IDEXX LABORATORIES INC /DE
Form 10-Q
October 23, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

OR

o **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: 0-19271

IDEXX LABORATORIES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**01-0393723**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*
ONE IDEXX DRIVE, WESTBROOK, MAINE	**04092**
(Address of principal executive offices)	*(ZIP Code)*

207-556-0300

(Registrant s telephone number, including area code)

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. The number of shares outstanding of the registrant s Common Stock, $0.10 par value, was 58,592,100 on October 19, 2009.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

IDEXX LABORATORIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)
(Unaudited)

	September 30, 2009	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 106,728	$ 78,868
Accounts receivable, net of reserves of $2,428 in 2009 and $2,093 in 2008	115,141	111,498
Inventories, net	124,488	115,926
Deferred income tax assets	23,377	21,477
Other current assets	15,993	28,121
Total current assets	385,727	355,890
Long-Term Assets:		
Property and equipment, net	196,542	189,646
Goodwill and other intangible assets, net	214,974	207,095
Other long-term assets, net	17,646	12,806
Total long-term assets	429,162	409,547
TOTAL ASSETS	$ 814,889	$ 765,437
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable, principally trade accounts	$ 21,465	$ 28,006
Accrued expenses	38,031	32,857
Accrued employee compensation and related expenses	39,680	43,252
Accrued taxes	6,246	13,324
Accrued customer programs	18,749	15,183
Current portion of line of credit	62,597	150,620
Current portion of long-term debt	801	765
Current portion of deferred revenue	10,994	11,285
Total current liabilities	198,563	295,292
Long-Term Liabilities:		
Deferred tax liabilities	16,099	11,933
Line of credit, net of current portion	80,000	
Long-term debt, net of current portion	4,489	5,094
Long-term deferred revenue, net of current portion	3,832	3,787
Other long-term liabilities	12,272	11,137
Total long-term liabilities	116,692	31,951

Total liabilities		315,255		327,243
Commitments and Contingencies (Note 13)				
Stockholders Equity:				
Common stock, $0.10 par value: Authorized: 120,000 shares; Issued: 96,161 and 95,387 shares in 2009 and 2008, respectively		9,616		9,539
Additional paid-in capital		573,590		547,692
Deferred stock units: Outstanding: 116 and 102 units in 2009 and 2008, respectively		4,264		3,647
Retained earnings		793,305		702,031
Accumulated other comprehensive income		8,440		5,675
Treasury stock, at cost: 37,631 and 36,164 shares in 2009 and 2008, respectively		(889,581)		(830,390)
Total stockholders equity		499,634		438,194
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	814,889	$	765,437

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

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IDEXX LABORATORIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenue:				
Product revenue	$ 171,527	$ 167,144	$ 503,488	$ 526,622
Service revenue	87,593	83,949	257,810	254,115
Total revenue	259,120	251,093	761,298	780,737
Cost of Revenue:				
Cost of product revenue	71,543	65,435	202,114	200,714
Cost of service revenue	57,100	57,509	165,834	170,778
Total cost of revenue	128,643	122,944	367,948	371,492
Gross profit	130,477	128,149	393,350	409,245
Expenses:				
Sales and marketing	41,504	41,527	124,365	129,742
General and administrative	28,185	29,705	88,047	89,407
Research and development	16,583	17,920	49,116	53,489
Income from operations	44,205	38,997	131,822	136,607
Interest expense	(436)	(1,242)	(1,535)	(3,486)
Interest income	48	682	348	1,798
Income before provision for income taxes	43,817	38,437	130,635	134,919
Provision for income taxes	12,281	12,738	39,361	42,305
Net income	$ 31,536	$ 25,699	$ 91,274	$ 92,614
Earnings per Share:				
Basic	$ 0.54	$ 0.43	$ 1.55	$ 1.54
Diluted	$ 0.52	$ 0.42	$ 1.50	$ 1.48
Weighted Average Shares Outstanding:				
Basic	58,656	59,473	58,911	60,121
Diluted	60,668	61,865	60,718	62,603

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

IDEXX LABORATORIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)
(Unaudited)

	For the Nine Months Ended September 30, 2009	2008
Cash Flows from Operating Activities:		
Net income	$ 91,274	$ 92,614
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	37,218	35,517
Loss on disposal of property and equipment	2,324	653
Increase (decrease) in deferred compensation liability	370	(287)
Write-down of marketable securities	150	
Provision for uncollectible accounts	674	1,709
Provision for (benefit of) deferred income taxes	3,705	(926)
Share-based compensation expense	8,849	8,083
Tax benefit from exercises of stock options and vesting of restricted stock units	(3,851)	(5,906)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(1,132)	(5,000)
Inventories	(8,145)	(14,137)
Other assets	(3,126)	(380)
Accounts payable	(6,868)	(3,632)
Accrued liabilities	(5,241)	2,033
Deferred revenue	(698)	(527)
Net cash provided by operating activities	115,503	109,814
Cash Flows from Investing Activities:		
Purchases of property and equipment	(35,615)	(64,982)
Proceeds from disposition of pharmaceutical product lines	1,377	
Proceeds from sale of property and equipment	2,056	
Acquisitions of equipment leased to customers	(747)	(560)
Acquisitions of intangible assets and businesses, net of cash acquired	(6,680)	(8,649)
Net cash used by investing activities	(39,609)	(74,191)
Cash Flows from Financing Activities:		
Borrowings (payments) on revolving credit facilities, net	(8,798)	92,099
Payment of other notes payable	(731)	(542)
Purchase of treasury stock	(57,966)	(122,429)
Proceeds from exercises of stock options and employee stock purchase plans	13,104	14,856
Tax benefit from exercises of stock options and vesting of restricted stock units	3,851	5,906
Net cash used by financing activities	(50,540)	(10,110)
Net effect of changes in exchange rates on cash	2,506	(1,287)
Net increase in cash and cash equivalents	27,860	24,226
Cash and cash equivalents at beginning of period	78,868	60,360

Cash and cash equivalents at end of period	$	106,728	$	84,586
Supplemental Disclosures of Cash Flow Information:				
Interest paid	$	2,223	$	3,615
Income taxes paid	$	34,516	$	43,234

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

IDEXX LABORATORIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The accompanying unaudited, condensed consolidated financial statements of IDEXX Laboratories, Inc. (IDEXX, the Company, we or our) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the requirements of Regulation S-X, Rule 10-01 for financial statements required to be filed as a part of Form 10-Q.

The accompanying unaudited, condensed consolidated financial statements include the accounts of IDEXX Laboratories, Inc. and our wholly-owned and majority-owned subsidiaries, and all other entities in which we have a variable interest and are determined to be the primary beneficiary. All material intercompany transactions and balances have been eliminated in consolidation.

The accompanying unaudited, condensed consolidated financial statements reflect, in the opinion of our management, all adjustments necessary for a fair statement of our financial position and results of operations. The condensed balance sheet data at December 31, 2008 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. The results of operations for the nine months ended September 30, 2009 are not necessarily indicative of the results to be expected for the full year or any future period. These unaudited, condensed consolidated financial statements should be read in conjunction with this Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2009, and our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission.

Certain reclassifications have been made to the prior year condensed consolidated financial statements to conform to the current year presentation. Reclassifications had no material impact on previously reported results of operations or financial position.

NOTE 2. ACCOUNTING POLICIES

Significant Accounting Policies

The significant accounting policies used in preparation of these condensed consolidated financial statements for the nine months ended September 30, 2009 are consistent with those discussed in Note 3 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2008, except for the adoption of new accounting standards during the first nine months of 2009 as discussed below.

Recent Accounting Pronouncements

In June, 2009, the Financial Accounting Standards Board (FASB) issued the Accounting Standards Codification (ASC) as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities in preparation of financial statements in conformity with U.S. GAAP. While the adoption of the ASC as of September 30, 2009 changes how we reference accounting standards, the adoption did not have an impact on our financial position, results of operations, or cash flows.

On January 1, 2009, the principles and requirements for how an acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired were revised. Disclosure requirements were also established, which will enable financial statement users to evaluate the nature and financial effects of business combinations. Among other things, the amendments to the accounting principles and requirements expand the definitions of a business and business combination, require recognition of contingent consideration at fair value on the acquisition date and require acquisition-related transaction costs to be expensed as incurred. See Note 3 for a discussion of our business combination activity.

On January 1, 2009, we adopted the fair value measurements and disclosures provisions for nonfinancial assets and nonfinancial liabilities, which were previously deferred. These provisions establish a framework for measuring fair value and expand financial statement disclosures about fair value measurements. Items to which these provisions apply include nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities, or recurring fair value measurements of nonfinancial assets and nonfinancial liabilities, which are not disclosed at fair value in the consolidated financial statements. We did not have nonfinancial assets or nonfinancial liabilities covered by these provisions which required remeasurement upon adoption or during the nine months ended September 30, 2009, and therefore there was no impact of adoption on our financial position, results of operations, or cash flows.

On January 1, 2009, we adopted the accounting standard for ownership interests in subsidiaries held by parties other than the parent, which establishes accounting for the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent s ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. This accounting standard also establishes reporting requirements that provide enhanced disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. The impact of adopting this accounting standard on our financial position, results of operations, and cash flows was not significant.

On January 1, 2009, we adopted amendments to the accounting standard addressing derivatives and hedging. The amendments change the disclosure requirements for derivative instruments and hedging activities, requiring enhanced disclosures about how and why an entity uses derivative instruments, how instruments are accounted for under U.S. GAAP, and how derivatives and hedging activities affect an entity s financial position, financial performance and cash flows. The adoption of these amendments required additional disclosure only, and therefore did not have an impact on our financial position, results of operations, or cash flows. See Note 17 for a discussion of our derivative instruments and hedging activities.

On January 1, 2009, we adopted amendments to the accounting standard addressing intangibles, goodwill and other assets. The amendments provided new guidance to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset under U.S. GAAP. The adoption of these amendments did not have a significant impact on our financial position, results of operations, or cash flows. See Note 3 for a discussion of our business combination activities and Note 7 for a discussion of our intangible assets.

