IDEXX LABORATORIES INC /DE
Form 10-K
February 22, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____.

COMMISSION FILE NUMBER: 0-19271
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)

Registrant's telephone number, including area code: 207-556-0300

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

Title of each class	Name of each exchange on which registered
Common Stock, $0.10 par value per share	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x No ¨

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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

Based on the closing sale price on June 30, 2010 of the registrant's Common Stock as reported by the NASDAQ Global Market, the aggregate market value of the voting stock held by non-affiliates of the registrant was $3,482,320,038. For these purposes, the registrant considers its Directors and executive officers to be its only affiliates.

The number of shares outstanding of the registrant's Common Stock was 57,335,339 on February 11, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

Part III—Specifically identified portions of the Company's definitive proxy statement to be filed in connection with the Company's 2011 Annual Meeting to be held on May 4, 2011, are incorporated herein by reference.

IDEXX LABORATORIES, INC.
Annual Report on Form 10-K
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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K contains statements which, to the extent they are not statements of historical 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, 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; interest expense; 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," "should," and simi 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 I, Item 1A. Risk Factors" in this Annual Report on Form 10-K. 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 Annual Report was first filed with the Securities and Exchange Commission ("SEC") 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.

PART I

ITEM 1. BUSINESS

We develop, manufacture and distribute products and provide services primarily for the companion animal veterinary, livestock and poultry, water testing and dairy markets. We also sell a line of portable electrolytes and blood gas analyzers for the human point-of-care medical diagnostics market. Our primary products and services are:

- Point-of-care veterinary diagnostic products, comprising instruments and consumables and rapid assays;
- Veterinary reference laboratory diagnostic and consulting services used by veterinarians;
- Diagnostic and health-monitoring products for livestock and poultry;
- Products that test water for certain microbiological contaminants;
- Practice information systems and services, and digital radiography systems used by veterinarians;
- Products that test milk for antibiotic residues and other contaminants; and
- Point-of-care electrolytes and blood gas analyzers used in the human point-of-care medical diagnostics market.

In the fourth quarter of 2008, we sold our Acarexx® and SURPASS® veterinary pharmaceutical products and a feline insulin product under development. Upon completion of this transaction we restructured the remaining pharmaceutical division and realigned two of our remaining pharmaceutical product lines to the Rapid Assay line of business, which is part of our Companion Animal Group ("CAG") segment, and realigned the remainder of the products, which

comprised one product line and two out-licensing arrangements, to the “Other” category. We retained certain drug delivery technologies that we will seek to commercialize through agreements with third parties such as pharmaceutical companies. See Note 21 to the consolidated financial statements for the year ended December 31, 2010 included in this Annual Report on Form 10-K.

We are a Delaware corporation and were incorporated in 1983. Our principal executive offices are located at One IDEXX Drive, Westbrook, Maine 04092, our telephone number is 207-556-0300, and our Internet address is www.idexx.com. References herein to “we,” “us,” the “Company,” or “IDEXX” include our wholly-owned subsidiaries unless the context otherwise requires. References to our Web site are inactive textual references only and the content of our Web site should not be deemed incorporated by reference into this Form 10-K for any purpose.

We make available free of charge on our Web site our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after we file such information with, or furnish it to, the SEC. In addition, copies of our reports filed electronically with the SEC may be accessed on the SEC's Web site at www.sec.gov. The public may also read and copy any materials filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

DESCRIPTION OF BUSINESS BY SEGMENT

During 2010, we operated primarily through three business segments: diagnostic and information technology-based products and services for the veterinary market, which we refer to as CAG, water quality products ("Water") and products for livestock and poultry health, which we refer to as Livestock and Poultry Diagnostics ("LPD"). Prior to the second quarter of 2010, we referred to LPD as our Production Animal Segment. We also operate two smaller operating segments that comprise products for milk quality ("Dairy") and products for the human point-of-care medical diagnostics market ("OPTI Medical"). Financial information about the Dairy and OPTI Medical operating segments is combined and presented with one of our remaining pharmaceutical product lines and our out-sourcing licensing arrangements in an "Other" category because they do not meet the quantitative or qualitative thresholds for reportable segments. See Note 15 to the consolidated financial statements for the year ended December 31, 2010 included in this Annual Report on Form 10-K for financial information about our segments, including geographic information, and our product and service categories.

COMPANION ANIMAL GROUP

Instruments and Consumables

We currently market an integrated suite of in-clinic laboratory analyzers for use in providing reference laboratory diagnostic information in companion animal veterinary practices that we refer to as the IDEXX VetLab® suite of analyzers. The IDEXX VetLab® suite includes several instrument systems, as well as associated proprietary consumable products, all of which are described below:

Blood and Urine Chemistry.

