QIAGEN NV
Form 6-K
May 07, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
Commission File Number 001-38332

QIAGEN N.V.

Hulsterweg 82
5912 PL Venlo
The Netherlands

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:
Form 20-F x Form 40-F o
Indicate by check mark whether the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): o
Indicate by check mark whether the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): o

Table of Contents

QIAGEN N.V.
Form 6-K
TABLE OF CONTENTS

OTHER INFORMATION

For the three-month period ended March 31, 2018, QIAGEN N.V. prepared its quarterly report under United States generally accepted accounting principles (U.S. GAAP). This quarterly report is furnished herewith as Exhibit 99.1 and incorporated by reference herein.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

QIAGEN N.V.

BY:	/s/ Roland Sackers
	Roland Sackers
	Chief Financial Officer
Date:	May 4, 2018

Table of Contents

EXHIBIT INDEX

Exhibit No.	Exhibit
99.1	U.S. GAAP Quarterly Report for the Period Ended March 31, 2018

Table of Contents

Exhibit 99.1
QIAGEN N.V. AND SUBSIDIARIES
U.S. GAAP QUARTERLY REPORT FOR THE PERIOD ENDED MARCH 31, 2018
TABLE OF CONTENTS

Financial Information

Condensed Consolidated Financial Statements

Table of Contents

QIAGEN N.V. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	Note	March 31, 2018 (unaudited)	December 31, 2017
Assets			
Current assets:			
Cash and cash equivalents		$814,923	$ 657,714
Short-term investments		199,269	359,198
Accounts receivable, net of allowance for doubtful accounts of $8,484 and $8,008 in 2018 and 2017, respectively		331,851	329,138
Income taxes receivable		45,906	39,509
Inventories, net	(11)	160,195	155,927
Prepaid expenses and other current assets		192,627	106,487
Total current assets		1,744,771	1,647,973
Long-term assets:			
Property, plant and equipment, net of accumulated depreciation of $593,036 and $564,588 in 2018 and 2017, respectively		503,937	494,321
Goodwill	(6)	2,020,174	2,012,904
Intangible assets, net of accumulated amortization of $1,157,956 and $1,117,423 in 2018 and 2017, respectively	(6)	499,919	499,318
Deferred income taxes		42,184	39,353
Other long-term assets (of which $9,940 and $17,713 in 2018 and 2017 due from related parties, respectively)	(5, 7)	294,371	344,647
Total long-term assets		3,360,585	3,390,543
Total assets		$5,105,356	$ 5,038,516

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

2

Table of Contents

QIAGEN N.V. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except par value)

	Note	March 31, 2018 (unaudited)	December 31, 2017
Liabilities and equity			
Current liabilities:			
Current portion of long-term debt	(9)	$417,907	$—
Accrued and other current liabilities (of which $6,198 and $9,028 in 2018 and 2017 due to related parties, respectively)		327,967	244,114
Accounts payable		46,501	59,205
Income taxes payable		22,979	21,473
Total current liabilities		815,354	324,792
Long-term liabilities:			
Long-term debt	(9)	1,354,072	1,758,258
Deferred income taxes		76,547	76,727
Other long-term liabilities (of which $3,075 in 2017 due to related parties)	(7)	278,843	337,743
Total long-term liabilities		1,709,462	2,172,728
Commitments and contingencies	(15)		
Equity:			
Preference shares, 0.01 EUR par value, authorized—450,000 shares, no shares issued and outstanding		—	—
Financing preference shares, 0.01 EUR par value, authorized—40,000 shares, no shares issued and outstanding		—	—
Common Shares, 0.01 EUR par value, authorized—410,000 shares, issued—230,829 shares in 2018 and in 2017	(12)	2,702	2,702
Additional paid-in capital	(12)	1,640,201	1,630,095
Retained earnings		1,243,503	1,247,945
Accumulated other comprehensive loss	(12)	(205,564)	(220,759)
Less treasury shares at cost— 3,504 and 4,272 shares in 2018 and in 2017, respectively	(12)	(100,302)	(118,987)
Total equity		2,580,540	2,540,996
Total liabilities and equity		$5,105,356	$5,038,516

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

Table of Contents

QIAGEN N.V. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share data)

	Three months ended March 31,	
	2018	2017
	(unaudited)	
Net sales	$343,568	$307,706
Cost of sales	117,894	111,861
Gross profit	225,674	195,845
Operating expenses:		
Research and development	39,522	36,939
Sales and marketing	96,079	91,460
General and administrative, restructuring, integration and other	31,951	34,017
Acquisition-related intangible amortization	10,180	9,678
Total operating expenses	177,732	172,094
Income from operations	47,942	23,751
Other income (expense):		
Interest income	4,674	1,910
Interest expense	(15,020)	(10,161)
Other income, net	1,547	983
Total other expense, net	(8,799)	(7,268)
Income before income taxes	39,143	16,483
Income taxes	6,848	(1,168)
Net income	$32,295	$17,651
Basic earnings per common share	$0.14	$0.08
Diluted earnings per common share	$0.14	$0.08
Weighted-average shares outstanding		
Basic	226,920	229,972
Diluted	232,533	234,881

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

Table of Contents

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

		Three months ended March 31, 2018	2017
		(unaudited)	
Net income		$32,295	$17,651
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Gains (losses) on cash flow hedges, before tax	(7)	(11,795)	10
Reclassification adjustments on cash flow hedges, before tax	(7)	5,904	2,700
Cash flow hedges, before tax		(5,891)	2,710
Net investment hedge	(7)	(8,364)	—
Gains on marketable securities, before tax		—	3,676
Foreign currency translation adjustments, before tax		26,969	34,342
Other comprehensive income, before tax		12,714	40,728
Income tax relating to components of other comprehensive income		1,538	(2,085)
Total other comprehensive income, after tax		14,252	38,643
Comprehensive income		$46,547	$56,294

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

Table of Contents

QIAGEN N.V. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in thousands)