On June 30, 2009, we adopted amendments to the accounting standard for financial instruments. The amendments require disclosures about the fair value of financial instruments in interim as well as in annual financial statements. The adoption of these amendments has resulted in additional disclosures only in our interim financial statements, and therefore did not impact our financial position, results of operations or cash flows. See Note 9 for the carrying amount of our long-term debt and for a discussion of interest rate risk regarding our revolving credit facility, Note 16 for discussion of fair value measurements, and Note 17 for a discussion of our derivative instruments and hedging activities.

On June 30, 2009, we adopted amendments to the accounting standard addressing subsequent events. The amendments provide guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The amendments require entities to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. The amendments required additional disclosures only, and therefore did not have an impact on our financial position, results of operations, or cash flows. We have evaluated subsequent events through October 23, 2009, the date we have issued this Quarterly Report on Form 10-Q.

NOTE 3. ACQUISITIONS OF BUSINESSES AND OTHER ASSETS

We paid $6.7 million in cash and recognized a liability of $1.2 million to acquire businesses during the three months ended September 30, 2009. At September 30, 2009, the $1.2 million liability was reflected in accrued expenses on the condensed consolidated balance sheet and is payable to the sellers upon reconciliation of the final asset values of the businesses acquired, which we anticipate will occur in the fourth quarter of 2009. In relation to these acquisitions, we recognized tangible assets of $1.0 million and assumed liabilities of $0.5 million.

In August 2009, we acquired substantially all of the assets and assumed certain liabilities of VDIC, Inc. (VDIC). VDIC is located in Oregon and is a global provider of telemedicine and cytopathology services and also provides imaging procedures, such as MRI and CT scans, on a referral basis for clients within the Oregon area. In August 2009, we also acquired certain assets of Pet Detect. Pet Detect engages in the marketing, distributing and selling of temporary pet identification systems based on tear- and humidity-resistant printable pet collars. The main application for these collars is in veterinary practices with boarding and overnight stay facilities, as well as in kennels. These acquisitions were accounted for as business combinations.

In connection with these acquisitions, we recognized software with a fair value of $2.5 million, which was recorded to property and equipment and assigned a useful life of 7 years; amortizable intangible assets of $2.6 million; and goodwill of $2.3 million.

The amortizable intangible assets consisted of customer-related intangible assets of $1.6 million, product rights of $0.7 million, and other intangible assets of $0.3 million, all of which were assigned to the Companion Animal Group (CAG) segment, with weighted amortization periods of 12 years, 7 years and 5 years, respectively. The goodwill recognized (all of which is expected to be tax deductible) was assigned to the CAG segment.

We believe that the acquired businesses enhance our existing businesses by either expanding the geographic range of our existing businesses or expanding our existing product lines. We determined the purchase price of each acquired business based on our assessment of estimated future cash flows attributable to the business enterprise taken as a whole, the strength of the business in the marketplace, the strategic importance of the acquisition to IDEXX, and the seller s desire to be acquired by IDEXX versus perceived alternatives. We recognized goodwill based on the excess of the purchase price for each business over the fair values of the individual tangible and separately identified intangible assets acquired.

The results of operations of the acquired businesses have been included since their respective acquisition dates. Pro forma information has not been presented because such information is not material to the financial statements taken as a whole.

NOTE 4. SHARE-BASED COMPENSATION

For the nine months ended September 30, 2009, share-based compensation expense included $8.2 million for options, restricted stock units and deferred stock units with vesting conditions, and $0.4 million for employee stock purchase rights. Expense for deferred stock units issued under our Director Deferred Compensation Plan without vesting conditions of $0.2 million for the nine months ended September 30, 2009 and 2008 has not been included in share-based compensation in the table below as it relates to deferred stock units granted to directors in lieu of cash compensation. Share-based compensation expense has been included in our condensed consolidated statements of operations for the three and nine months ended September 30, 2009 and 2008, as follows (*in thousands*):

	For the Three Months Ended September 30,		**For the Nine Months Ended September 30,**	
	2009	**2008**	**2009**	**2008**
Cost of revenue	$ 368	$ 371	$ 937	$ 819
Sales and marketing	396	331	1,174	1,136
General and administrative	1,584	1,230	5,098	4,409
Research and development	504	486	1,449	1,517
Total	$ 2,852	$ 2,418	$ 8,658	$ 7,881

The fair value of options, restricted stock units, deferred stock units with vesting conditions, and employee stock purchase rights awarded during the nine months ended September 30, 2009 and 2008 totaled $15.7 and $18.0 million, respectively. The total unrecognized compensation cost for unvested share-based compensation awards outstanding at September 30, 2009, before consideration of estimated forfeitures, was $36.3 million. We estimate that this cost will be reduced by approximately $3.4 million related to forfeitures. The weighted average remaining expense recognition period at September 30, 2009 was approximately 1.8 years.

Options

We determine the assumptions used in the valuation of option grants as of the date of grant. Differences in the stock price volatility, terms of options granted to different segments of employees, or risk-free interest rates may necessitate distinct valuation assumptions at those grant dates. As such, we may use different assumptions during the fiscal year if we grant options at different dates or with varying terms. The weighted averages of the valuation assumptions used to determine the fair value of each option grant on the date of grant and the weighted average estimated fair values were as follows:

	For the Nine Months Ended September 30,	
	2009	2008
Expected stock price volatility	30%	25%
Expected term, in years	4.8	4.9
Risk-free interest rate	1.6%	2.7%
Weighted average fair value of options granted	$ 9.97	$ 15.31

The total fair value of options vested during the nine months ended September 30, 2009 and 2008 was $9.7 million and $7.5 million, respectively.

Restricted and Other Deferred Stock Units with Vesting Conditions

The combined weighted average fair value per unit of restricted stock units and deferred stock units with vesting conditions granted during the nine months ended September 30, 2009 and 2008 was $34.70 and $56.78, respectively.

NOTE 5. INVENTORIES

Inventories include material, labor and overhead, and are stated at the lower of cost (first-in, first-out) or market. The components of inventories were as follows *(in thousands)*:

	September 30, 2009	December 31, 2008
Raw materials	$ 32,237	$ 32,575
Work-in-process	18,491	18,428
Finished goods	73,760	64,923
	$ 124,488	$ 115,926

NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment, net, consisted of the following (*in thousands*):

	September 30, 2009	December 31, 2008
Land and improvements	$ 6,927	$ 8,189
Buildings and improvements	90,565	90,042
Leasehold improvements	19,752	17,275
Machinery and equipment	109,027	106,632
Office furniture and equipment	25,271	22,804
Computer hardware and software	65,245	52,081

Construction in progress		29,383		23,175
		346,170		320,198
Less accumulated depreciation and amortization		149,628		130,552
Total property and equipment, net	$	196,542	$	189,646

Depreciation expense was $9.9 million and $29.4 million for the three and nine months ended September 30, 2009, respectively. Depreciation expense was $9.1 million and $26.5 million for the three and nine months ended September 30, 2008, respectively.

NOTE 7. GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets other than goodwill consisted of the following *(in thousands)*:

	September 30, 2009		December 31, 2008	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Patents	$ 9,443	$ 4,636	$ 9,748	$ 4,306
Product rights (1)	32,591	14,826	32,187	13,180
Customer-related intangible assets (2)	57,747	15,862	52,642	11,844
Other, primarily noncompete agreements	6,167	3,787	6,268	3,188
	$ 105,948	$ 39,111	$ 100,845	$ 32,518

(1) Product rights comprise certain technologies, licenses, trade names and contractual rights acquired from third parties.

(2) Customer-related intangible assets comprise customer lists and customer relationships acquired from third parties.

Amortization expense of intangible assets was $2.3 million and $7.0 million for the three and nine months ended September 30, 2009, respectively. Amortization expense of intangible assets was $2.7 million and $7.9 million for the three and nine months ended September 30, 2008, respectively.

See Note 3 for a discussion of amortizable intangible assets recognized during the nine months ended September 30, 2009. The remaining changes in the cost of intangible assets other than goodwill during the nine months ended September 30, 2009 resulted from changes in foreign currency exchange rates.

Goodwill by segment consisted of the following *(in thousands)*:

	September 30, 2009	December 31, 2008
Companion animal group segment	$ 117,335	$ 109,502
Water segment	13,986	12,757
Production animal segment	10,285	9,978
Other segment	6,531	6,531

	$ 148,137	$ 138,768

See Note 3 for a discussion of goodwill recognized during the nine months ended September 30, 2009. The remaining changes in goodwill during the nine months ended September 30, 2009 resulted from changes in foreign currency exchange rates.

NOTE 8. WARRANTY RESERVES

We provide for the estimated cost of instrument warranties in cost of product revenue at the time revenue is recognized based on the estimated cost to repair the instrument over its warranty period. As we develop and sell new instruments, our provision for warranty expense increases. Cost of revenue reflects not only estimated warranty expense for the systems sold in the current period, but also any changes in estimated warranty expense for the installed base that results from our quarterly evaluation of service experience. Our actual warranty obligation is affected by instrument performance in the customers environment and costs incurred in servicing instruments. Should actual service rates or costs differ from our estimates, which are based on historical data and projections of future costs, revisions to our estimated warranty liability would be required.

