

**QUIDEL**  
CORPORATION

2003 ANNUAL REPORT

well. well. well.





2001 2002 2003  
\$74.1 \$76.3 \$95.1  
Total revenues  
(in millions of dollars)



2001 2002 2003  
51% 49% 54%  
Gross margin on net sales  
(as a percent)



2001 2002 2003  
\$0.01 \$0.04 \$0.21\*  
Earnings per share  
(in dollars)



2001 2002 2003  
\$163 \$182 \$296  
Sales per employee  
(in thousands of dollars)



2001 2002 2003  
\$17.8 \$24.0 \$49.5  
Working capital  
(in millions of dollars)

All increases are for the one-year period ended December 31, 2003

25%

INCREASE IN TOTAL  
REVENUES

54%

GROSS MARGIN

425%

INCREASE IN EARNINGS  
PER SHARE

\*Diluted EPS of \$0.21 excludes a one-time tax benefit of \$13.3 million. Quidel believes that excluding the nonoperational, one-time tax benefit from 2003, diluted EPS is useful information as the measure more closely reflects EPS based on Quidel's operations and is the measure that Quidel utilizes in comparing EPS to other periods. On a GAAP basis, 2003 diluted EPS, which includes the one-time tax benefit, was \$0.65.

# well beyond.

Quidel achieved record financial results in 2003 and exceeded expectations.

63%

INCREASE IN SALES  
PER EMPLOYEE

106%

INCREASE IN WORKING  
CAPITAL

Quidel posted exceptional sales growth in 2003 driven by strong demand for its upper respiratory products, including the influenza and Strep A tests. Equally important was the significant expansion in gross margins, up 500 basis points over 2002, which helped drive Quidel to record profitability.



# well ahead.

**Quidel is the clear leader in point-of-care rapid diagnostics in physician offices.**



During 2003 Quidel achieved significant market share gains in the growing point-of-care (POC) influenza product category. The company also maintained market leadership in the mature professional Strep A and pregnancy testing categories, its second and third primary product lines.

Quidel's  
share of  
the U.S.  
POC  
market

**49%**  
INFLUENZA TESTING

At the peak of the 2003-04 flu season in the U.S., Quidel's QuickVue® Influenza test achieved a 10-fold increase in sales over the prior season. This product now commands an estimated 49% share\* of this fast-growing market, up significantly from a 41% share in 2002. In Japan, the world's No. 2 market, the RapidVue® brand commands an estimated 27% share.

Quidel's educational and awareness campaigns have effectively presented the benefits of point-of-care testing, including timely results in an easy-to-read, two-color result format. With these benefits clearly delineated, Quidel expects that in the coming 2004-05 season, many more healthcare professionals will be utilizing in-office tests, allowing further gains in sales and market share.

“In our community, many pediatricians and emergency centers have embraced the use of rapid diagnostic tests for influenza, Group A Strep, and other conditions, because they realize they can accurately identify the patient’s illness and immediately begin treatment, as necessary.”

**Gail J. Demmler, M.D.**  
**Professor of Pediatrics, Baylor College of Medicine**  
**and Director, Diagnostic Virology Laboratory,**  
**and Infectious Diseases Attending Physician**  
**Texas Children's Hospital, Houston, Texas**



**43%**  
STREP A TESTING

Quidel first commercialized the QuickVue® Dipstick Strep A test in 2001 and along with all product offerings in the Strep A product family, currently commands a 43% share of the U.S. market\*. This share is nearly three times the next largest competitor.

**50%**  
PREGNANCY TESTING

Quidel's 50% share of the professional pregnancy test market\* is more than double that of the next largest competitor. The market leader with premium pricing, the QuickVue® pregnancy products are the leading brand and offers end users an array of product formats that specifically meet their segment needs.

BONE HEALTH AND  
OTHER TESTING  
PRODUCTS

Quidel's Metra™ bone health products provide both research and diagnostic tools for use in laboratories and clinical research settings. At the point of care, Quidel also provides rapid diagnostics for infectious vaginitis, urinalysis, *H. pylori*, chlamydia and infectious mononucleosis.

\*Healthcare Products Information Services (HPIS) Q403 data.



# well positioned.

**The stage has been set for continuing worldwide growth.**

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Quidel has a strong presence in point-of-care markets in the U.S., while making strong gains in Japan. In 2003, international revenue as a percentage of total revenue grew to 42%, up from 32% in 2002. In dollars, international sales increased 64% from a year ago to \$39.3 million.

To continue the growth momentum in Japan, Quidel recently launched the new QuickVue® Influenza A+B test. The test is the successor test to the currently marketed QuickVue® Influenza test (branded as RapidVue® Influenza in Japan). This new test aids in the differential diagnosis of acute Influenza type A and type B and is designed to expand share in the hospital/acute care market segment. Quidel plans to expand share further in the U.S. acute care market with the launch of the new QuickVue® Influenza A+B test in time for the 2004-05 flu season.