(unaudited)	Note	Common Shares Shares	Common Shares Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Shares Shares	Treasury Shares Amount	Total Equity
BALANCE AT DECEMBER 31, 2017		230,829	$2,702	$1,630,095	$1,247,945	$(220,759)	(4,272)	$(118,987)	$2,540,996
Balance at January 1, 2018, as previously reported		230,829	$2,702	$1,630,095	$1,247,945	$(220,759)	(4,272)	$(118,987)	$2,540,996
ASU 2016-01 impact of change in accounting policy	(2)	—	—	—	(942)	942	—	—	—
ASU 2016-16 impact of change in accounting policy	(2)	—	—	—	(16,096)	—	—	—	(16,096)
ASC 606 impact of change in accounting policy	(2)	—	—	—	(1,306)	—	—	—	(1,306)
Adjusted balance at January 1, 2018		230,829	$2,702	$1,630,095	$1,229,601	$(219,817)	(4,272)	$(118,987)	$2,523,594
Net income		—	—	—	32,295	—	—	—	32,295
Unrealized loss, net on hedging contracts	(7)	—	—	—	—	(17,210)	—	—	(17,210)
Realized loss, net on hedging contracts	(7)	—	—	—	—	4,428	—	—	4,428
Translation adjustment, net	(12)	—	—	—	—	27,035	—	—	27,035
Purchase of treasury shares	(12)	—	—	—	—	—	—	—	—
Issuance of common shares in connection with stock plan		—	—	—	(18,393)	—	768	18,685	292

Share-based compensation	(16)	—	—	10,106	—	—	—	—	10,106
BALANCE AT MARCH 31, 2018		230,829	$2,702	$1,640,201	$1,243,503	$(205,564)	(3,504)	$(100,302)	$2,580,540
BALANCE AT DECEMBER 31, 2016		239,707	$2,812	$1,794,665	$1,263,464	$(333,839)	(5,147)	$(120,006)	$2,607,096
Net income		—	—	—	17,651	—	—	—	17,651
Capital repayment	(12)	(8,878)	(110)	(244,267)	—	—	191	—	(244,377)
Unrealized gain, net on hedging contracts		—	—	—	—	7	—	—	7
Realized loss, net on hedging contracts		—	—	—	—	2,026	—	—	2,026
Unrealized gain, net on marketable securities		—	—	—	—	2,226	—	—	2,226
Translation adjustment, net		—	—	—	—	34,384	—	—	34,384
Issuance of common shares in connection with stock plan		—	—	—	(40,631)	—	1,786	42,517	1,886
Share-based compensation		—	—	8,905	—	—	—	—	8,905
BALANCE AT MARCH 31, 2017		230,829	$2,702	$1,559,303	$1,240,484	$(295,196)	(3,170)	$(77,489)	$2,429,804

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

Table of Contents

QIAGEN N.V. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Note	Three months ended March 31, 2018	2017
		(unaudited)	
Cash flows from operating activities:			
Net income		$32,295	$17,651
Adjustments to reconcile net income to net cash provided by operating activities, net of effects of businesses acquired:			
Depreciation and amortization		52,914	54,753
Amortization of debt discount and issuance costs		8,448	5,196
Share-based compensation expense	(16)	10,106	8,905
Deferred income taxes		(1,308)	1,306
(Gain) loss on marketable securities		(3,030)	1,055
Other items, net including fair value changes in derivatives		1,722	(3,998)
Net changes in operating assets and liabilities:			
Accounts receivable		(269)	34,280
Inventories		(5,123)	(8,778)
Prepaid expenses and other current assets		11,191	(3,537)
Other long-term assets		(29,925)	(2,767)
Accounts payable		(17,492)	(9,328)
Accrued and other current liabilities		(5,401)	(23,013)
Income taxes		(4,405)	(11,241)
Other long-term liabilities		(1,508)	(327)
Net cash provided by operating activities		48,215	60,157
Cash flows from investing activities:			
Purchases of property, plant and equipment		(18,898)	(15,977)
Proceeds from sale of equipment		—	48
Purchases of intangible assets	(6)	(15,200)	(8,429)
Purchases of investments		(3,091)	(3,991)
Cash paid for acquisitions, net of cash acquired		—	(49,678)
Purchases of short-term investments		(84,590)	—
Proceeds from redemptions of short-term investments		246,668	65,234
Cash (paid) received for collateral asset		(13,690)	1,200
Other investing activities		(2,671)	—
Net cash provided by (used in) investing activities		108,528	(11,593)
Cash flows from financing activities:			
Capital repayment	(12)	—	(243,945)
Principal payments on capital leases		(349)	(357)
Proceeds from issuance of common shares		292	1,886
Other financing activities	(8)	(2,136)	(2,035)
Net cash used in financing activities		(2,193)	(244,451)
Effect of exchange rate changes on cash and cash equivalents		2,659	2,153
Net increase (decrease) in cash and cash equivalents		157,209	(193,734)
Cash and cash equivalents, beginning of period		657,714	439,180
Cash and cash equivalents, end of period		$814,923	$245,446

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

Table of Contents

QIAGEN N.V. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Corporate Information

QIAGEN N.V. is a public limited liability company ('naamloze vennootschap') under Dutch law with a registered office at Hulsterweg 82, 5912 PL Venlo, The Netherlands. QIAGEN N.V., a Netherlands holding company, and subsidiaries (we, our or the Company) is a leading global provider of Sample to Insight solutions to transform biological materials into valuable molecular insights. Our sample technologies isolate and process DNA, RNA and proteins from blood, tissue and other materials. Assay technologies make these biomolecules visible and ready for analysis. Bioinformatics software and knowledge bases interpret data to report relevant, actionable insights. Automation solutions tie these together in seamless and cost-effective molecular testing workflows. We provide these workflows to four major customer classes: Molecular Diagnostics (human healthcare), Applied Testing (forensics, veterinary testing and food safety), Pharma (pharmaceutical and biotechnology companies) and Academia (life sciences research). We market our products in more than 130 countries.

