398,000</b>	398,000	278,000
The Netherlands	<b>680,000</b>	388,000	372,000
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total	<b>\$ 22,961,000</b>	\$ 25,788,000	\$ 24,709,000
	<u>                    </u>	<u>                    </u>	<u>                    </u>

F-32

**Table of Contents****QIAGEN N.V. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
Germany	\$ 274,158,000	\$ 292,107,000
United States	229,720,000	157,117,000
Switzerland	82,767,000	41,879,000
Japan	27,098,000	36,393,000
United Kingdom	13,023,000	10,929,000
Norway	41,373,000	38,279,000
Other Countries	29,340,000	20,713,000
The Netherlands	257,935,000	180,046,000
	<u>955,414,000</u>	<u>777,463,000</u>
Subtotal	955,414,000	777,463,000
Intersegment Elimination	(240,815,000)	(225,533,000)
	<u>714,599,000</u>	<u>551,930,000</u>
Total	\$ 714,599,000	\$ 551,930,000

Assets of The Netherlands include cash and cash equivalents, investments, prepaid assets and certain intangibles. The intersegment elimination represents intercompany investments and advances.

At December 31, 2004 and 2003, for Switzerland, the net investment in equity method investees was negative totaling \$7.0 million and \$4.8 million, respectively. The Netherlands had a net investment in equity method investees of \$747,000 as of December 31, 2004.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Capital Expenditures</b>			
Germany	\$ 8,048,000	\$ 6,816,000	\$ 35,506,000
United States	2,580,000	8,374,000	17,944,000
Switzerland	1,040,000	1,356,000	1,967,000
Japan	192,000	548,000	3,131,000
United Kingdom	84,000	1,496,000	97,000
Norway	10,000	102,000	239,000
Other Countries	639,000	518,000	252,000
The Netherlands	28,000	348,000	
	<u>12,621,000</u>	<u>19,558,000</u>	<u>59,136,000</u>
Total	\$ 12,621,000	\$ 19,558,000	\$ 59,136,000

Edgar Filing: QIAGEN NV - Form 20-F

	<u>2004</u>	<u>2003</u>
<b>Long-Lived Assets</b>		
Germany	<b>\$ 174,374,000</b>	\$ 137,542,000
United States	<b>93,242,000</b>	96,954,000
Switzerland	<b>9,719,000</b>	8,553,000
Japan	<b>2,384,000</b>	5,263,000
United Kingdom	<b>1,226,000</b>	1,428,000
Norway	<b>32,581,000</b>	29,084,000
Other Countries	<b>1,166,000</b>	1,433,000
The Netherlands	<b>9,709,000</b>	8,208,000
	<u>                    </u>	<u>                    </u>
<b>Total</b>	<b>\$ 324,401,000</b>	\$ 288,465,000
	<u>                    </u>	<u>                    </u>

F-33

Table of Contents

## SCHEDULE II

## QIAGEN N.V. AND SUBSIDIARIES

## SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

## FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	<u>Balance at Beginning of Year</u>	<u>Foreign Exchange and Other</u>	<u>Provision Charged to Expense</u>	<u>Write-Offs</u>	<u>Balance at End of Year</u>
Year Ended December 31, 2002:					
Allowance for doubtful accounts	\$ 2,048,000	\$ 14,000	\$ 631,000	\$ (253,000)	\$ 2,440,000
Year Ended December 31, 2003:					
Allowance for doubtful accounts	\$ 2,440,000	\$ 206,000	\$ 1,700,000	\$ (1,300,000)	\$ 3,046,000
Year Ended December 31, 2004:					
Allowance for doubtful accounts	\$ 3,046,000	\$ (144,000)	\$ 128,000	\$ (383,000)	\$ 2,647,000