Following is a summary of changes in accrued warranty reserves during the three and nine months ended September 30, 2009 and 2008 *(in thousands)*:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Balance, beginning of period	$ 3,099	$ 1,579	$ 2,837	$ 1,667
Provision for warranty expense	1,225	1,096	3,357	2,154
Change in estimate, balance beginning of period	(225)	(167)	(573)	(246)
Settlement of warranty liability	(1,139)	(642)	(2,661)	(1,709)
Balance, end of period	$ 2,960	$ 1,866	$ 2,960	$ 1,866

NOTE 9. DEBT

At September 30, 2009, we had $142.6 million outstanding under our unsecured short-term revolving credit facility (Credit Facility) with a weighted average interest rate of 0.8%, of which $4.6 million was borrowed by our Canadian subsidiary and denominated in Canadian dollars. Of the total amount outstanding at September 30, 2009, $80 million has been classified as a long-term liability based on our ability and intent with regard to future use and repayment of balances outstanding. The applicable interest rates on our Credit Facility generally range from 0.375 to 0.875 percentage points (Credit Spread) above the London interbank rate or the Canadian Dollar-denominated bankers acceptance rate, dependent on our consolidated leverage ratio. Based on current market conditions, we believe that we could obtain an unsecured short-term revolving credit facility similar to our current Credit Facility; however, that facility would be at an interest rate that is approximately 2.25 percentage points higher than the interest rate on our current Credit Facility. Based on this difference, the fair market value of the debt would be approximately $945 thousand per $1 million of principal outstanding as of September 30, 2009, assuming the amounts outstanding at September 30, 2009 remained outstanding for the duration of the Credit Facility. The Credit Facility contains financial and other affirmative and negative covenants, as well as customary events of default, that would allow any amounts outstanding under the Credit Facility to be accelerated, or restrict our ability to borrow thereunder, in the event of noncompliance. The financial covenant requires our ratio of debt to earnings before interest, taxes, depreciation and amortization, as defined by the agreement, not to exceed 3-to-1. At September 30, 2009, we were in compliance with the covenants of the Credit Facility.

In May 2006, we acquired our Westbrook, Maine facility and assumed the related mortgage that had a face value of $6.5 million and stated interest rate of 9.875%. We recorded the mortgage at a fair market value of $7.5 million, based on the effective market interest rate at that time. The carrying amount of our long-term debt approximates fair market value based on current market prices for similar debt issues with similar remaining maturities.

In March 2009, we entered into two forward fixed interest rate swap agreements to manage the economic effect of variable interest obligations. See Note 17 for a discussion of our derivative instruments and hedging activities.

NOTE 10. INCOME TAXES

Our effective income tax rates for the three and nine months ended September 30, 2009 were 28.0% and 30.1%, respectively, compared with 33.1% and 31.4% for the three and nine months ended September 30, 2008, respectively. The decrease in our effective income tax rate for the three months ended September 30, 2009 compared to September 30, 2008 was primarily due to the recognition of tax benefits resulting from expiration of certain statutes of limitation and federal research and development tax incentives received during the three months ended September 30, 2009 that were not available for the three months ended September 30, 2008.

The decrease in the effective tax rate for the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008 relates primarily to the recognition of tax benefits resulting from expiration of certain statutes of limitation and federal research and development tax incentives received during the nine months ended

September 30, 2009 that were not available for the nine months ended September 30, 2008. The benefits were partly offset by a reduction in international deferred tax liabilities in 2008 due to a change in the statutory tax rates for a jurisdiction in which we operate. This non-recurring benefit of approximately $1.5 million reduced our effective income tax rate for the nine months ended September 30, 2008 by 1.1 percentage points.

NOTE 11. COMPREHENSIVE INCOME

The following is a summary of comprehensive income for the three and nine months ended September 30, 2009 and 2008 *(in thousands)*:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Net income	$ 31,536	$ 25,699	$ 91,274	$ 92,614
Other comprehensive income (loss):				
Foreign currency translation adjustments	7,053	(13,921)	14,024	(5,015)
Change in fair value of foreign currency contracts classified as hedges, net of tax	(2,975)	6,230	(11,433)	5,599
Change in fair value of interest rate swaps classified as hedges, net of tax	(537)		(201)	
Change in fair market value of investments, net of tax	133	(223)	375	(192)
Comprehensive income	$ 35,210	$ 17,785	$ 94,039	$ 93,006

NOTE 12. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock and vested deferred stock units outstanding during the year. The computation of diluted earnings per share is similar to the computation of basic earnings per share, except that the denominator is increased for the assumed exercise of dilutive options and other potentially dilutive securities using the treasury stock method, unless the effect is anti-dilutive.

The following is a reconciliation of shares outstanding for basic and diluted earnings per share *(in thousands)*:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Shares Outstanding for Basic Earnings per Share:				
Weighted average shares outstanding	58,540	59,374	58,799	60,025
Weighted average vested deferred stock units outstanding	116	99	112	96
	58,656	59,473	58,911	60,121
Shares Outstanding for Diluted Earnings per Share:				
Shares outstanding for basic earnings per share	58,656	59,473	58,911	60,121
Dilutive effect of options issued to employees and directors	1,876	2,304	1,685	2,378
	128	83	115	98

Dilutive effect of restricted stock units issued to employees				
Dilutive effect of unvested deferred stock units issued to directors	8	5	7	6
	60,668	61,865	60,718	62,603

Vested deferred stock units outstanding are included in shares outstanding for basic and diluted earnings per share because the associated shares of our common stock are issuable for no cash consideration, the number of shares of our common stock to be issued is fixed and issuance is not contingent.

Certain options to acquire shares and restricted stock units have been excluded from the calculation of shares outstanding for dilutive earnings per share because they were anti-dilutive. The following table presents information concerning those anti-dilutive options and restricted stock units *(in thousands, except per share amounts*):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Weighted average number of shares underlying anti-dilutive options	647	653	1,362	610
Weighted average exercise price per underlying share of anti-dilutive options	$ 52.91	$ 53.67	$ 44.76	$ 52.98
Weighted average number of shares underlying anti-dilutive restricted stock units		3	3	2

The following table presents additional information concerning the exercise prices of vested and unvested options outstanding at the end of the period (*in thousands, except per share amounts*):

	September 30,	
	2009	**2008**
Closing price per share of our common stock	$ 50.00	$ 54.80
Number of shares underlying options with exercise prices below the closing price	4,390	4,758
Number of shares underlying options with exercise prices equal to or above the closing price	568	403
Total number of shares underlying outstanding options	4,958	5,161

NOTE 13. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Significant commitments, contingencies and guarantees at September 30, 2009 are consistent with those discussed in our Annual Report on Form 10-K for the year ended December 31, 2008 in Note 12 to the consolidated financial statements.

NOTE 14. TREASURY STOCK

Our board of directors has authorized the repurchase of up to 40,000,000 shares of our common stock in the open market or in negotiated transactions. We believe that the repurchase of our common stock is a favorable investment and we also repurchase to offset the dilutive effect of our share-based compensation programs. Repurchases of our common stock may vary depending upon the level of other investing and financing activities and the share price. From the inception of the program in August 1999 to September 30, 2009, we repurchased 37,220,000 shares for $880.5 million. During that same period, we received 411,000 shares of stock with a market value of $9.1 million that were surrendered by employees in payment for the minimum required withholding taxes due on the exercise of stock options, the vesting of restricted stock units and the settlement of deferred stock units, and in payment for the exercise price of stock options.

Information about our treasury stock purchases and other receipts is presented in the table below *(in thousands, except per share amounts)*:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Shares acquired	375	392	1,467	2,367
Total cost of shares acquired	$ 18,375	$ 20,143	$ 59,191	$ 123,800
Average cost per share	$ 48.99	$ 51.44	$ 40.34	$ 52.30

NOTE 15. SEGMENT REPORTING

We are organized into business units by market and customer group. Our reportable segments include: products and services for the veterinary market, which we refer to as our Companion Animal Group (CAG), water quality products (Water), and products for production animal health, which we refer to as our Production Animal Segment (PAS). We also operate two smaller segments that comprise products for dairy quality, which we refer to as Dairy, and products for the human medical diagnostic market, which we refer to as OPTI Medical. In addition, we maintain active research and development programs, some of which may materialize into the development and introduction of new technology, products or services. Financial information about our Dairy and OPTI Medical operating segments and other activities are combined and presented in an Other category because they do not meet the quantitative or qualitative thresholds for reportable segments.

CAG develops, designs, manufactures, and distributes products and performs services for veterinarians. Water develops, designs, manufactures, and distributes products to detect contaminants in water. PAS develops, designs, manufactures, and distributes products to detect disease in production animals. Dairy develops, designs, manufactures, and distributes products to detect contaminants in dairy products. OPTI Medical develops, designs, manufactures, and distributes point-of-care electrolyte and blood gas analyzers and related consumable products for the human medical diagnostics market. In connection with the restructuring of our pharmaceutical business in the fourth quarter of 2008, we realigned two of our remaining pharmaceutical product lines to Rapid Assay products within our CAG segment, and realigned the remainder of our pharmaceutical business, which comprised one product line and two out-licensing arrangements, to the Other category. The segment information for the three and nine months ended September 30, 2008 has been restated to conform to our presentation of reportable segments for the three and nine months ended September 30, 2009. Previously, financial information related to the product lines realigned to Rapid Assay and the product line and out-licensing arrangement realigned to Other were included in the pharmaceutical business and reported in our CAG segment.

Items that are not allocated to our operating segments are comprised primarily of corporate research and development expenses that do not align with one of our existing business or service categories, a portion of share-based compensation expense, interest income and expense, and income taxes. We allocate most of our share-based compensation expense to the operating segments. This allocation differs from the actual expense and consequently yields a difference between the total allocated share-based compensation expense and the actual expense for the total company, which is categorized as unallocated amounts.

The accounting policies of the segments are the same as those described in Notes 3 and 17 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2008.