2. Basis of Presentation and Accounting Policies

Basis of Presentation

The condensed consolidated financial statements include the accounts of QIAGEN N.V., its wholly-owned subsidiaries and any partially owned subsidiaries that the Company has the ability to control. All significant intercompany accounts and transactions have been eliminated in consolidation. All amounts are presented in U.S. dollars, unless otherwise indicated. Investments in companies where we exercise significant influence over the operations but do not have control, and where we are not the primary beneficiary, are accounted for using the equity method. We account for all other investments in nonmarketable equity securities in which we are not able to exercise significant influence, our cost-method investments, at our initial cost, minus any impairment, plus or minus changes from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. When there is a portion of equity in an acquired subsidiary not attributable, directly or indirectly, to the Company, we record the fair value of the noncontrolling interests at the acquisition date and classify the amounts attributable to noncontrolling interests separately in equity in the condensed consolidated financial statements. Any subsequent changes in the Company's ownership interest while the Company retains its controlling financial interest in its subsidiary are accounted for as equity transactions.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and generally in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the Securities and Exchange Commission (SEC) rules and regulations. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary for a fair presentation have been included.

On January 6, 2017, we acquired OmicSoft Corporation, located in Cary, North Carolina (U.S.). Accordingly, at the acquisition date, all the assets acquired and liabilities assumed were recorded at their respective fair values and our consolidated results of operations include the operating results from the acquired companies from the acquisition dates.

We operate as one operating segment in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 280, Segment Reporting. We have a common basis of organization and our products and services are offered globally. Our chief operating decision maker (CODM) makes decisions based on the Company as a whole. Accordingly, we operate and make decisions as one reporting unit.

The results of operations for an interim period are not necessarily indicative of results that may be expected for any other interim period or for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual

Report on Form 20-F for the year ended December 31, 2017.

Summary of Significant Accounting Policies

The interim condensed consolidated financial statements were prepared based on the same accounting policies as those applied and described in the consolidated financial statements as of December 31, 2017 except for the changes described below in connection with the adoption of new standards and interpretations as of January 1, 2018.

Adoption of New Accounting Standards

The following new FASB Accounting Standards Updates (ASU) were effective for the first quarter of 2018:

Table of Contents

ASU 2014-09, Revenue from Contracts with Customers (Topic 606) affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). In August 2015, the FASB issued Accounting Standards Update No. 2015-14 (ASU 2015-14), Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date which defers the effective date of ASU 2014-09 to interim and annual reporting periods beginning after December 15, 2017. The FASB has continued to issue accounting standards updates to clarify and provide implementation guidance related to Revenue from Contracts with Customers, including ASU 2016-08 Revenue from Contract with Customers: Principal versus Agent Considerations, ASU 2016-10 Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing, and ASU 2016-12 Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients.

We adopted this standard on its effective date, January 1, 2018, using the modified retrospective method, by recognizing the cumulative effect of initially applying Topic 606 to incomplete contracts as a $1.3 million adjustment to the opening balance of equity at January 1, 2018. The details of the changes and quantitative impact are discussed in Note 13.

ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities will impact certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The new guidance makes targeted improvements to existing U.S. GAAP by:

- requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income;
- requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes;
- requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements;
- eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; and
- requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as “own credit”) when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.

The amendments became effective for our financial statements beginning in the first quarter of 2018 and require adoption using a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. Accordingly, upon adoption, we recorded a cumulative effect adjustment to decrease opening retained earnings at January 1, 2018 by $0.9 million as required for our equity investments recorded at fair value. The implementation of the amendments is expected to increase the volatility of net income as gains or losses in future periods will be recognized in net income; however, the extent of any volatility will be dependent upon the significance of the equity investments. In February 2018, the FASB issued ASU No. 2018-03,Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10), which clarified certain aspects of the previously issued ASU 2016-01.

ASU No. 2016-15, Statement of Cash Flows (Topic 320): Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force), addresses eight classification issues related to the statement of cash flows:

- debt prepayment or debt extinguishment costs;
- settlement of zero-coupon bonds;
- contingent consideration payments made after a business combination;
- proceeds from the settlement of insurance claims;
- proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies;

- distributions received from equity method investees;
- beneficial interests in securitization transactions; and
- separately identifiable cash flows and application of the predominance principle.

We adopted ASU 2016-15 on January 1, 2018 without any impact from the adoption on our condensed consolidated financial statements.

ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory, aims to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. This amendment requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. We adopted ASU 2016-16 on a modified retrospective basis resulting in a cumulative-effect reclassification of $16.1 million for unrecognized income tax effects related to intra-entity transfers of fixed assets and intellectual property rights that occurred prior to adoption from other current and non-current assets to opening retained earnings as of January 1, 2018.

Table of Contents

ASU 2016-18, Statement of Cash Flows (Topic 320): Restricted Cash, requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. We adopted ASU 2016-18 on January 1, 2018 using a retrospective transition method to each period presented. There is no impact from the adoption of ASU 2016-18 on our condensed consolidated financial statements as of March 31, 2018.

ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, clarifies and provides a more robust framework to use in determining when a set of assets and activities is a business. The amendments in this update should be applied prospectively on or after the effective date. We adopted this update beginning January 1, 2018 without impact.

ASU 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting, clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The guidance is effective prospectively and we adopted ASU 2017-09 as of January 1, 2018.

New Accounting Standards Not Yet Adopted

The following new FASB Accounting Standards Updates, which are not yet adopted, have been grouped by their required effective dates:

First Quarter of 2019

ASU 2016-02, Leases (Topic 842) aims to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 will become effective for us beginning in the first quarter of 2019 and requires modified retrospective application for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. We do not plan to early adopt this standard and we anticipate that the adoption of this standard will require changes to our systems and processes. We expect this standard to increase total assets and total liabilities, however, we are currently evaluating the potential size of the impact that ASU 2016-02 may have on our consolidated financial statements.

ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, will make more financial and nonfinancial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. It is intended to more closely align hedge accounting with companies’ risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. The new guidance will become effective for us beginning on January 1, 2019 by applying a modified retrospective approach to existing hedging relationship as of the adoption date. Under the modified retrospective approach, entities with cash flow or net investment hedges will make (1) a cumulative-effect adjustment to accumulated other comprehensive income so that the adjusted amount represents the cumulative change in the hedging instruments’ fair value since hedge inception (less any amounts that should have been recognized in earnings under the new accounting model) and (2) a corresponding adjustment to opening retained earnings as of the most recent period presented on the date of adoption. We are currently evaluating the potential impact ASU 2017-12 may have on our consolidated financial statements.

First Quarter of 2020

ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. provides financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in ASU 2016-13 replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The new guidance will become effective for us by applying the standard's provisions as a cumulative-effect adjustment to retained earnings beginning on January 1, 2020. We are currently evaluating the potential impact ASU 2016-13 may have on our consolidated financial statements.

ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, removes Step 2 of the goodwill impairment test. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for us for annual periods beginning January 1, 2020 and early adoption is permitted. The new guidance is required to be applied on a prospective basis. We are currently evaluating the impact the adoption of this new standard will have on our financial position and results of operations.

3. Acquisitions

Acquisitions have been accounted for as business combinations, and the acquired companies' results have been included in the accompanying condensed consolidated statements of income from their respective dates of acquisition. Our acquisitions have

Table of Contents

historically been made at prices above the fair value of the acquired net assets, resulting in goodwill, due to expectations of synergies of combining the businesses. These synergies include use of our existing infrastructure, such as sales force, shared service centers, distribution channels and customer relations; to expand sales of an acquired business' products; use of the infrastructure of the acquired businesses to cost-effectively expand sales of our products; and elimination of duplicative facilities, functions and staffing.

2017 Acquisition

On January 6, 2017, we acquired OmicSoft Corporation, a leading provider of omics data management solutions located in Cary, North Carolina (U.S.). This acquisition was not significant to the overall consolidated financial statements and as of December 31, 2017, the allocation of the purchase price was final. The acquisition did not have a material impact to net sales, net income or earnings per share and therefore no pro forma information has been provided herein.

4. Restructuring

2017 Restructuring

During the fourth quarter of 2017, we initiated restructuring initiatives to mitigate the negative impacts stemming from the U.S. tax reform as further discussed in Note 10. Total pre-tax costs are expected to be between $23 million and $25 million, of which $16 million was incurred through March 31, 2018. Future pre-tax costs between $7 million to $9 million are expected to be incurred in the remainder of 2018 primarily related to personnel and other costs.

Since 2017, we have incurred costs related to this restructuring program that have been recorded as follows:

(in thousands)	Personnel Related	Contract and Other Costs	Inventory Write-offs	Total
Cost of sales	$ —	$ —	$ 3,039	$ 3,039
General and administrative, restructuring, integration and other	6,174	4,583	—	10,757
Total 2017 costs	6,174	4,583	3,039	13,796
Cost of sales	340	—	—	340
General and administrative, restructuring, integration and other	1,016	757	—	1,773
Total 2018 costs	1,356	757	—	2,113
Total cumulative costs	$ 7,530	$ 5,340	$ 3,039	$ 15,909

The following table summarizes the cash components of the restructuring activity.

(in thousands)	Personnel Related	Contract and Other Costs	Total
Costs incurred in 2017	$ 6,174	$ 4,583	$ 10,757
Foreign currency translation adjustment	48	2	50
Liability at December 31, 2017	6,222	4,585	10,807
Additional costs in 2018	1,402	757	2,159
Release of excess accrual	(46)	—	(46)
Payments	(1,422)	(4,073)	(5,495)
Foreign currency translation adjustment	105	85	190
Liability at March 31, 2018	$ 6,261	$ 1,354	$ 7,615

As of March 31, 2018 and December 31, 2017, liabilities of $7.6 million and $10.8 million, respectively, are included in accrued and other current liabilities in the accompanying condensed consolidated balance sheets.

2016 Restructuring

During the fourth quarter of 2016, we initiated a series of targeted actions to support faster sales momentum and improve efficiency and accountability. The objective with these actions is to ensure that we grow sustainably and consistently in the coming years. Measures include simplifying our geographic presence with site reductions, focusing resources to shared service centers, and streamlining selected organizational structures. No additional costs will be incurred related to this program. Cumulative costs for this program are as follows:

Table of Contents

(in thousands)	Personnel Related	Facility Related	Contract and Other Costs	Asset Impairments & Disposals	Total
Cost of sales	$1,222	$205	$43	$ 10,490	$11,960
General and administrative, restructuring, integration and other	17,998	6,960	8,272	22,963	56,193
Other expense, net	—	—	—	10,946	10,946
Total 2016 costs	19,220	7,165	8,315	44,399	79,099
Cost of sales	1,141	—	238	—	1,379
General and administrative, restructuring, integration and other	8,399	350	9,612	—	18,361
Total 2017 costs	9,540	350	9,850	—	19,740
General and administrative, restructuring, integration and other	(58)	(838)	(90)	—	(986)
Total 2018 costs	(58)	(838)	(90)	—	(986)
Total cumulative costs	$28,702	$6,677	$18,075	$ 44,399	$97,853

Personnel Related expenses during 2017 and 2016 include reductions in costs of $0.7 million and $2.0 million, respectively, as a result of forfeitures of share-based compensation in connection with terminations. During the year ended December 31, 2016, Asset Impairments and Disposals include $21.4 million for intangible asset impairments, $10.9 million for fixed asset abandonments, and $1.1 million primarily in connection with the write-off of prepaid contract costs. The total $10.9 million of expense included in other expense, net is composed of $8.3 million associated with an impairment of an equity method investment and a disposal of goodwill of $2.6 million.

The following table summarizes the cash components of the restructuring activity.