We sell two chemistry analyzers, the Catalyst Dx® Chemistry Analyzer and the VetTest® Chemistry Analyzer, that are used by veterinarians to measure levels of certain enzymes and other substances in blood or urine for assistance in diagnosing physiologic conditions. Both instruments use consumables manufactured for IDEXX by Ortho-Clinical Diagnostics, Inc. ("Ortho"), a subsidiary of Johnson & Johnson, based on Ortho's dry slide technology ("dry chemistry slides," "Catalyst Dx® slides," "VetTest® slides" or "slides"). In addition to dry chemistry slides, the Catalyst Dx® analyzer also uses electrolyte consumables manufactured by IDEXX at OPTI Medical Systems. Blood tests commonly run on these analyzers include glucose, alkaline phosphatase, ALT (alanine aminotransferase), creatinine, blood urea nitrogen ("BUN"), and total protein. Tests are sold individually and in prepackaged panels. Both analyzers also run a urine test called urine protein:creatinine ratio, which assists in the detection of early renal disease.

The Catalyst Dx® analyzer is our latest generation chemistry analyzer, which was launched in the first quarter of 2008. The Catalyst Dx® analyzer provides significantly improved throughput, ease of use and menu options relative to the VetTest® analyzer, including the ability to run electrolytes. Key ease-of-use features include the ability to run whole blood by way of an on-board centrifuge, the ability to run pre-packaged, multi-slide clips in addition to single chemistry slides, and an automated metering system. The Catalyst Dx® analyzer also has the ability to run automated dilutions, which is an ease-of-use feature both for certain blood chemistries and the test for urine protein:creatinine ratio. The Catalyst Dx® analyzer allows a veterinarian to run multiple patient samples simultaneously; to run different

sample types including whole blood, plasma, serum and urine; to perform 27 different chemistry and electrolyte tests; and to automatically calculate other parameters and ratios important to blood chemistry analysis.

Our VetLyte® Electrolyte Analyzer measures three electrolytes—sodium, potassium and chloride—to aid in evaluating acid-base and electrolyte balances and assessing plasma hydration.

Our VetStat® Electrolyte and Blood Gas Analyzer measures electrolytes, blood gases, glucose and ionized calcium, and calculates other parameters, such as base excess and anion gap. These measurements aid veterinarians in diagnosing various disease states, evaluating fluid therapy choices and measuring respiratory function. The VetStat® analyzer runs single-use disposable cassettes that contain various configurations of analytes. The VetStat® analyzer and its cassettes are manufactured by OPTI Medical Systems.

Sales of consumables for use in our installed base of chemistry analyzers provide the majority of consumables volumes and revenues generated from our installed base of IDEXX VetLab® equipment.

Hematology. We sell three hematology analyzers that assess the cellular components of blood, including red blood cells, white blood cells and platelets (also called a complete blood count ("CBC")). These analyzers include the ProCyte Dx™ Hematology Analyzer, which uses laser-flow cytometry, optical fluorescence and laminar-flow impedance in its analysis; the LaserCyte® Hematology Analyzer, which uses laser-flow cytometry technology in its analysis; and the IDEXX VetAutoread™ Hematology Analyzer. We also sell the Coag Dx™ Analyzer, which permits the detection and diagnosis of blood clotting disorders.

The ProCyte Dx™ analyzer is our latest generation hematology analyzer, which we launched in the third quarter of 2010. The ProCyte Dx™ analyzer provides significantly improved throughput, accuracy and more complete medical information relative to the LaserCyte® and VetAutoread™ hematology analyzers. The ProCyte Dx™ analyzer provides validated results for five species (canine, feline, equine, bovine and ferret) for up to 24 different blood parameters, providing a more complete picture of each patient's health.

Quantitative Immunoassay Testing. In the first quarter of 2008, we launched the SNAPshot Dx® Analyzer, which provides quantitative measurements of total thyroxine ("T4"), cortisol and bile acids. The SNAPshot Dx® analyzer assists in the evaluation of thyroid, adrenal and liver function, and offers multiple-patient testing functionality. The SNAPshot Dx® analyzer also reads, interprets and records the results of most IDEXX rapid assay SNAP® tests, including our canine SNAP® 4Dx® test, feline SNAP® FIV/FeLV Combo test, canine SNAP® cPL™ test, SNAP® Feline Triple test, and canine SNAP® Heartworm RT test.

Urinalysis. The IDEXX VetLab® UA™ Analyzer provides rapid, semi-quantitative urinalysis and is validated specifically for veterinary use.