The following is the segment information *(in thousands)*:

	For the Three Months Ended September 30,					
	CAG	Water	PAS	Other	Unallocated Amounts	Consolidated Total
2009						
Revenues	$ 214,461	$ 19,691	$ 15,943	$ 9,025	$	$ 259,120
Income (loss) from operations	$ 38,002	$ 8,416	$ 944	$ (244)	$ (2,913)	$ 44,205
Interest expense, net						388
Income before provision for income taxes						43,817
Provision for income taxes						12,281
Net income						$ 31,536
2008						
Revenues	$ 204,762	$ 20,321	$ 17,801	$ 8,209	$	$ 251,093
Income (loss) from operations	$ 28,800	$ 8,865	$ 3,482	$ 127	$ (2,277)	$ 38,997
Interest expense, net						560
Income before provision for income taxes						38,437
Provision for income taxes						12,738
Net income						$ 25,699

	For the Nine Months Ended September 30,					
	CAG	Water	PAS	Other	Unallocated Amounts	Consolidated Total
2009						
Revenues	$ 625,442	$ 54,707	$ 53,848	$ 27,301	$	$ 761,298
Income (loss) from operations	$ 106,993	$ 24,336	$ 11,002	$ (145)	$ (10,364)	$ 131,822
Interest expense, net						1,187

Income before provision for income taxes						130,635
Provision for income taxes						39,361
Net income						$ 91,274
2008						
Revenues	$ 637,534	$ 57,287	$ 60,452	$ 25,464	$	$ 780,737
Income (loss) from operations	$ 105,412	$ 23,437	$ 14,824	$ 634	$ (7,700)	$ 136,607
Interest expense, net						1,688
Income before provision for income taxes						134,919
Provision for income taxes						42,305
Net income						$ 92,614

Revenue by product and service category was as follows (*in thousands*):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
CAG segment revenue:				
Instruments and consumables	$ 83,922	$ 80,587	$ 239,889	$ 236,974
Rapid assay products	37,753	36,300	116,997	116,628
Laboratory and consulting services	76,419	73,536	222,987	222,984
Practice information systems and digital radiography	16,367	13,333	45,515	42,373
Pharmaceutical products		1,006	54	18,575
CAG segment revenue	214,461	204,762	625,442	637,534
Water segment revenue	19,691	20,321	54,707	57,287
PAS segment revenue	15,943	17,801	53,848	60,452
Other segment revenue	9,025	8,209	27,301	25,464
Total revenue	$ 259,120	$ 251,093	$ 761,298	$ 780,737

NOTE 16. FAIR VALUE MEASUREMENTS

Financial instruments consist mainly of cash and cash equivalents, investments, accounts receivable, derivative instruments, interest rate swap agreements, accounts payable, lines of credit, and notes payable. Financial instruments that potentially subject us to concentrations of credit risk are principally cash, cash equivalents, investments and accounts receivable. We place our investments in highly-rated financial institutions and money market funds invested in government securities. Concentration of credit risk with respect to accounts receivable is limited to certain customers to whom we make substantial sales. To reduce risk, we routinely assess the financial strength of our customers and closely monitor their amounts due to us and, as a consequence, believe that our accounts receivable credit risk exposure is limited. We maintain an allowance for potential credit losses, but historically have not experienced any significant credit losses related to an individual customer or group of customers in any particular industry or geographic area. The carrying amounts of our financial instruments, other than long-term debt, approximate fair market value because of the short maturity of those instruments. See Note 9 for the carrying amount of our long-term debt and for a discussion of interest rate risk regarding our revolving credit facility and Note 17 for a discussion of our derivative instruments and hedging activities.

U.S. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. U.S. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs, where available, and minimize the use of unobservable inputs when measuring fair value.

There are three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities. At September 30, 2009, our Level 1 assets included investments in money market funds and marketable securities related to a deferred compensation plan assumed in a business combination. The liability associated with this plan relates to deferred compensation, which is indexed to the performance of the underlying investments, and is included in our Level 1 liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. At September 30, 2009, our Level 2 liabilities included foreign currency hedge contracts and interest rate hedge contracts.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. At September 30, 2009, we had no Level 3 assets or liabilities.

Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. We did not have any nonfinancial assets or nonfinancial liabilities which required remeasurement during the nine months ended September 30, 2009.

The following table sets forth our financial assets and liabilities that were measured at fair value on a recurring basis at September 30, 2009 by level within the fair value hierarchy (*in thousands*):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2009
Assets				
Marketable securities (1)	$ 1,768	$	$	$ 1,768
Money market funds (2)	52,106			52,106
Liabilities				
Interest rate swaps (3)		319		319
Deferred compensation (4)	1,768			1,768
Foreign currency exchange contracts (5)		6,743		6,743

(1) Investments in marketable securities for a deferred compensation plan, which is included in other long-term assets.

(2) Short-term investment in registered funds and included in cash and cash equivalents.

(3) Interest rate swaps designated as cash flow hedges, included in accrued liabilities whereby we will receive variable interest rate payments in exchange for fixed interest payments on $80 million of

borrowings outstanding beginning on March 31, 2010, extending through March 30, 2012.

(4) Deferred compensation liability associated with the above-mentioned marketable securities, included in other long-term liabilities.

(5) Foreign currency hedge contracts, included in accrued liabilities. The notional value of these contracts is $110.8 million.

The following table sets forth our financial assets and liabilities that were measured at fair value on a recurring basis at December 31, 2008 by level within the fair value hierarchy (*in thousands*):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2008
Assets				
Marketable securities (1)	$ 1,384	$	$	$ 1,384
Money market funds (2)	9,017			9,017
Foreign currency exchange contracts (3)		9,932		9,932
Liabilities				
Deferred compensation (4)	1,384			1,384

(1) Investments in marketable securities for a deferred compensation

plan, which is included in other long-term assets.

(2) Short-term investment in registered funds and included in cash and cash equivalents.

(3) Foreign currency hedge contracts, included in other current assets. The notional value of these contracts is $97.7 million.

(4) Deferred compensation liability associated with the above-mentioned marketable securities, included in other long-term liabilities.

NOTE 17. DERIVATIVE INSTRUMENTS AND HEDGING

Disclosure within this footnote is presented to provide transparency about how and why we use derivative instruments, how the instruments and related hedged items are accounted for, and how the instruments and related hedged items affect our financial position, results of operations, and cash flows. Derivative instruments are recognized on the balance sheet as either assets or liabilities at fair value with a corresponding offset to other comprehensive income, which is net of tax.

We are exposed to certain risks related to our ongoing business operations. The primary risks that we manage by using derivative instruments are foreign currency exchange risk and interest rate risk. Our subsidiaries enter into foreign currency exchange contracts to manage the exchange risk associated with their forecasted intercompany inventory purchases for the next year. From time to time, we may also enter into foreign currency exchange contracts to minimize the impact of foreign currency fluctuations associated with specific, significant transactions. Interest rate swaps are entered into to manage interest rate risk associated with our variable-rate debt.

The primary purpose of our foreign currency hedging activities is to protect against the volatility associated with foreign currency transactions. We also utilize natural hedges to mitigate our transaction and commitment exposures. Our corporate policy prescribes the range of allowable hedging activity. We enter into exchange contracts with large multinational financial institutions and we do not hold or engage in transactions involving derivative instruments for purposes other than risk management. Our accounting policies for these contracts are based on our designation of such instruments as hedging transactions. Market gains and losses are deferred in other current or long-term assets or accruals, as appropriate, until the contract matures, which is the period when the related obligation is settled. We primarily utilize forward exchange contracts with durations of less than 21 months.

Cash Flow Hedges

We have designated our forward currency exchange contracts and variable-to-fixed interest rate swaps as cash flow hedges. For derivative instruments that are designated as hedges, changes in the fair value of the derivative are recognized in other comprehensive income (OCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. We de-designate derivative instruments from hedge accounting when the probability of the hedged transaction occurring becomes less than probable, but remains reasonably possible. For de-designated instruments, the gain or loss from the time of de-designation through maturity of the instrument is recognized in earnings. Any gain or loss in other comprehensive income at the time of de-designation is reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. We immediately record in earnings the extent to which a hedge is not effective in achieving offsetting changes in fair value of the hedged item. Gains or losses related to hedge ineffectiveness recognized in earnings during the three and nine months ended September 30, 2009 and 2008 were not material. At September 30, 2009, the estimated net amount of losses that are expected to be reclassified out of accumulated other comprehensive income and into earnings within the next 12 months is $3.7 million.

We enter into currency exchange contracts for amounts that are less than the full value of forecasted intercompany sales. Our hedging strategy related to intercompany inventory purchases provides that we employ the full amount of our hedges for the succeeding year at the conclusion of our budgeting process for that year, which is complete by the end of the preceding year. Quarterly, we enter into contracts to hedge incremental portions of anticipated foreign currency transactions for the following year. Accordingly, our risk with respect to foreign currency exchange rate fluctuations may vary throughout each annual cycle.

In March 2009, we entered into two forward fixed interest rate swap agreements to manage the economic effect of variable interest obligations on amounts borrowed under the terms of our Credit Facility. Under these agreements, the variable interest rate associated with $80 million of borrowings outstanding beginning on March 31, 2010 will effectively become fixed at 2% plus the Credit Spread through March 30, 2012. The critical terms of the interest rate swap agreements match the critical terms of the underlying borrowings, including notional amounts, underlying market indices, interest rate reset dates and maturity dates.

The notional amount of foreign currency contracts to hedge forecasted intercompany sales consisted of the following *(in thousands)*:

	U.S. Dollar Equivalent		
Currency Sold	**September 30, 2009**	**December 31, 2008**	**September 30, 2008**
Euro	$ 42,849	$ 44,907	$ 62,365
British Pound	22,853	20,540	25,466
Canadian Dollar	22,907	16,960	16,447
Australian Dollar	6,384	3,641	5,335
Swiss Franc			392
Japanese Yen	8,168	6,318	4,823

	$ 103,161	$ 92,366	$ 114,828

	U.S. Dollar Equivalent		
Currency Purchased	**September 30, 2009**	**December 31, 2008**	**September 30, 2008**
Swiss Franc	$ 7,603	$ 5,383	$ 7,675
Japanese Yen			582
	$ 7,603	$ 5,383	$ 8,257

The notional amount of forward fixed interest rate swap agreements to manage variable interest obligations consisted of the following *(in thousands)*:

	U.S. Dollar Equivalent		
	September 30, 2009	December 31, 2008	September 30, 2008
Interest rate swap	$ 80,000	$	$

The fair values of derivative instruments and their respective classification in the condensed consolidated balance sheet consisted of the following *(in thousands)*:

	Asset Derivatives			
	September 30, 2009		December 31, 2008	
	Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
Derivatives designated as hedging instruments				
Foreign exchange contracts	Other current assets	$	Other current assets	$ 9,932

	Liability Derivatives			
	September 30, 2009		December 31, 2008	
	Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
Derivatives designated as hedging instruments				
Foreign exchange contracts	Accrued expenses	$ 6,717	Accrued expenses	$
Interest rate swaps	Accrued expenses	319	Accrued expenses	
Derivatives not designated as hedging instruments (1)				
Foreign exchange contracts	Accrued expenses	26	Accrued expenses	
Total derivative instruments		$ 7,062		$

(1) Derivatives not designated as hedge

instruments relate to foreign exchange contracts, originally entered into to hedge against the volatility associated with foreign currency transactions, where the probability of the hedged transaction occurring within the original specified period of time changed from probable to reasonably possible.