(in thousands)	Personnel Related	Facility Related	Contract and Other Costs	Total
Liability at December 31, 2016	$18,480	$7,882	$5,943	$32,305
Additional costs in 2017	13,357	1,798	9,883	25,038
Release of excess accrual	(3,083)	(1,448)	(30)	(4,561)
Payments	(25,586)	(7,478)	(14,887)	(47,951)
Facility deferred rent reclassified to restructuring liability	—	241	—	241
Foreign currency translation adjustment	1,126	57	157	1,340
Liability at December 31, 2017	4,294	1,052	1,066	6,412
Release of excess accrual	(58)	(838)	(90)	(986)
Payments	(1,129)	(214)	(88)	(1,431)
Foreign currency translation adjustment	71	—	—	71
Liability at March 31, 2018	$3,178	$—	$888	$4,066

At March 31, 2018, $4.1 million of the liability is included in accrued and other current liabilities in the accompanying consolidated balance sheet. At December 31, 2017, $5.6 million of the liability is included in accrued and other current liabilities and $0.8 million is included in other-long term liabilities in the accompanying condensed consolidated balance sheet.

5. Investments

We have made strategic investments in certain companies that are accounted for using the equity- or cost-method of accounting. The method of accounting for an investment depends on the level of influence. We monitor changes in circumstances that may require a reassessment of the level of influence. We periodically review the carrying value of these investments for impairment, considering factors such as the most recent stock transactions and book values from the recent financial statements. The fair value of cost and equity-method investments is estimated when there are identified events or changes in circumstances that may have an impact on the fair value of the investment. Our cost-method investments do not have readily determinable fair values and are therefore measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Additionally, we hold investments in marketable equity securities that have readily determinable fair values that are classified as available-for-sale. These investments are reported at fair value and with gains and losses recorded in earnings beginning in January 2018 upon adoption of ASU 2016-01.

Table of Contents

Equity Method Investments

As of March 31, 2018 and December 31, 2017, we had a total of equity-method investments in non-publicly traded companies of $19.5 million and $18.5 million, respectively, which are included in other long-term assets in the accompanying condensed consolidated balance sheets.

During 2017, we acquired a 40% interest in MAQGEN Biotechnology Co., Ltd. for $4.0 million and a commitment to contribute an additional $8.0 million in future periods. In connection with the 2016 restructuring activities discussed in Note 4, in 2016, we transferred the research and development activities of our instrumentation business to a new company, Hombrechtikon Systems Engineering AG (HSE), in which we acquired a 19.0% interest for a total obligation of $9.8 million payable over three years. As of March 31, 2018, $3.1 million was included in accrued and other current liabilities and as of December 31, 2017, $3.1 million was included in accrued and other current liabilities and $3.1 million was included in other long-term liabilities in the accompanying consolidated balance sheets. HSE is a variable interest entity and we are not the primary beneficiary as we do not hold the power to direct the activities that most significantly impact the economic performance of HSE. Therefore, HSE is not consolidated. As of March 31, 2018 and December 31, 2017, the investment had a carrying value of $1.1 million and $1.2 million, respectively, which is included in other long-term assets in the consolidated balance sheets, representing our maximum exposure to loss.

Cost Method Investments

At March 31, 2018 and December 31, 2017, we had a total of cost-method investments in non-publicly traded companies with carrying amounts of $45.8 million and $33.6 million, respectively, which are included in other long-term assets in the consolidated balance sheets. During the three month period ended March 31, 2018, we converted a note receivable from a non-publicly traded company, considered a related party, into an equity interest in that company. This note held a balance of $11.4 million including principal balance and accrued interest at conversion. As a result of an orderly transaction for a similar investment of the same issuer, this investment was adjusted by $0.8 million during the three months ended March 31, 2018 and a corresponding gain was recorded in other income, net in the accompanying condensed statement of income.

Marketable Equity Securities

At March 31, 2018, we held 833,333 shares in HTG Molecular Diagnostics, Inc. (HTGM), a publicly traded company, with a cost basis of $2.0 million, a fair value of $3.0 million and an unrealized gross gain of $1.0 million. During the three months ended March 31, 2018, the fair market value of these shares increased to $3.0 million from a value of $1.7 million as of December 31, 2017 with a corresponding gain of $1.3 million recognized in other income, net. Additionally, we have an investment in Curetis N.V, also a publicly traded company. At March 31, 2018, we hold 224,000 shares of Curetis N.V. with a cost basis of $1.6 million, a fair market value of $1.5 million, and an unrealized gross loss of $0.1 million. During the three months ended March 31, 2018, the fair market value of these shares increased by $0.5 million and a corresponding gain was recognized in other income, net. Also, during the three months ended March 31, 2018, we sold 96,424 shares of Curetis N.V. and recognized a gain of $0.3 million in other income, net in the accompanying condensed statement of income. These marketable securities are included in other long-term assets in the accompanying consolidated balance sheets.

6. Intangible Assets

The following sets forth the intangible assets by major asset class as of March 31, 2018 and December 31, 2017:

	March 31, 2018		December 31, 2017	
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized Intangible Assets:				
Patent and license rights	$436,209	$(293,044)	$407,635	$(280,434)
Developed technology	779,497	(559,024)	771,893	(544,633)
Customer base, non-compete agreements and trademarks	442,169	(305,888)	437,213	(292,356)
	$1,657,875	$(1,157,956)	$1,616,741	$(1,117,423)

Unamortized Intangible Assets:		
Goodwill	$2,020,174	$2,012,904

13

Table of Contents

The changes in intangible assets in 2018 are summarized as follows:

(in thousands)	Intangibles	Goodwill
Balance at December 31, 2017	$499,318	$2,012,904
Additions	24,235	—
Amortization	(30,400)	—
Foreign currency translation adjustments	6,766	7,270
Balance at March 31, 2018	$499,919	$2,020,174

Cash paid for purchases of intangible assets during the three months ended March 31, 2018 totaled $15.2 million, of which $3.1 million is related to current year payments for licenses that were accrued as of December 31, 2017 and $0.5 million is related to prepayments recorded in other long-term assets in the accompanying consolidated balance sheet. Intangible asset additions of $24.2 million includes $11.6 million of cash paid during the three months ended March 31, 2018, together with $10.5 million of additions that were accrued as of March 31, 2018 and $2.1 million of additions which were previously recorded as prepayments.