IDEXX VetLab®Station. The IDEXX VetLab ® Station ("IVLS") connects and integrates the diagnostic information from all the IDEXX VetLab ® equipment and thus provides reference laboratory information management system capability. We sell the IVLS as an integral component of the Catalyst Dx ® , LaserCyte ® and ProCyte Dx ™ analyzers and also as a standalone hardware platform. The IVLS includes a user interface to input patient information, connect with a practice management information system and send information to run the individual analyzers. IVLS also generates one integrated patient report incorporating all of the lab work generated by the IDEXX VetLab ® suite; stores, retrieves and analyzes historical patient diagnostics data, including SNAP ® test results; and sends and receives information from practice information management systems, including IDEXX Cornerstone ® and Better Choice ® systems, as well as a wide variety of third-party systems.

Rapid Assays

We sell a broad range of single-use, handheld test kits under the SNAP® name that provide quick, accurate and convenient diagnostic test results for a variety of companion animal diseases and health conditions. These kits work

without the use of instrumentation, although most kits may also be read automatically by the SNAPshot Dx® analyzer as discussed above.

Principal single-use canine tests include:

- SNAP® 4Dx®, which tests for Lyme disease, Ehrlichia canis, canine heartworm, and Anaplasma phagocytophilum.
- SNAP® 3Dx® , which tests for Lyme disease, Ehrlichia canis and canine heartworm;

- SNAP® Heartworm RT, which tests only for canine heartworm;
- SNAP® Parvo, which tests for parvovirus;
- SNAP® cPL™, which tests for canine pancreatitis; and
- SNAP® Giardia, which is a fecal test for soluble Giardia antigens.

Principal single-use feline tests include:

- SNAP® Feline Triple®, which tests for feline immunodeficiency virus ("FIV") (which is similar to the human AIDS virus), feline leukemia virus ("FeLV"), and feline heartworm;
- SNAP® FIV/FeLV Combo Test, which tests for FIV and FeLV;
- SNAP® FeLV, which tests only for FeLV; and
- SNAP® Giardia, which is a fecal test for soluble Giardia antigens.

Sales of canine parasite tests (including SNAP® 4Dx®, SNAP® 3Dx® and SNAP® Heartworm RT), are greater in the first half of our fiscal year due to seasonality of disease testing in the veterinary practice.

In addition to our single-use tests, we sell a line of microwell-based test kits under the PetChek® name for canine heartworm, FIV and FeLV. Larger clinics and laboratories use these kits to test multiple samples and provide ease-of-use and cost advantages to high-volume customers.

Veterinary Reference Laboratory Diagnostic and Consulting Services

We offer commercial veterinary reference laboratory diagnostic and consulting services to veterinarians in the U.S., Canada, Europe, Australia, Japan, and South Africa. Veterinarians use our services by submitting samples by courier or overnight delivery to one of our facilities. Most test results have same-day or next-day turnaround times. Our laboratories offer a large selection of tests and diagnostic panels to detect a number of disease states and other conditions in companion animals and livestock and poultry, including virtually all tests that can be run in-clinic at the veterinary practice with our instruments or rapid assays. This menu of tests also includes a number of specialized and proprietary tests that we have developed that allow practitioners to diagnose increasingly relevant diseases in dogs and cats, including heart disease, pancreatitis and certain infectious diseases.

Additionally, we provide specialized veterinary consultation, telemedicine and advisory services, including radiology, cardiology, internal medicine and ultrasound consulting. These services enable veterinarians to obtain readings and interpretations of test results transmitted by telephone and over the Internet.

Practice Information Systems and Digital Radiography

Practice Information Systems and Services. We develop, market and sell practice information systems, including hardware and software, that run key functions of veterinary clinics, including managing patient electronic health records, scheduling (including boarding and grooming), reminders, billing and inventory management. Our principal system is the Cornerstone® system. We also support several legacy systems installed with our customers, including IDEXX Better Choice®, IDEXX VPM™ and IDEXX VetLINK®. Additionally, we provide software and hardware support to our practice information system customers, and related supplies and services including

Cornerstone® Coaching, Practice Profile™, Reminder Service, SmartService™ Solutions and VetVault® Backup Solution to veterinary practice information system users in general. We derive a significant portion of our revenues for this product line from ongoing service contracts.