The effect of derivative instruments designated as cash flow hedges on the condensed consolidated balance sheet for the three and nine months ended September 30, 2009 and 2008 consisted of the following *(in thousands)*:

	Gain (Loss) Recognized in OCI on Derivative Instruments (Effective Portion)			
	For the Three Months Ended September 30,		**For the Nine Months Ended September 30,**	
Derivative instruments	**2009**	**2008**	**2009**	**2008**
Foreign exchange contracts, net of tax	$ (2,975)	$ 6,230	$ (11,433)	$ 5,599
Interest rate swaps, net of tax	(537)		(201)	
Total loss, net of tax	$ (3,512)	$ 6,230	$ (11,634)	$ 5,599

The effect of derivative instruments designated as cash flow hedges on the condensed consolidated statement of operations for the three and nine months ended September 30, 2009 and 2008 consisted of the following *(in thousands)*:

	Classification of	Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)			
	Gain (Loss) Reclassified from OCI into Income (Effective	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
Derivative instruments	**Portion)**	**2009**	**2008**	**2009**	**2008**
Foreign exchange contracts	Cost of revenue	$ 4	$ 200	$ 6,956	$ (3,576)

The effect of derivative instruments that have been de-designated from cash flow hedge treatment on the condensed consolidated statement of operations for the three and nine months ended September 30, 2009 and 2008 consisted of the following *(in thousands)*:

	Classification of	Gain (Loss) Recognized in Income Related to De-designated Cash Flow Hedges			
	Gain (Loss)	For the Three Months Ended		For the Nine Months Ended	
De-designated derivative	**Reclassified from**	**September 30,**		**September 30,**	
instruments	**OCI into Income**	**2009**	**2008**	**2009**	**2008**
Foreign exchange contracts	General and administrative expense	$ (31)	$	$ (73)	$

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

This Quarterly Report on Form 10-Q contains statements which, to the extent they are not statements of historical or present fact, constitute forward-looking statements. Such forward-looking statements about our business and expectations within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, include statements relating to future revenue growth rates, earnings and other measures of financial performance, the effect of economic downturns on our business performance, demand for our products, realizability of assets, future cash flow and uses of cash, future repurchases of common stock, future levels of indebtedness and capital spending, warranty expense, share-based compensation expense, and competition. Forward-looking statements can be identified by the use of words such as expects, may, anticipates, intends, would, will, plans, believes, estimates, sho
words and expressions. These forward-looking statements are intended to provide our current expectations or forecasts of future events; are based on current estimates, projections, beliefs, and assumptions; and are not guarantees of future performance. Actual events or results may differ materially from those described in the forward-looking statements. These forward-looking statements involve a number of risks and uncertainties as more fully described under the heading Part II, Item 1A. Risk Factors in this Quarterly Report on Form 10-Q. The risks and uncertainties discussed

herein do not reflect the potential impact of any mergers, acquisitions or dispositions. In addition, any forward-looking statements represent our estimates only as of the day this Quarterly Report was first filed with the Securities and Exchange Commission and should not be relied upon as representing our estimates as of any subsequent date. From time to time, oral or written forward-looking statements may also be included in other materials released to the public. While we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, even if our estimates or expectations change.

Business Overview

We operate primarily through three business segments: products and services for the veterinary market, which we refer to as our Companion Animal Group (CAG), water quality products (Water) and products for production animal health, which we refer to as our Production Animal Segment (PAS). We also operate two smaller segments that comprise products for dairy quality, which we refer to as Dairy, and products for the human medical diagnostic market, which we refer to as OPTI Medical. In addition, we maintain active research and development programs, some of which may materialize into the development and introduction of new technology, products or services. Financial information about our Dairy and OPTI Medical operating segments and other activities are combined and presented in an Other category because they do not meet the quantitative or qualitative thresholds for reportable segments. In connection with the restructuring of our pharmaceutical business at the end of 2008, we realigned two of our remaining pharmaceutical product lines to the Rapid Assay business, which is part of our CAG segment, and realigned the remainder of our pharmaceutical business, which comprised one product line and two out-licensing arrangements, to the Other category. Segment information presented for the three and nine months ended September 30, 2008 has been restated to conform to our presentation of reportable segments for the three and nine months ended September 30, 2009. See Note 15 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for financial information about our segments.

CAG develops, designs, manufactures, and distributes products and performs services for veterinarians. Water develops, designs, manufactures, and distributes products to detect contaminants in water. PAS develops, designs, manufactures, and distributes products to detect diseases in production animals. Dairy develops, designs, manufactures, and distributes products to detect contaminants in dairy products. OPTI Medical develops, designs, manufactures, and distributes point-of-care electrolyte and blood gas analyzers and related consumable products for the human medical diagnostics market.

Items that are not allocated to our operating segments are comprised primarily of corporate research and development expenses that do not align with one of our existing business or service categories, a portion of share-based compensation expense, interest income and expense, and income taxes. We allocate most of our share-based compensation expense to our operating segments. This allocation differs from the actual expense and consequently yields a difference between the total allocated share-based compensation expense and the actual expense for the total company. In our segment disclosure of gross profit, operating expenses and operating income, these amounts are shown under the caption unallocated amounts.

Because the instrument consumables and rapid assay products in our CAG segment are sold in the U.S. and certain other geographies by distributors, distributor purchasing dynamics have an impact on our reported sales of these products. Distributors purchase products from us and sell them to veterinary practices, who are the end users. Distributor purchasing dynamics may be affected by many factors and may be unrelated to underlying end-user demand for our products. As a result, fluctuations in distributors inventories may cause reported results in a period not to be representative of underlying end-user demand. Therefore, we believe it is important to track distributor sales to end users and to distinguish between the impact of end-user demand and the impact of distributor purchasing dynamics on reported revenue growth.

Where growth rates are affected by changes in end-user demand, we refer to the impact of practice-level sales on growth. Where growth rates are affected by distributor purchasing dynamics, we refer to the impact of changes in distributors inventories. If during the comparable period of the prior year, distributors inventories grew by more than those inventories grew in the current year, then changes in distributors inventories have a negative impact on our reported sales growth in the current period. Conversely, if during the comparable period of the prior year, distributors inventories grew by less than those inventories grew in the current year, then changes in distributors inventories have a positive impact on our reported sales growth in the current period.

Approximately 23% of our revenue is derived from products manufactured in the U.S. and sold internationally in local currencies. Strengthening of the rate of exchange for the U.S. dollar relative to other currencies has a negative impact on our international revenues and on margins of products manufactured in the U.S. and sold internationally. In addition, to the extent that the U.S. dollar is stronger in future periods relative to the exchange rates in effect in the corresponding prior periods, our growth rate will be negatively affected. The impact of foreign currency denominated operating expenses and the impact of foreign currency hedge contracts in place partly offset this exposure. See also the section of this Quarterly Report on Form 10-Q under the heading Part 1, Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We believe that our financial results in the first, second and third quarters of 2009 continued to be negatively impacted by economic conditions that weakened over the course of 2008 due, in large part, to fewer patient visits to U.S. and European veterinary clinics for routine screening, preventive care and elective procedures. Reduced patient visits negatively impacted sales of rapid assay tests, instrument consumables and laboratory services in our CAG segment. In addition, we believe that sales of our instruments, which are larger capital purchases for veterinarians, have been negatively affected by increased caution among veterinarians regarding near-term economic prospects. These observations are consistent with other market data that is available to us, particularly with respect to changes in patient visits to U.S. veterinary medical hospitals. Weaker economic conditions have also increased the focus of our customers on the pricing of our products and services, resulting in lower price realization for certain products over the course of the previous four quarters relative to prior periods.

Beyond our companion animal business, we are also seeing the weaker economy impact certain customer groups in our Water and PAS businesses. Lower Water testing volumes in the non-regulatory segments of the business have been driven by a decline in new home construction and reduced consumer willingness to spend on certain luxury items, such as vacation cruises. Lower PAS testing volumes have been driven by a reduction in non-regulatory producer and laboratory testing, as a measure to reduce operating costs, and by a reduction in testing associated with government mandated eradication programs, due to lower government funding.

While we expect these trends to continue in the near term, we believe the fundamental drivers of demand in our served markets remain intact and that growth rates will improve as major world economies stabilize.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The significant accounting policies used in preparation of these condensed consolidated financial statements for the nine months ended September 30, 2009 are consistent with those discussed in Note 3 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008, except as discussed in Note 2 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q. The critical accounting policies and the significant judgments and estimates used in the preparation of our condensed consolidated financial statements for the nine months ended September 30, 2009 are consistent with those discussed in our Annual Report on Form 10-K for the year ended December 31, 2008 in the section under the heading Part 2, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates.