The changes in the carrying amount of goodwill for the three months ended March 31, 2018 resulted from changes in foreign currency translation.

For the three month periods ended March 31, 2018 and 2017, amortization expense on intangible assets totaled approximately $30.4 million and $35.4 million, respectively. Amortization of intangibles for the next five years is expected to be approximately:

Year	Annual Amortization (in millions)
2019	$ 96.6
2020	$ 68.9
2021	$ 59.9
2022	$ 43.4
2023	$ 40.4

7. Derivatives and Hedging

In the ordinary course of business, we use derivative instruments, including swaps, forwards and/or options, to manage potential losses from foreign currency exposures and interest bearing assets or liabilities. The principal objective of such derivative instruments is to minimize the risks and/or costs associated with our global financial and operating activities. We do not utilize derivative or other financial instruments for trading or other speculative purposes. We recognize all derivatives as either assets or liabilities on the balance sheet on a gross basis, measure those instruments at fair value and recognize the change in fair value in earnings in the period of change, unless the derivative qualifies as an effective hedge that offsets certain exposures. We have agreed with almost all of our counterparties with whom we had entered into cross-currency swaps, interest rate swaps or foreign exchange contracts, to enter into bilateral collateralization contracts under which we will receive or provide cash collateral, as the case may be, for the net position with each of these counterparties. As of March 31, 2018, cash collateral positions consisted of $6.4 million recorded in accrued and other current liabilities and $35.6 million recorded in prepaid expenses and other assets in the accompanying condensed consolidated balance sheet. As of December 31, 2017, we had cash collateral positions consisting of $3.0 million recorded in accrued and other current liabilities and $21.9 million recorded in prepaid expenses and other current assets in the accompanying condensed consolidated balance sheet.

In 2017, we entered into a foreign currency non-derivative hedging instrument that is designated and qualifies as net investment hedge. The objective of the hedge is to protect part of the net investment in foreign operations against adverse changes in the exchange rate between the Euro and the functional currency of the U.S. dollar. The non-derivative hedging instrument is the German private corporate bond ("Schuldschein") which was issued in the total amount of $331.1 million as described in Note 9 "Debt." Of the $331.1 million, which is held in both U.S. dollars and Euros, €255.0 million is designated as the hedging instrument against a portion of our Euro net investments in our foreign operations. The relative changes in both the hedged item and hedging instrument are calculated by applying the change in spot rate between two assessment dates against the respective notional amount. The effective portion of the hedge is recorded in the cumulative translation adjustment account within other accumulated comprehensive income (loss). Based on the spot rate method as of March 31, 2018, the unrealized loss recorded in equity since December 31, 2017 is $8.4 million. Since we are using the debt as the hedging instrument, which is also remeasured based on the spot rate method, there is no hedge ineffectiveness related to the net investment hedge as of March 31, 2018.

Table of Contents

As of March 31, 2018 and December 31, 2017, we held derivative instruments that are designated and qualify as cash flow hedges, where the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. In 2018 and in 2017, we did not record any hedge ineffectiveness related to any cash-flow hedges in earnings. Based on their valuation as of March 31, 2018, we expect approximately $15.1 million of derivative losses included in accumulated other comprehensive loss will be reclassified into income during the next 12 months. The cash flows derived from derivatives are classified in the condensed consolidated statements of cash flows in the same category as the condensed consolidated balance sheet account of the underlying item.

As of March 31, 2018 and December 31, 2017, we held derivative instruments that qualify for hedge accounting as fair value hedges. For derivative instruments that are designated and qualify as a fair value hedge, the effective portion of the gain or loss on the derivative is reflected in earnings. This effect on earnings is offset by the change in the fair value of the hedged item attributable to the risk being hedged that is also recorded in earnings. In 2018 and in 2017, there was no ineffectiveness. The cash flows derived from derivatives are classified in the condensed consolidated statements of cash flows in the same category as the condensed consolidated balance sheet account of the underlying item.

Interest Rate Derivatives

We use interest rate derivative contracts to align our portfolio of interest bearing assets and liabilities with our risk management objectives. During 2015, we entered into five cross currency interest rate swaps through 2025 for a total notional amount of €180.0 million which qualify for hedge accounting as cash flow hedges. We determined that no ineffectiveness exists related to these swaps. As of March 31, 2018, the €180.0 million notional swap amount had a fair value of $40.7 million recorded in other long-term liabilities and a related interest receivable of $0.4 million which is recorded in prepaid expenses and other current assets, respectively, in the accompanying condensed consolidated balance sheet. As of December 31, 2017, these swaps had a fair value of $28.9 million and related interest receivable of $1.2 million which are recorded in other long-term liabilities and prepaid expenses and other current assets, respectively, in the accompanying condensed consolidated balance sheet.

During 2014, we entered into interest rate swaps, which effectively fixed the fair value of $200.0 million of our fixed rate private placement debt and qualify for hedge accounting as fair value hedges. We determined that no ineffectiveness exists related to these swaps. As of March 31, 2018, the $200.0 million notional swap amount had a fair value of $2.1 million and related interest receivable of $1.3 million which are recorded in other long-term liabilities and prepaid expenses and other current assets, respectively, in the accompanying condensed consolidated balance sheet. As of December 31, 2017, these swaps had a fair value of $0.9 million and accrued and unpaid interest of $0.3 million which are recorded in other long-term assets and prepaid expenses and other current assets, respectively, in the accompanying condensed consolidated balance sheet.

Call Options

We entered into Call Options in 2014 which, along with the sale of the Warrants, represent the Call Spread Overlay entered into in connection with the 2019 and 2021 Cash Convertible Notes and which are more fully described in Note 9, “Debt.” We used $105.2 million of the proceeds from the issuance of the 2019 and 2021 Cash Convertible Notes to pay the premium for the Call Options, and simultaneously received $68.9 million, (net of issuance costs) from the sale of the Warrants, for a net cash outlay of $36.3 million for the Call Spread Overlay.