S-1

**Table of Contents**

**QIAGEN N.V.**

**Exhibit Index**

1.1	Articles of Association as confirmed by notarial deed as of July 6, 2000 (English translation) (1)
*2.1	Credit Contract for a Club Deal between QIAGEN GmbH, Deutsche Bank AG, Stadtparkasse Dusseldorf, and IKB Deutsche Industriebank AG, dated July 12, 2004 (English Translation)
*2.2	Declaration by QIAGEN N.V. to Deutsche Bank Aktiengesellschaft dated July 12, 2004
*2.3	Indenture between QIAGEN Finance (Luxembourg) S.A., QIAGEN N.V., Deutsche Trustee Company Limited, Deutsche Bank AG and Deutsche Bank Luxembourg S.A. dated August 18, 2004
*2.4	Agreement In Connection With The Delivery Of Ordinary Shares In The Share Capital Of QIAGEN N.V. Pursuant To Convertible Notes Due 2024 Issued By QIAGEN Finance (Luxembourg) S.A. dated August 18, 2004
4.1	Lease between QIAGEN GmbH and Brixton Estate Deutschland GmbH dated March 14, 1997 (the Albert-Einstein-Str. Lease (Filed as Exhibit 10.1(a)) (2)
4.2	The Albert-Einstein-Str. Lease Contract Summary (Filed as Exhibit 10.1(b)) (2)
4.3	Master Agreement among Becton, Dickinson and Company, Becton Dickinson Sample Collection GmbH, QIAGEN AG, and QIAGEN N.V., dated August 5, 1999 (Filed as Exhibit 10.1) (3)
4.4	Lease Between QIAGEN GmbH and Gisantus Grundstücksverwaltungsgesellschaft mbH, dated January 13, 1997 (the Max-Volmer-Strasse 4 Lease ) (Filed as Exhibit 10.3) (3)
4.5	The Max-Volmer-Strasse 4 Lease Summary (Filed as Exhibit 10.3(a)) (3)
4.7	Employment Agreement by and between DIAGEN Institute for Molecular Biological Diagnostics GmbH. and Mr. Peer M. Schatz, dated February 24, 1993 (English Translation) (Filed as Exhibit 4.11) (4)
4.8	Employment Agreement by and between QIAGEN AG and Peer M. Schatz, dated May 29, 1998 (English Translation) (Filed as Exhibit 4.12) (4)
4.9	Employment Agreement between QIAGEN N.V. and Peer M. Schatz, dated October 5, 2000 (Filed as Exhibit 4.14) (4)
4.10	Change in Control Agreement between QIAGEN N.V. and Peer M. Schatz, as of September 30, 2002 (Filed as Exhibit 4.18) (4)
4.11	Letter between QIAGEN GmbH and Peer M. Schatz Regarding Addition of a Change in Control Provision, as of September 30, 2002 (English Translation) (Filed as Exhibit 4.20) (4)
4.12	Employment Agreement by and between QIAGEN GmbH and Dr. Joachim Schorr, dated July 1, 1992 (English Translation) (Filed as Exhibit 4.21) (5)
4.13	Supplement to Employment Agreement by and between QIAGEN GmbH and Dr. Joachim Schorr, dated June 22, 1999 (English Translation) (Filed as Exhibit 4.22) (5)
*4.14	Letter between QIAGEN GmbH and Dr. Joachim Schorr, Regarding Addition of a Change in Control Provision, dated March 24, 2003 (English Translation)
*4.15	Letter between QIAGEN GmbH and Dr. Joachim Schorr, Regarding Clarification of Change in Control Provision, dated October 9, 2003 (English Translation)
4.16	Employment Agreement by and between QIAGEN GmbH and Bernd Uder, dated March 1, 2001 (English Translation) (Filed as Exhibit 4.25) (5)
*4.17	Letter between QIAGEN GmbH and Bernd Uder, Regarding Addition of a Change in Control Provision, dated October 9, 2003 (English Translation)
*4.18	Letter between QIAGEN GmbH and Bernd Uder, Regarding Clarification of Change in Control Provision, dated October 9, 2003 (English Translation)

---

**Table of Contents**

\*4.19 Employment Agreement by and between QIAGEN GmbH and Roland Sackers, dated January 1, 2004 (English Translation)

\*4.20 Employment Agreement by and between QIAGEN North American Holdings, Inc. and Roland Sackers, dated January 5, 2004

\*4.21 Change in Control Agreement between QIAGEN North American Holdings, Inc. and Roland Sackers, as of September 30, 2003

\*4.22 Employment Agreement by and between QIAGEN N.V. and Roland Sackers, dated August 5, 2004

\*4.23 Consultancy Agreement between QIAGEN GmbH and Dr. Metin Colpan dated December 4, 2003

\*4.24 Letter between QIAGEN GmbH and Peer M. Schatz, Regarding Clarification of Change in Control Provision, dated October 9, 2003 (English Translation)

4.25 QIAGEN N.V. 1996 Employee, Director and Consultant Stock Option Plan (filed as exhibit 10.3) (6)

\*8.1 List of Subsidiaries

\*12.1 Certifications under Section 302; Peer M. Schatz, Managing Director and Chief Executive Officer

\*12.2 Certifications under Section 302; Roland Sackers, Deputy Managing Director and Chief Financial Officer

\*13.1 Certifications under Section 906; Peer M. Schatz, Managing Director and Chief Executive Officer and Roland Sackers, Deputy Managing Director and Chief Financial Officer

\*15.1 Consent of Ernst & Young LLP

---

\* Included in this filing

- (1) Incorporated by reference to Form 20-F Annual Report of QIAGEN N.V. filed with the Securities and Exchange Commission on March 31, 2002.
- (2) Incorporated by reference to Form 20-F Annual Report of QIAGEN N.V. filed with the Securities and Exchange Commission on May 21, 1998.
- (3) Incorporated by reference to Form 20-F Annual Report of QIAGEN N.V. filed with the Securities and Exchange Commission on March 31, 2000.
- (4) Incorporated by reference to Form 20-F Annual Report of QIAGEN N.V. filed with the Securities and Exchange Commission on March 31, 2003.
- (5) Incorporated by reference to Form 20-F Annual Report of QIAGEN N.V. filed with the Securities and Exchange Commission on March 26, 2004
- (6) Incorporated by reference to Registration Statement of QIAGEN N.V. on Form S-8 filed with the Securities and Exchange Commission on July 30, 2003.