Results of Operations

Three Months Ended September 30, 2009 Compared to Three Months Ended September 30, 2008

Revenue

Total Company. The following table presents revenue by operating segment:

	For the Three Months Ended September 30,						
Net Revenue			**Dollar**	**Percentage**	**Percentage Change from Currency**	**Percentage Change from Acquisitions/ Divestitures**	**Percentage Change Net of Acquisitions/ Divestitures and Currency**
(dollars in thousands)	**2009**	**2008**	**Change**	**Change**	**(1)**	**(2)**	**Effect**
CAG	$ 214,461	$ 204,762	$ 9,699	4.7%	(1.9%)	(0.1%)	6.7%
Water	19,691	20,321	(630)	(3.1%)	(3.0%)		(0.1%)
PAS	15,943	17,801	(1,858)	(10.4%)	(2.8%)		(7.6%)
Other	9,025	8,209	816	9.9%	(0.4%)		10.3%
Total	$ 259,120	$ 251,093	$ 8,027	3.2%	(2.0%)	(0.1%)	5.3%

(1) Represents the percentage change in revenue attributed to the effect of changes in currency rates from the three months ended September 30, 2009 to the three months ended September 30, 2008.

(2) Represents the percentage change in revenue during the three months ended

September 30, 2009 compared to the three months ended September 30, 2008 attributed to incremental revenues from businesses acquired or revenues lost from businesses divested or discontinued subsequent to June 30, 2008.

The following revenue analysis reflects the results of operations net of the impact of currency exchange rates on sales outside the U.S. and net of incremental sales from businesses acquired or revenues lost from businesses divested subsequent to June 30, 2008.

Companion Animal Group. The following table presents revenue by product and service category for CAG:

For the Three Months Ended September 30,

Net Revenue *(dollars in thousands)*	**2009**	**2008**	**Dollar Change**	**Percentage Change**	**Percentage Change from Currency (1)**	**Percentage Change from Acquisitions/ Divestitures (2)**	**Percentage Change Net of Acquisitions/ Divestitures and Currency Effect**
Instruments and consumables	$ 83,922	$ 80,587	$ 3,335	4.1%	(1.9%)		6.0%
Rapid assay products	37,753	36,300	1,453	4.0%	(0.5%)		4.5%
Laboratory and consulting services	76,419	73,536	2,883	3.9%	(2.7%)	0.9%	5.7%
Practice information management systems and digital radiography	16,367	13,333	3,034	22.8%	(0.9%)	0.3%	23.4%
Pharmaceutical products		1,006	(1,006)	(100.0%)		(100.0%)	
Net CAG revenue	$ 214,461	$ 204,762	$ 9,699	4.7%	(1.9%)	(0.1%)	6.7%

(1) Represents the percentage

change in revenue attributed to the effect of changes in currency rates from the three months ended September 30, 2009 to the three months ended September 30, 2008.

(2) Represents the percentage change in revenue during the three months ended September 30, 2009 compared to the three months ended September 30, 2008 attributed to incremental revenues from businesses acquired or revenues lost from businesses divested or discontinued subsequent to June 30, 2008.

The increase in instruments and consumables revenue was due to higher sales volumes, partly offset by lower average unit sales prices. Higher instrument sales volume was driven primarily by sales of our Catalyst Dx® chemistry analyzer, which was launched at the end of the first quarter of 2008. This impact was partly offset by a decrease in sales of many of our other IDEXX VetLab® instruments, due primarily to a shift in focus of our sales efforts to our newer instruments and to economic factors. Higher sales volume was also attributable to sales of consumables used with the Catalyst Dx® instrument and to higher instrument service revenue due to the increase in instruments covered under service contracts as our active installed base of instruments continued to increase. Lower average unit sales prices for instruments were primarily related to sales of our LaserCyte® hematology analyzers, resulting from discounts associated with customer purchase programs. The impact from changes in distributors inventory levels increased reported instruments and consumables revenue growth by 1%.

The increase in rapid assay revenue was due to changes in distributor inventories and higher average unit sales prices, partly offset by lower practice-level sales. Higher average unit sales prices were due, in part, to higher relative sales of canine combination test products, due to the launch of SNAP® 4Dx® in Europe, as well as price increases for certain canine and feline tests. The impact from changes in distributors inventory levels increased reported rapid assay revenue growth by 5%.

The increase in laboratory and consulting services revenue resulted primarily from the impact of higher testing volume and price increases. Higher testing volume was the result of growth in our customer base and the impact of new test offerings.

The increase in practice information management systems and digital radiography revenue resulted primarily from higher sales volumes of companion animal radiography systems and, to a lesser extent, increased sales of equine radiography systems and hardware and peripheral equipment used with practice information management systems. Higher average unit prices for companion animal radiography systems also contributed to the increase in sales. These favorable impacts were partly offset by lower sales volumes of Cornerstone® practice information management systems and lower average unit sales prices for equine radiography systems.

In the fourth quarter of 2008, we sold a substantial portion of our pharmaceutical assets and product lines, and therefore did not have pharmaceutical product revenue during the three months ended September 30, 2009. We have retained certain intellectual property and licenses for developed products as well as certain less significant product lines, which have been reassigned to other business units. Prior year amounts have been reclassified to conform to current year presentation.

Water. Water revenue was flat as compared to the same period of the prior year as the unfavorable impact of higher relative sales of our products in geographies where products are sold at lower average unit sales prices was offset by higher Colilert® product sales volume.

Production Animal Segment. The decrease in PAS revenue resulted primarily from lower sales volumes of certain bovine tests. To a lesser extent, the impact of the timing of revenue recognition on shipments to a customer, where revenue for shipments to that customer is recognized on the cash basis of accounting due to uncertain collectability, and lower sales volume of certain swine tests also contributed to the decrease in revenue.

Other. The increase in Other operating units revenue was due primarily to higher sales volume of Dairy SNAP® antibiotic residue tests, accessories and a recently launched Dairy instrument. These impacts were partly offset by lower average unit sales prices for certain OPTI Medical and Dairy products.

Gross Profit

Total Company. The following table presents gross profit and gross profit percentages by operating segment:

	For the Three Months Ended September 30,					
Gross Profit *(dollars in thousands)*	**2009**	**Percent of Revenue**	**2008**	**Percent of Revenue**	**Dollar Change**	**Percentage Change**
CAG	$ 105,234	49.1%	$ 99,807	48.7%	$ 5,427	5.4%

Water	12,251	62.2%	12,825	63.1%	(574)	(4.5%)
PAS	9,257	58.1%	12,035	67.6%	(2,778)	(23.1%)
Other	3,721	41.2%	3,462	42.2%	259	7.5%
Unallocated amounts	14	N/A	20	N/A	(6)	(30.0%)
Total Company	$ 130,477	50.4%	$ 128,149	51.0%	$ 2,328	1.8%

Companion Animal Group. Gross profit for CAG increased due to higher sales volume in all CAG product and service lines, and a slight increase in the gross profit percentage. Gross profit percentage remained relatively constant at 49% as higher selling prices, primarily for laboratory and consulting services, lower depreciation expense and reduced overall cost of service in our laboratory and consulting services business were offset by higher overall manufacturing costs and higher relative sales of lower margin products. Lower depreciation expense was due to an increase in the number of IDEXX VetLab® instruments placed at customer sites becoming fully depreciated. We have curtailed this type of placement over the past few quarters, which has resulted in fewer instruments being capitalized during more recent periods. Higher overall manufacturing costs were due, in part, to the impact of lower production volumes of certain instruments and related consumables.

Water. Gross profit for Water decreased due to a decrease in the gross profit percentage to 62% from 63%, partly offset by slightly higher sales volume. The decrease in the gross profit percentage was due primarily to the impact of higher product and manufacturing costs; the unfavorable impact that strengthening of the U.S. Dollar had on sales denominated in foreign currencies, net of the favorable impact of foreign currency hedge contracts and the favorable impact of exchange rates on foreign currency denominated expenses; and higher costs related to product distribution. These unfavorable items were partly offset by greater relative sales of higher margin products and lower royalty costs.

Production Animal Segment. Gross profit for PAS decreased due to lower sales volume and a decrease in the gross profit percentage to 58% from 68%. The decrease in the gross profit percentage was due primarily to higher costs of production; the impact of lower revenue recognized related to a customer where revenue is recognized on the cash basis of accounting due to uncertain collectability; and, to a lesser extent, higher royalty costs and the unfavorable impact that strengthening of the U.S. Dollar had on sales denominated in foreign currencies, net of the favorable impact of foreign currency hedge contracts and the favorable impact of exchange rates on foreign currency denominated expenses. These unfavorable impacts were partly offset by higher relative sales of higher margin products.

Other. Gross profit for Other operating units increased due to higher sales, partly offset by a decrease in the gross profit percentage to 41% from 42%. The decrease in the gross profit percentage was due primarily to lower average unit sales prices.

Operating Expenses and Operating Income

Total Company. The following tables present operating expenses and operating income by operating segment:

	For the Three Months Ended September 30,					
Operating Expenses *(dollars in thousands)*	**2009**	**Percent of Revenue**	**2008**	**Percent of Revenue**	**Dollar Change**	**Percentage Change**
CAG	$ 67,232	31.3%	$ 71,007	34.7%	$ (3,775)	(5.3%)
Water	3,835	19.5%	3,960	19.5%	(125)	(3.2%)
PAS	8,313	52.1%	8,553	48.0%	(240)	(2.8%)
Other	3,965	43.9%	3,335	40.6%	630	18.9%
Unallocated amounts	2,927	N/A	2,297	N/A	630	27.4%
Total Company	$ 86,272	33.3%	$ 89,152	35.5%	$ (2,880)	(3.2%)

Operating Income *(dollars in thousands)*	**2009**	**Percent of Revenue**	**2008**	**Percent of Revenue**	**Dollar Change**	**Percentage Change**
CAG	$ 38,002	17.7%	$ 28,800	14.1%	$ 9,202	32.0%
Water	8,416	42.7%	8,865	43.6%	(449)	(5.1%)

PAS	944	5.9%	3,482	19.6%	(2,538)	(72.9%)
Other	(244)	(2.7%)	127	1.6%	(371)	(292.1%)
Unallocated amounts	(2,913)	N/A	(2,277)	N/A	(636)	(27.9%)
Total Company	$ 44,205	17.1%	$ 38,997	15.5%	$ 5,208	13.4%

Companion Animal Group. The following table presents CAG operating expenses by functional area:

Operating Expenses *(dollars in thousands)*	**For the Three Months Ended September 30,** **2009**	**Percent of Revenue**	**2008**	**Percent of Revenue**	**Dollar Change**	**Percentage Change**
Sales and marketing	$ 35,082	16.4%	$ 35,272	17.2%	$ (190)	(0.5%)
General and administrative	21,982	10.2%	23,878	11.7%	(1,896)	(7.9%)
Research and development	10,168	4.7%	11,857	5.8%	(1,689)	(14.2%)
Total operating expenses	$ 67,232	31.3%	$ 71,007	34.7%	$ (3,775)	(5.3%)

As previously described, we sold a substantial portion of our pharmaceutical assets and product lines and restructured the remainder of this business in the fourth quarter of 2008. As a result, we did not incur meaningful expenses related to this business in the third quarter of 2009 and will not incur meaningful expenses in the future. This impact on sales and marketing expense, general and administrative expense and research and development expense is referred to in the following operating expense analysis as the impact of the pharmaceutical transaction. In relation to restructuring the remainder of the pharmaceutical business, certain research and development personnel were realigned to our corporate research and development team, for which expenses are not allocated to our operating segments. A portion of the decrease in spending explained within the CAG section is due to this restructuring.