During 2017, we used $73.6 million of the proceeds from the issuance of the 2023 Cash Convertible Notes to pay the premium for the Call Option, and simultaneously received $45.4 million from the sale of the Warrants, for a net cash outlay of $28.3 million for the Call Spread Overlay. Issuance costs in connection with the Warrant and the Call Option were $0.3 million and $0.1 million respectively, of which $0.1 million were accrued as of March 31, 2018.

In both transactions, the Call Options are intended to address the equity price risk inherent in the cash conversion feature of each instrument by offsetting cash payments in excess of the principal amount due upon any conversion of the Cash Convertible Notes.

Aside from the initial payment of a premium of $105.2 million (2019 and 2021 Notes) and $73.6 million (2023 Notes) for the Call Options, we will not be required to make any cash payments under the Call Options. We will, however, be entitled to receive under the terms of the Call Options an amount of cash generally equal to the amount by which the market price per share of our common stock exceeds the exercise price of the Call Options during the relevant valuation period. The exercise price under the Call Options is equal to the conversion price of the Cash Convertible Notes.

The Call Options, for which our common stock are the underlying security, are a derivative asset that requires mark-to-market accounting treatment due to the cash settlement features until the Call Options settle or expire. The Call Options are measured and reported at fair value on a recurring basis, within Level 2 of the fair value hierarchy. For further discussion of the inputs used to determine the fair value of the Call Options, refer to Note 8, “Fair Value Measurements.” The fair value of the Call Options at March 31, 2018 was approximately $236.3 million, of which $154.1 million and $82.2 million was recorded in other long-term assets and prepaid expenses and other current assets, respectively. As of December 31, 2017, the fair value of the Call Options was

Table of Contents

approximately $223.2 million which was recorded in other long-term assets in the accompanying condensed consolidated balance sheet.

The Call Options do not qualify for hedge accounting treatment. Therefore, the change in fair value of these instruments is recognized immediately in our condensed consolidated statements of income in other income, net. For the three months ended March 31, 2018 and March 31, 2017, the change in the fair value of the Call Options resulted in gains of $13.2 million and losses of $21.1 million, respectively. Because the terms of the Call Options are substantially similar to those of the Cash Convertible Notes' embedded cash conversion option, discussed below, we expect the effect on earnings from those two derivative instruments to mostly offset each other.

Cash Convertible Notes Embedded Cash Conversion Option

The embedded cash conversion option within the Cash Convertible Notes is required to be separated from the Cash Convertible Notes and accounted for separately as a derivative liability, with changes in fair value reported in our condensed consolidated statements of income in other income, net until the cash conversion option settles or expires. For further discussion of the Cash Convertible Notes, refer to Note 9, “Debt.” The initial fair value liability of the embedded cash conversion option for the 2019 and 2021 Notes was $105.2 million and for the 2023 Notes was $74.5 million, which simultaneously reduced the carrying value of the Cash Convertible Notes (effectively an original issuance discount). The embedded cash conversion option is measured and reported at fair value on a recurring basis, within Level 2 of the fair value hierarchy. For further discussion of the inputs used to determine the fair value of the embedded cash conversion option, refer to Note 8, “Financial Instruments and Fair Value Measurements.” The fair value of the embedded cash conversion options at March 31, 2018 was approximately $237.9 million, of which $155.5 million and $82.4 million are recorded in other long-term liabilities and accrued and other current liabilities, respectively. As of December 31, 2017, the fair value of the embedded cash conversion options was approximately $224.3 million which is recorded in other long-term liabilities in the accompanying condensed consolidated balance sheet. For the three months ended March 31, 2018 and March 31, 2017, the change in the fair value of the embedded cash conversion option resulted in losses of $13.6 million and gains of $21.6 million, respectively, recognized in our condensed consolidated statements of income in other income, net.

Foreign Currency Derivatives

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

Undesignated Derivative Instruments

We are party to various foreign exchange forward, option and swap arrangements which had, at March 31, 2018, an aggregate notional value of $433.6 million and fair value of $0.8 million included in prepaid expenses and other current assets and $2.6 million included in accrued and other current liabilities, which expire at various dates through July 2018. We were party to various foreign exchange forward and swap arrangements which had, at December 31, 2017, an aggregate notional value of $587.3 million and fair values of $7.5 million included in prepaid expenses and other current assets and $2.4 million included in accrued and other current liabilities, which expire at various dates through March 2018. The transactions have been entered into to offset the effects from short-term balance sheet exposure to foreign currency exchange risk. Changes in the fair value of these arrangements have been recognized in other income, net.

Table of Contents

Fair Values of Derivative Instruments

The following table summarizes the fair value amounts of derivative instruments reported in the condensed consolidated balance sheets as of March 31, 2018 and December 31, 2017:

	Derivatives in Asset Positions Fair value		Derivatives in Liability Positions Fair value	
(in thousands)	3/31/2018	12/31/2017	3/31/2018	12/31/2017
Derivative instruments designated as hedges				
Interest rate contracts[1]	$ 1,702	$ 2,409	$ (42,877)	$ (28,942)
Total derivative instruments designated as hedges	$ 1,702	$ 2,409	$ (42,877)	$ (28,942)
Undesignated derivative instruments				
Call spread overlay	$ 236,317	$ 223,164	$ (237,895)	$ (224,286)
Foreign exchange contracts	763	7,480	(2,594)	(2,424)
Total undesignated derivative instruments	$ 237,080	$ 230,644	$ (240,489)	$ (226,710)

[1] The fair value amounts for the interest rate contracts include accrued interest.