2004  
GROWTH  
DRIVERS

“Building on the many accomplishments of 2003, we are well positioned and highly focused on our goal of delivering predictable, double-digit growth that outpaces our competitors.”

**André de Bruin,**  
**Quidel Executive Chairman of the Board**



## technology

### QUIDEL'S PROPRIETARY TECHNOLOGY PLATFORMS.

The LTF™ technology platforms will serve as a foundation for a number of new products and provide Quidel with a significant point of differentiation in the market. LTF™ affords important manufacturing benefits, while upholding Quidel's standards for accuracy, reliability and innovation.



## operations

### A FOCUS ON OPERATIONAL EXCELLENCE.

Quidel benefited from a vendor managed inventory system introduced in 2003, which improved visibility into distributor inventories and customer demand. Now fully in place with its largest distribution partner, Quidel's system will be further expanded with other distribution partners during 2004. The Company-wide restructuring succeeded in reducing operating costs by approximately \$3 million, and will deliver additional savings in 2004.



## new markets

### A COMMITMENT TO GROWTH.

Quidel's products are sold to healthcare professionals for use in physician offices, clinical laboratories, urgent care centers and hospitals. Quidel's patent-protected technologies, including lateral flow and LTF™, hold potential in a broad range of professional and over-the-counter markets.



# to our shareholders:

I am delighted to report to you, my fellow shareholders, that 2003 was a year of excellent, tangible progress for Quidel. We posted a strong financial performance, and set the stage for further success in 2004 and beyond.

Our achievements were substantial in 2003, and they are reflected in our record-setting financial results. For 2003, we posted revenues of \$95.1 million, up a healthy 25 percent compared with 2002.

The gross margin on net sales for the year improved to 54%, up from 49% in 2002, as a result of increased volume and favorable product mix. Gross margin also benefited from the streamlining of operations and improvements that we made to our manufacturing processes.

Pre-tax earnings for 2003 were a record \$10.5 million, a nearly three-fold increase from 2002. Net earnings for 2003 totaled \$19.7 million, or \$0.65 per share on a diluted basis. This is up sharply from net earnings for 2002 of \$1.3 million, or \$0.04 per share on a diluted basis. Excluding a one-time tax benefit recorded in the fourth quarter of 2003, net earnings per share for 2003, on a pro forma basis, were \$0.21 per share.

We reaped the benefits of solid planning on several fronts, having anticipated and properly prepared for a very strong influenza season in the U.S. We put in place a variety of nationwide print advertising and public relations programs targeting health-care professionals who administer our tests with a focused message that Quidel's CLIA-waived QuickVue® Influenza test is fast, easy to use and interpret, and allows for prompt and appropriate treatment decisions at the point of care.

We properly projected manufacturing needs and expanded production resources in expectation of a strong influenza season, in order to meet the significant increase in customer demand, thus securing an increase in market share in the U.S. of eight percentage points, to a 49% market leadership position.

Our estimates indicate that the eventual potential market opportunity for influenza tests exceeds \$120 million in the U.S. alone. With a goal of capturing a 65-70% share, we still have much to accomplish.

A restructuring initiative announced in April reduced costs in 2003 by \$3 million, was accretive to earnings by approximately \$500,000, and is anticipated to deliver further savings of approximately \$5 million in 2004.

While last year's accomplishments were heavily influenced by our QuickVue® Influenza test, Strep A products maintained market share at nearly three times the rate of the nearest competitive brand. Quidel also continued to enjoy the market-leading position in rapid, point-of-care pregnancy testing. Professional rapid pregnancy testing is a mature market, yet our premium brand and reputation for high quality enabled us to maintain a 50% market share. This is more than twice the share of the second largest brand. Our QuickVue Advance® pH and Amines test and QuickVue Advance® G. vaginalis test, both on our proprietary LTF™ (Layered Thin Film) platform, earned solid distributor support.

Development work utilizing LTF™ technology, which is actually several separate platforms, continues to advance in two main areas of concentration: Rub 'n Read™ and the immunoassay platform. We expect to file multiple patent applications around the LTF immunoassay platform design in the coming months—completing the platform design by the end of this year. We are committed to this new, differentiated, simple-to-read and easy-to-perform proprietary technology which will allow Quidel to gain an even stronger position in the professional point-of-care testing segment.

On behalf of the entire Board of Directors and management team of Quidel, I want to thank André de Bruin, Executive Chairman of the Board, for his enormous contributions to the success of Quidel. Subsequent to the close of 2003, André announced his decision to step down from the Board effective May 26, 2004. We have long valued his leadership and strategic insight and I, along with the other members of the Quidel team, plan to build upon the strong foundation André created since his leadership at Quidel began in 1997.