The decrease in sales and marketing expense resulted primarily from the effects of the pharmaceutical transaction and the favorable impact of exchange rates on foreign currency denominated expenses, partly offset by higher personnel and personnel-related costs due, in part, to the addition of customer support, sales and marketing workforce. The decrease in general and administrative expense resulted primarily from the favorable impact of exchange rates on foreign currency denominated expenses, from lower bad debt expense and from the effects of the pharmaceutical transaction. In the third quarter of 2009, our aging of outstanding receivables improved and we reduced our provision for bad debts based on that improvement. To a lesser extent, general and administrative expense was also favorably impacted by reduced amortization expense related to intangible assets associated with our laboratory and consulting services business. The decrease in research and development expense resulted primarily from a decrease in spending due to the effects of the pharmaceutical transaction and, to a lesser extent, decreased development spending related to our recently launched chemistry analyzer, Catalyst Dx®, which we began shipping to customers at the end of the first quarter of 2008.

Water. The following table presents Water expenses by functional area:

Operating Expenses *(dollars in thousands)*	**For the Three Months Ended September 30,** **2009**	**Percent of Revenue**	**2008**	**Percent of Revenue**	**Dollar Change**	**Percentage Change**
Sales and marketing	$ 1,691	8.6%	$ 1,852	9.1%	$ (161)	(8.7%)
General and administrative	1,387	7.0%	1,423	7.0%	(36)	(2.5%)
Research and development	757	3.8%	685	3.4%	72	10.5%
Total operating expenses	$ 3,835	19.5%	$ 3,960	19.5%	$ (125)	(3.2%)

The decrease in sales and marketing expense resulted primarily from the favorable impact of exchange rates on foreign currency denominated expenses and lower spending on travel and consulting services. The decrease in general and administrative expense resulted from the favorable impact of exchange rates on foreign currency denominated expenses. The increase in research and development expense was due primarily to an increase in spending associated with enhancing the functionality of an existing product, qualifying second source suppliers of certain raw materials and new product development. These items were partly offset by lower spending for patent registration and related fees.

Production Animal Segment. The following table presents PAS operating expenses by functional area:

	For the Three Months Ended September 30,					
Operating Expenses		**Percent of**		**Percent of**	**Dollar**	**Percentage**
(dollars in thousands)	**2009**	**Revenue**	**2008**	**Revenue**	**Change**	**Change**
Sales and marketing	$ 2,946	18.5%	$ 3,067	17.2%	$ (121)	(3.9%)
General and administrative	3,104	19.5%	3,491	19.6%	(387)	(11.1%)
Research and development	2,263	14.2%	1,995	11.2%	268	13.4%
Total operating expenses	$ 8,313	52.1%	$ 8,553	48.0%	$ (240)	(2.8%)

The decrease in sales and marketing expense resulted primarily from lower personnel and personnel-related costs associated with a reduction of commissions expense, fewer sales personnel and the favorable impact of exchange rates on foreign currency denominated expenses. These items were partly offset by higher spending on marketing programs. The decrease in general and administrative expense resulted primarily from lower bad debt expense, a decrease in amortization expense related to intangible assets and the favorable impact of exchange rates on foreign currency denominated expenses. These favorable items were partly offset by increased personnel costs. The increase in research and development expense resulted primarily from an increase in spending related to product development and increased personnel costs.

Other. Operating expenses for Other operating units increased $0.6 million to $4.0 million for the three months ended September 30, 2009 due primarily to an increase in deferred compensation expense associated with an employee plan assumed in the acquisition of OPTI Medical and higher spending on research and development supplies. The increase in deferred compensation expense was due to changes to the market value of the underlying investments of the plan.

Unallocated Amounts. Operating expenses that are not allocated to our operating segments increased $0.6 million to $2.9 million for the three months ended September 30, 2009 due primarily to higher expense related to share-based compensation.

Interest Income and Interest Expense

Interest income was less than $0.1 million for the three months ended September 30, 2009, compared to $0.7 million for the same period of the prior year. The decrease in interest income was due primarily to lower interest rates, partly offset by higher invested cash balances.

Interest expense was $0.4 million for the three months ended September 30, 2009, compared to $1.2 million for the same period of the prior year. The decrease in interest expense was due primarily to lower interest rates on outstanding debt balances.

Provision for Income Taxes

Our effective income tax rates were 28.0% and 33.1% for the three months ended September 30, 2009 and 2008, respectively. This decrease in our effective income tax rate was primarily due to the recognition of tax benefits resulting from the expiration of certain statutes of limitation and federal research and development tax incentives received during the three months ended September 30, 2009 that were not available for the three months ended September 30, 2008.

Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2008
Revenue
Total Company. The following table presents revenue by operating segment:

	For the Nine Months Ended September 30,						
Net Revenue			**Dollar**	**Percentage**	**Percentage Change from Currency**	**Percentage Change from Acquisitions/ Divestitures**	**Percentage Change Net of Acquisitions/ Divestitures and Currency**
(dollars in thousands)	**2009**	**2008**	**Change**	**Change**	**(1)**	**(2)**	**Effect**
CAG	$ 625,442	$ 637,534	$ (12,092)	(1.9%)	(4.2%)	(2.8%)	5.1%
Water	54,707	57,287	(2,580)	(4.5%)	(5.8%)		1.3%
PAS	53,848	60,452	(6,604)	(10.9%)	(7.7%)		(3.2%)
Other	27,301	25,464	1,837	7.2%	(1.4%)		8.6%
Total	$ 761,298	$ 780,737	$ (19,439)	(2.5%)	(4.5%)	(2.3%)	4.3%

(1) Represents the percentage change in revenue attributed to the effect of changes in currency rates from the nine months ended September 30, 2009 to the nine months ended September 30, 2008.

(2) Represents the percentage change in revenue during the nine months ended September 30, 2009 compared

to the nine months ended September 30, 2008 attributed to incremental revenues from businesses acquired or revenues lost from businesses divested or discontinued subsequent to December 31, 2007.

The following revenue analysis reflects the results of operations net of the impact of currency exchange rates on sales outside the U.S. and net of incremental sales from businesses acquired or revenues lost from businesses divested subsequent to December 31, 2007.

Companion Animal Group. The following table presents revenue by product and service category for CAG:

	For the Nine Months Ended September 30,						
Net Revenue			**Dollar**	**Percentage**	**Percentage Change from Currency**	**Percentage Change from Acquisitions/ Divestitures**	**Percentage Change Net of Acquisitions/ Divestitures and Currency**
(dollars in thousands)	**2009**	**2008**	**Change**	**Change**	**(1)**	**(2)**	**Effect**
Instruments and consumables	$ 239,889	$ 236,974	$ 2,915	1.2%	(4.9%)		6.1%
Rapid assay products	116,997	116,628	369	0.3%	(1.3%)		1.6%
Laboratory and consulting services	222,987	222,984	3		(5.6%)	0.3%	5.3%
Practice information management systems and digital radiography	45,515	42,373	3,142	7.4%	(2.0%)	0.1%	9.3%
Pharmaceutical products	54	18,575	(18,521)	(99.7%)		(100.0%)	0.3%
Net CAG revenue	$ 625,442	$ 637,534	$ (12,092)	(1.9%)	(4.2%)	(2.8%)	5.1%

(1) Represents the percentage change in

revenue attributed to the effect of changes in currency rates from the nine months ended September 30, 2009 to the nine months ended September 30, 2008.

(2) Represents the percentage change in revenue during the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008 attributed to incremental revenues from businesses acquired or revenues lost from businesses divested or discontinued subsequent to December 31, 2007.

The increase in instruments and consumables revenue was due to higher sales volumes and higher average unit sales prices realized on most of our consumable products, partly offset by lower average unit sales prices for instruments. Higher instrument sales volumes were driven by sales of Catalyst Dx® chemistry analyzers and SNAPshot Dx® analyzers, which were both launched at the end of the first quarter of 2008, partly offset by a decrease in sales of most of our other IDEXX VetLab® instruments. This decrease in sales of other instruments was due primarily to a shift in focus of our sales efforts to our newer instruments and to economic factors. Higher instrument service revenue was due to the increase in the number of instruments covered under service contracts as our active installed base of instruments continued to increase. Lower average unit sales prices for instruments was primarily related to sales of our LaserCyte® hematology analyzers and VetTest® chemistry analyzers, resulting, in part, from discounts associated with customer purchase programs. The impact from changes in distributors   inventory levels reduced reported instruments and consumables revenue growth by 1%.