Digital Radiography Systems and Services. Our digital radiography systems capture radiographic images in digital form, replacing traditional x-ray film. Use of digital radiography systems eliminates the need for the film and processor, hazardous chemicals, and darkroom required for the production of film images, and provides for image manipulation and enhancement at the computer with a keyboard and mouse. We market and sell three digital radiography systems: the IDEXX-DR™ 1417 and the IDEXX-CR™ 1417 systems for use in the small animal (e.g. dog and cat) veterinary hospital, and the IDEXX EquiView® DR system for use as a portable unit in ambulatory veterinary practices, such as equine practices. In January 2011, we began replacing the IDEXX-CR™ 1417 with the IDEXX I-Vision CR system, our latest generation computed radiography system. As we transition from the IDEXX-CR™ 1417 to the IDEXX I-Vision CR, we will continue to support our active installed base of systems. Our digital radiography systems use IDEXX-PACS™ and IDEXX EquiView PACS™ picture archiving and communication system ("PACS") software for the viewing, manipulation, management, storage and retrieval of the digital images generated by the digital capture plate. The PACS software also permits images from our digital radiography systems to be integrated into patients' medical records in the Cornerstone® system, as well as transferred to other practice information management systems.

WATER

We offer a range of products used in the detection of various microbiological parameters in water.

Our Colilert®, Colilert®-18 and Colisure® tests simultaneously detect total coliforms and E. coli in water. These organisms are broadly used as indicators of microbial contamination in water. These products utilize indicator-nutrients that produce a change in color or fluorescence when metabolized by target microbes in the sample. Our water tests are used by government laboratories, water utilities and private certified laboratories to test drinking water in compliance with regulatory standards, including U.S. Environmental Protection Agency ("EPA") standards. The tests also are used in evaluating water used in production processes (for example, in beverage and pharmaceutical applications) and in evaluating bottled water, recreational water, waste water and water from private wells.

Our Enterolert® products detect enterococci in drinking, waste and recreational waters. Enterococci, bacteria normally found in human and animal waste, are organisms broadly used as an indicator of microbial contamination in water. Our Pseudalert™ products detect pseudomonas in pool, spa and bottled waters. Pseudomonas is a pathogen that can cause "hot-tub rash," "swimmer's ear" and potentially fatal infections in immunocompromised individuals. Our Quanti-Tray® products, when used in conjunction with our Colilert®, Colilert®-18, Colisure®, Enterolert® or Pseudalert™ products, provide users quantitative measurements of microbial contamination, rather than a presence/absence indication. The Colilert®, Colilert®-18, Colisure®, Quanti-Tray®, Enterolert® and SimPlate® for heterotropic plate count products have been approved by the EPA and by regulatory agencies in certain other countries.

Our Filta-Max® and Filta-Max xpress® products are used in the detection of Cryptosporidium and Giardia in water. Cryptosporidium and Giardia are parasites that can cause potentially fatal gastrointestinal illness if ingested.

We also distribute certain water testing kits manufactured by Life Technologies Corporation that complement our Cryptosporidium and Giardia testing products.

LIVESTOCK AND POULTRY DIAGNOSTICS

We sell diagnostic tests and related instrumentation that are used to detect a wide range of diseases and to monitor health status in livestock and poultry. Our livestock and poultry diagnostic products are purchased by government and private laboratories that provide testing services to cattle, swine and poultry veterinarians and producers. Our products include tests for Bovine Viral Diarrhea Virus, Bovine Spongiform Encephalopathy ("BSE" or "mad cow disease"), Porcine Reproductive and Respiratory Syndrome, and various other livestock and poultry diseases.

OTHER

Dairy

Our principal product for use in testing for antibiotic residue in milk is the SNAP® Beta-Lactam test. Our primary customers are dairy producers and processors worldwide who use our tests for quality assurance of raw milk. We also sell a SNAP® test for the detection of the chemical melamine in milk, which we developed for the China market.

OPTI Medical Systems

We sell OPTI® point-of-care analyzers and related consumables for use in human medical hospitals and clinics to measure electrolytes, blood gases, acid-base balance, glucose, lactate, BUN and ionized calcium, and to calculate other parameters such as base excess and anion gap. These analyzers are used primarily in emergency rooms, operating rooms, cardiac monitoring areas and other locations where time-critical diagnostic testing is performed within the hospital setting. The OPTI® CCA and OPTI® Touch Electrolyte and Blood Gas Analyzers run single-use disposable cassettes that contain various configurations of analytes; the OPTI® R Analyzer runs reusable cassettes in various analyte configurations; and the OPTI® LION Stat Electrolyte Analyzer runs single-use electrolyte cassettes. OPTI Medical Systems also manufactures our VetStat® analyzer and provides the electrolyte module and dry slide reagents that make up the electrolyte testing functionality of the Catalyst Dx® analyzer.