As we enter 2004, we anticipate continued success on all fronts. The influenza point-of-care testing market is a significant growth market. We are proud of our work in 2003 of creating a stronger understanding of the benefits of in-office testing and we believe many more professionals will be using our products in the coming year.

Sincerely,



**S. Wayne Kay**  
President and Chief Executive Officer  
March 31, 2004

**In 2003, Quidel's accomplishments included:**

More than doubling the number of physician offices in the U.S. using Quidel's Influenza test compared with 2002, and expanding awareness of the QuickVue® brand;

Posting record growth in key markets for upper respiratory tests in the U.S. and overseas;

Creating a more efficient sales structure by moving to a distributor model in Germany and Italy;

Reaping the benefits of an aggressive and dedicated focus on cost containment and control initiatives;

Successfully implementing an innovative vendor managed inventory system with our largest U.S. distribution partner, thereby enhancing visibility into end-user demand and advancing working capital initiatives;

Earning recognition from distributor partners with the receipt of several sales excellence and supply chain awards;

Making technical progress toward delivering rapid diagnostic tests on the LTF™ platforms;

Ending the year with a higher cash balance—\$25 million—than at anytime in Quidel's operating history.

# board of directors

**André de Bruin**

Executive Chairman of the Board

**S. Wayne Kay**

President and Chief Executive Officer  
Quidel Corporation

**Thomas A. Glaze**

Vice Chairman  
Palingen, Inc.

**Mary Lake Polan, M.D., Ph.D.**

Professor and Chairman  
Department of Gynecology & Obstetrics  
Stanford University School  
of Medicine

**Mark A. Pulido**

Chairman of the Board (Ret)  
BenefitPoint, Inc.

**Faye Wattleton**

President  
Center for The Advancement  
of Women

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# corporate officers

**S. Wayne Kay**

President and Chief Executive Officer  
and Director

**Paul E. Landers**

Senior Vice President  
Finance and Administration,  
Chief Financial Officer and Secretary

**Mark E. Paiz**

Senior Vice President  
Technology and Business Development

**Matt T. Heindel**

Senior Vice President  
Worldwide Sales and Marketing

**A Warning About Forward-Looking Statements**

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws that involve material risks and uncertainties. Many possible events or factors could affect Quidel's future financial results and performance, such that actual results and performance may differ materially. As such, no forward-looking statement can be guaranteed. Differences in operating results may arise as a result of a number of factors including, without limitation, intellectual property, product liability, environmental or other litigation, seasonality, adverse changes in the competitive and economic conditions in domestic and international markets, actions of Quidel's major distributors, manufacturing and production delays or difficulties, adverse actions or delays in product reviews by the U.S. Food and Drug Administration, and the lower acceptance of our new products than forecast. Forward-looking statements typically are identified by the use of terms such as "may," "will," "should," "might," "expect," "anticipate," "estimate" and similar words, although some forward-looking statements are expressed differently. The risks described under "Risk Factors" and in other sections of this Annual Report and in other reports and registration statements that we file with the Securities and Exchange Commission from time to time should be carefully considered. You are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date of this Annual Report. Management undertakes no obligation to publicly release the results of any revision of the forward-looking statements.

**Annual Meeting**

The annual meeting of shareholders will be held at 10:30 a.m., Wednesday, May 26, 2004, at the San Diego Marriott-Del Mar 11966 El Camino Real San Diego, California 92130

**Legal Counsel**

Gibson, Dunn & Crutcher LLP  
Irvine, California 92614

**Independent Public Accountants**

Ernst & Young LLP  
San Diego, CA 92101

**Stockholder Inquiries**

Inquiries related to stock transfer or lost certificates should be directed to the Transfer Agent.

**Transfer Agent & Registrar**

American Stock Transfer & Trust Company  
59 Maiden Lane  
Plaza Level  
New York, NY 10038  
800.937.5449

**Nasdaq Listing**

Quidel common stock is traded on the Nasdaq National Market under the symbol "QDEL."

**Form 10-K and Form 10-Q**

A copy of the Company's Annual Report to the Securities and Exchange Commission on Form 10-K and Quarterly Reports on Form 10-Q are available without charge upon request. Please contact Investor Relations.

**Investor Relations**

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Quidel's press releases and other information are located on Quidel's Web site: [www.quidel.com](http://www.quidel.com)

Quidel® Corporation and the Company's stylized logo, QuickVue®, QuickVue+®, QuickVue Advance®, RapidVue®, QUS-2®, BlueTest®, In-Line®, Semi-Q®, UrinChek® and UrinQuick® are registered U.S. trademarks of the Company. gll™, Metra™, Rub 'n Read™ and LTF™ (Layered Thin Film) are trademarks of the Company.

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**QUIDEL**  
CORPORATION

*Helping Women and Their Families Live Healthy Lives*