Gains and Losses on Derivative and Non-derivative Instruments

The following tables summarize the locations and gains and losses on derivative and non-derivative instruments for the three months ended March 31, 2018 and 2017:

Three months ended March 31, 2018 (in thousands)	Gain/(loss) recognized in AOCI	Location of gain / loss in income statement	(Gain) loss reclassified from AOCI into income	Gain (loss) recognized in income
Non-derivative instruments				
Net investment hedge	$ (8,364)	Other income, net	—	n/a
Cash flow hedges				
Interest rate contracts	$ (11,795)	Other income, net	$ 5,904	n/a
Fair value hedges				
Interest rate contracts	$ —	Other income, net	$ —	$ (2,996)
Undesignated derivative instruments				
Call spread overlay	n/a	Other income, net	n/a	$ (455)
Foreign exchange contracts	n/a	Other income, net	n/a	2,477
				$ 2,022

Three months ended March 31, 2017 (in thousands)	Gain/(loss) recognized in AOCI	Location of gain / loss in income statement	(Gain) loss reclassified from AOCI into income	Gain (loss) recognized in income
Cash flow hedges				
Interest rate contracts	$ 10	Other income, net	$ 2,700	n/a
Fair value hedges				
Interest rate contracts	$ —	Other income, net	$ —	$ (632)
Undesignated derivative instruments				

Call spread overlay	n/a	Other income, net	n/a	$ 533
Foreign exchange contracts	n/a	Other income, net	n/a	5,790
				$ 6,323

The amounts noted in the table above for accumulated other comprehensive income (AOCI) do not include any adjustment for the impact of deferred income taxes.

8. Financial Instruments and Fair Value Measurements

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

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

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

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

Our assets and liabilities measured at fair value on a recurring basis consist of marketable securities as discussed in Note 5 and short-term investments, which are classified in Level 1 and Level 2, respectively, of the fair value hierarchy, derivative contracts used to hedge currency and interest rate risk, derivative financial instruments entered into in connection with the Cash Convertible Notes discussed in Note 9, which are classified in Level 2 of the fair value hierarchy, and contingent consideration accruals which are classified in Level 3 of the fair value hierarchy and are shown in the tables below. There have been no transfers between levels.

In determining fair value for Level 2 instruments, we apply a market approach, using quoted active market prices relevant to the particular instrument under valuation, giving consideration to the credit risk of both the respective counterparty to the contract and the Company, unless there are collateral agreements for the respective transactions in place. To determine our credit risk, we estimated our credit rating by benchmarking the price of outstanding debt to publicly-available comparable data from rated companies. Using the estimated rating, our credit risk was quantified by reference to publicly-traded debt with a corresponding rating. The Level 2 derivative financial instruments include the Call Options asset and the embedded conversion option liability. See Note 9, "Debt", and Note 7, "Derivatives and Hedging," for further information. The derivatives are not actively traded and are valued based on an option pricing model that uses observable market data for inputs. Significant market data inputs used to determine fair values as of March 31, 2018 included our common stock price, the risk-free interest rate, and the implied volatility of our common stock. The Call Options asset and the embedded cash conversion option liability were designed with the intent that changes in their fair values would substantially offset, with limited net impact to our earnings. Therefore, the sensitivity of changes in the unobservable inputs to the option pricing model for such instruments is substantially mitigated.

Our Level 3 instruments include contingent consideration liabilities. We value contingent consideration liabilities using unobservable inputs, applying the income approach, such as the discounted cash flow technique, or the probability-weighted scenario method. Contingent consideration arrangements obligate us to pay the sellers of an acquired entity if specified future events occur or conditions are met such as the achievement of technological or revenue milestones. We use various key assumptions, such as the probability of achievement of the milestones (0% to 100%) and the discount rate (2-3%), to represent the non-performing risk factors and time value when applying the income approach. We regularly review the fair value of the contingent consideration and reflect any change in the accrual in the condensed consolidated statements of income in the line items commensurate with the underlying nature of milestone arrangements.

Table of Contents

The following table presents our hierarchy for our financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2018 and December 31, 2017:

	As of March 31, 2018				As of December 31, 2017			
(in thousands)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Short-term investments	$—	$199,269	$—	$199,269	$—	$359,198	$—	$359,198
Marketable securities	4,552	—	—	4,552	3,208	—	—	3,208
Call option	—	236,317	—	236,317	—	223,164	—	223,164
Foreign exchange contracts	—	763	—	763	—	7,480	—	7,480
Interest rate contracts	—	1,702	—	1,702	—	2,409	—	2,409
	$4,552	$438,051	$—	$442,603	$3,208	$592,251	$—	$595,459
Liabilities:								
Foreign exchange contracts	$—	$(2,594)	$—	$(2,594)	$—	$(2,424)	$—	$(2,424)
Interest rate contracts	—	(42,877)	—	(42,877)	—	(28,942)	—	(28,942)
Cash conversion option	—	(237,895)	—	(237,895)	—	(224,286)	—	(224,286)
Contingent consideration	—	—	(8,000)	(8,000)	—	—	(11,539)	(11,539)
	$—	$(283,366)	$(8,000)	$(291,366)	$—	$(255,652)	$(11,539)	$(267,191)

The carrying values of cash and equivalents, accounts receivable, accounts payable and other accrued liabilities, which are classified in Level 1 of the fair value hierarchy, approximate their fair values due to their short-term maturities.

For liabilities with Level 3 inputs, the following table summarizes the activity for the three months ended March 31, 2018:

(in thousands)	Contingent Consideration
Beginning Balance at December 31, 2017	$ (11,539)
Additions	(7,992)
Payments	11,531
Ending balance at March 31, 2018	$ (8,000)

As of March 31, 2018, $5.0 million accrued for contingent consideration is included in accrued and other current liabilities and $3.0 million is included on other long-term liabilities in the accompanying condensed consolidated balance sheet. For the three month period ended March 31, 2018, cash payments for contingent consideration totaled $11.5 million, of which $5.5 million relate to amounts originally accrued at the acquisition date and $6.0 million relate to amounts in excess of amounts originally accrued and are included in other financing activities and other operating activities, respectively, in the accompanying condensed consolidated statements of cash flows.

The table below presents the carrying values and the estimated fair values of financial instruments not presented in the tables above.

	As of March 31, 2018				As of December 31, 2017			
(in thousands)	Carrying Amount	Level 1	Level 2	Level 3	Carrying Amount	Level 1	Level 2	Level 3
Long-term debt including current portion:								
Cash convertible notes								