The increase in rapid assay revenue was due to higher practice-level sales and the favorable impact of a comparatively lower decrease in distributor inventories for the nine months ended September 30, 2009, as compared to the decrease in the same period of the prior year. The increase in practice-level sales was due primarily to higher sales volumes of canine combination test products. To a lesser extent, higher average unit sales prices also contributed to the increase in rapid assay revenue. The impact from changes in distributors   inventory levels increased reported rapid assay revenue growth by 1%.

The increase in laboratory and consulting services revenue resulted primarily from the impact of price increases and higher testing volume. Higher testing volume was the result of growth in our customer base and the impact of new test offerings.

The increase in practice information management systems and digital radiography revenue resulted primarily from higher sales volumes and higher average unit sales prices for companion animal radiography systems. Higher sales volumes were due primarily to sales of companion animal radiography systems and peripheral equipment and support services, including data storage and extended maintenance agreements. These favorable items were partly offset by lower sales volumes of equine radiography systems and Cornerstone® practice information management systems.

In the fourth quarter of 2008, we sold a substantial portion of our pharmaceutical assets and product lines, and therefore have not had significant pharmaceutical product revenue in 2009. We have retained certain intellectual property and licenses for developed products as well as certain less significant product lines, which have been reassigned to other business units. Prior year amounts have been reclassified to conform to current year presentation.

Water. The increase in Water revenue resulted primarily from higher average unit sales prices, partly offset by lower sales volume of certain Water products. Higher average unit sales prices were attributable to higher relative sales in geographies where products are sold at higher average unit sales prices and to the impact of price increases for certain products sold in the U.S. and other regions.

Production Animal Segment. The decrease in PAS revenue resulted primarily from lower sales volumes of certain swine and bovine tests. To a lesser extent, the impact of the timing of revenue recognition on shipments to a customer, where revenue for shipments to that customer is recognized on the cash basis of accounting due to uncertain collectability, and lower average unit sales prices for certain bovine and swine tests also contributed to the decrease in revenue. These unfavorable impacts were partly offset by higher average unit sales prices for certain poultry tests as well as higher relative sales in geographies where products are sold at higher average unit sales prices.

Other. The increase in Other operating units revenue was due primarily to higher sales volume of OPTI Medical products and of Dairy products, including Dairy SNAP® antibiotic residue tests, a recently launched instrument and a new Dairy SNAP® residue test for detection of melamine. These favorable items were partly offset by lower average unit sales prices for OPTI Medical products.

Gross Profit

Total Company. The following table presents gross profit and gross profit percentages by operating segment:

	For the Nine Months Ended September 30,					
Gross Profit *(dollars in thousands)*	**2009**	**Percent of Revenue**	**2008**	**Percent of Revenue**	**Dollar Change**	**Percentage Change**
CAG	$ 310,010	49.6%	$ 321,842	50.5%	$ (11,832)	(3.7%)
Water	35,961	65.7%	35,573	62.1%	388	1.1%
PAS	35,664	66.2%	40,698	67.3%	(5,034)	(12.4%)
Other	11,462	42.0%	10,840	42.6%	622	5.7%
Unallocated amounts	253	N/A	292	N/A	(39)	(13.4%)
Total Company	$ 393,350	51.7%	$ 409,245	52.4%	$ (15,895)	(3.9%)

Companion Animal Group. Gross profit for CAG decreased due to lower sales volume and a decrease in the gross profit percentage to 50% from 51%. The decrease in sales volume was attributable to the absence of pharmaceutical sales in 2009. The decrease in the gross profit percentage was due primarily to higher overall manufacturing costs due, in part, to the impact of lower production volumes of most instruments and consumables, excluding recently launched instruments; the absence of higher margin pharmaceutical product sales in 2009; and higher relative sales of lower margin IDEXX VetLab® instruments and laboratory and consulting services. These unfavorable impacts were partly offset by the impact of higher selling prices, primarily of laboratory and consulting services, and lower depreciation expense associated with IDEXX VetLab® instrument placements.

Water. Gross profit for Water increased due to increased sales volume and an increase in the gross profit percentage to 66% from 62%. The increase in the gross profit percentage was due primarily to the impact of lower royalty costs and, to a lesser extent, higher average unit sales prices, greater relative sales of higher margin products and the favorable impact of foreign currency hedge contracts and the favorable currency impact of foreign currency denominated expenses, net of the unfavorable impact that strengthening of the U.S. Dollar had on sales denominated in foreign currencies. These favorable impacts were partly offset by higher costs related to product distribution.

Production Animal Segment. Gross profit for PAS decreased due to lower sales volume and a decrease in the gross profit percentage to 66% from 67%. The decrease in gross profit percentage was due primarily to higher costs of product manufacturing and the impact of lower revenue recognized related to a customer where revenue is recognized on the cash basis of accounting due to uncertain collectability. These items were partly offset by the favorable impact of foreign currency hedge contracts and the favorable currency impact of foreign currency denominated expenses, net of the unfavorable impact that strengthening of the U.S. Dollar had on sales denominated in foreign currencies and greater relative sales of higher margin products.

Other. Gross profit for Other operating units increased due to higher sales volume, partly offset by a slight decrease in gross profit percentage. The decrease in gross profit percentage was due to lower average unit sales prices of OPTI Medical and Dairy products, partly offset by greater relative sales of higher margin Dairy products.

Operating Expenses and Operating Income

Total Company. The following tables present operating expenses and operating income by operating segment:

	For the Nine Months Ended September 30,					
Operating Expenses *(dollars in thousands)*	**2009**	**Percent of Revenue**	**2008**	**Percent of Revenue**	**Dollar Change**	**Percentage Change**
CAG	$ 203,017	32.5%	$ 216,430	33.9%	$ (13,413)	(6.2%)
Water	11,625	21.2%	12,136	21.2%	(511)	(4.2%)
PAS	24,662	45.8%	25,874	42.8%	(1,212)	(4.7%)
Other	11,607	42.5%	10,206	40.1%	1,401	13.7%
Unallocated amounts	10,617	N/A	7,992	N/A	2,625	32.8%
Total Company	$ 261,528	34.4%	$ 272,638	34.9%	$ (11,110)	(4.1%)

Operating Income *(dollars in thousands)*	**2009**	**Percent of Revenue**	**2008**	**Percent of Revenue**	**Dollar Change**	**Percentage Change**
CAG	$ 106,993	17.1%	$ 105,412	16.5%	$ 1,581	1.5%
Water	24,336	44.5%	23,437	40.9%	899	3.8%
PAS	11,002	20.4%	14,824	24.5%	(3,822)	(25.8%)
Other	(145)	(0.5%)	634	2.5%	(779)	(122.9%)
Unallocated amounts	(10,364)	N/A	(7,700)	N/A	(2,664)	(34.6%)
Total Company	$ 131,822	17.3%	$ 136,607	17.5%	$ (4,785)	(3.5%)

Companion Animal Group. The following table presents CAG operating expenses by functional area:

	For the Nine Months Ended September 30,					
Operating Expenses *(dollars in thousands)*	**2009**	**Percent of Revenue**	**2008**	**Percent of Revenue**	**Dollar Change**	**Percentage Change**
Sales and marketing	$ 105,297	16.8%	$ 109,759	17.2%	$ (4,462)	(4.1%)
General and administrative	67,413	10.8%	71,466	11.2%	(4,053)	(5.7%)
Research and development	30,307	4.8%	35,205	5.5%	(4,898)	(13.9%)
Total operating expenses	$ 203,017	32.5%	$ 216,430	33.9%	$ (13,413)	(6.2%)

The decrease in sales and marketing expense resulted primarily from the favorable impact of exchange rates on foreign currency denominated expenses, from the effects of the pharmaceutical transaction and, to a lesser extent, from lower spending on sales commissions. These decreases were partly offset by higher personnel and personnel-related costs due, in part, to the addition of customer support, sales and marketing workforce. The decrease in general and administrative expense resulted primarily from the favorable impact of exchange rates on foreign currency denominated expenses, the effects of the pharmaceutical transaction, lower bad debt expense, lower personnel costs and lower amortization expense related to intangible assets. Lower personnel costs were due, in part, to a decrease in the workforce in general and administrative functions within our laboratory and consulting services business. The decrease in research and development expense resulted primarily from a decrease in spending related to the pharmaceutical business and, to a lesser extent, decreased development spending related to our recently launched chemistry analyzer, Catalyst Dx®. Lower personnel costs, primarily related to travel, recruiting and compensation, and less spending on supplies also contributed to the decrease in research and development expenses. These decreases were partly offset by higher research and development expense in certain product lines.

Water. The following table presents Water expenses by functional area:

Operating Expenses *(dollars in thousands)*	**For the Nine Months Ended September 30,** **2009**	**Percent of Revenue**	**2008**	**Percent of Revenue**	**Dollar Change**	**Percentage Change**
Sales and marketing	$ 5,306	9.7%	$ 5,805	10.1%	$ (499)	(8.6%)
General and administrative	4,266	7.8%	4,487	7.8%	(221)	(4.9%)
Research and development	2,053	3.8%	1,844	3.2%	209	11.3%
Total operating expenses	$ 11,625	21.2%	$ 12,136	21.2%	$ (511)	(4.2%)

The decrease in sales and marketing expense resulted primarily from the favorable impact of exchange rates on foreign currency denominated expenses, lower spending on travel and a decrease in spending on consulting services. The decrease in general and administrative expense resulted from lower legal expenses, and the favorable impact of exchange rates on foreign currency denominated expenses. These favorable items were partly offset by higher spending on corporate support function expenses and higher bad debt expense. The increase in research and development expense was due primarily to an increase in spending associated with enhancing the functionality of an existing product, qualifying second source suppliers of certain raw materials and new product development. These items were partly offset by lower spending related to product registration related fees and the favorable impact of exchange rates on foreign currency denominated expenses.

Production Animal Segment. The following table presents PAS operating expenses by functional area:

Operating Expenses *(dollars in thousands)*	**For the Nine Months Ended September 30,** **2009**	**Percent of Revenue**	**2008**	**Percent of Revenue**	**Dollar Change**	**Percentage**