Other Activities

As discussed above, in connection with the restructuring of our pharmaceutical product line at the end of 2008, we realigned one product line and two out-licensing arrangements to the Other category, the financial impacts of which have been shown in the Other segment for 2010, 2009 and 2008.

When a research and development program materializes into a product or service offering that does not align with one of our existing product or service categories, the related financial impacts are shown in the Other segment.

UNALLOCATED AMOUNTS

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 product or service categories, a portion of share-based compensation expense, interest income and expense, and income taxes. We report these items under the caption “Unallocated Amounts.” We estimate our share-based compensation expense for the year and allocate the estimated 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 resulting in an unallocated amount.

We maintain active research and development programs, some of which may materialize into the development and introduction of new technology, products or services. Research and development costs incurred that are not specifically allocated to one of our existing product or service categories are reported under the caption “Unallocated Amounts.”

MARKETING AND DISTRIBUTION

We market, sell and service our products worldwide through our marketing, sales and technical service groups, as well as through independent distributors and other resellers. We maintain sales offices outside the U.S. in Australia, Canada, China, France, Germany, Italy, Japan, the Netherlands, Spain, Switzerland, Taiwan, the United Kingdom, and South Africa. Sales and marketing expense was $179.6 million, $167.7 million and $170.0 million for the twelve months ended December 31, 2010, 2009 and 2008, respectively, or 16.3% of revenue in each of 2010 and 2009 and 16.6% of revenue in 2008.

Generally, we select the appropriate distribution channel for our products based on the type of product, technical service requirements, number and concentration of customers, regulatory requirements and other factors. We market our companion animal diagnostic products to veterinarians both directly and through independent veterinary distributors in the U.S., with most instruments sold directly by IDEXX sales personnel, and rapid assay test kits and

instrument consumables supplied primarily by distributors. Outside the U.S., we sell our companion animal diagnostic products through our direct sales force and, in certain countries, through distributors and other resellers. We sell our veterinary reference laboratory diagnostic and consulting services worldwide through our direct sales force. We market our software and digital radiography products through our direct sales force and through distributors primarily in the U.S. and Canada. We market our water, livestock and poultry and dairy products primarily through our direct sales force in the U.S. and Canada. Outside the U.S. and Canada, we market these products through selected independent distributors and, in certain countries, through our direct sales force. We sell our OPTI® electrolyte and blood gas analyzers both directly and through independent human medical product distributors in the U.S. and we sell most of the related consumables through the distribution channel. Outside the U.S., we sell our OPTI® products primarily through distributors and other resellers.

Our largest customers are our U.S. distributors of our products in the CAG segment. One of our CAG distributors, Butler Schein Animal Health Supply, LLC ("Butler"), accounted for 9% of our 2010 revenue. Butler was formed in December 2009 when Butler Animal Health Supply, LLC combined with the U.S. animal health business of Henry Schein, Inc. Butler Animal Health Supply, LLC accounted for 7% and 8% of our 2009 and 2008 revenue, respectively. Henry Schein, Inc. accounted for 3% of our 2009 and 2008 revenue.

RESEARCH AND DEVELOPMENT

Our business includes the development and introduction of new products and services and may involve entry into new business areas. We maintain active research and development programs in each of our business areas. Our research and development expenses, which consist of salaries, employee benefits, materials and consulting costs, were $68.6 million, $65.1 million and $70.7 million for the twelve months ended December 31, 2010, 2009 and 2008, respectively, or 6.2% of revenue in 2010, 6.3% of revenue in 2009 and 6.9% of revenue in 2008.

PATENTS AND LICENSES

We actively seek to obtain patent protection in the U.S. and other countries for inventions covering our products and technologies. We also license patents and technologies from third parties.

Important patents and licenses include:

- Exclusive licenses from Tulane University and the University of Texas to patents and patent applications that expire beginning in 2019 relating to the methods for detection of Lyme disease utilized in certain of our SNAP® products and a reference laboratory diagnostic test;
    - A patent concerning the Colilert®-18 product that expires in 2014;
    - A patent concerning the Quanti-Tray® product that expires in 2014;
- A patent that relates to certain methods and kits for simultaneously detecting antigens and antibodies, which covers certain of our SNAP® products, including our canine and feline combination tests, that expires in 2014;
- Patents covering various reagents, kits and/or immunoassays for detecting FIV antibodies utilized in certain of our SNAP® products that expire beginning in 2014;
- An exclusive license from Boehringer Ingelheim to certain patents covering reagents and methods for detecting Porcine Reproductive and Respiratory Syndrome that expire beginning in 2012; and
- An exclusive license from Cornell University to patents covering methods for detecting Bovine Viral Diarrhea Virus that expire beginning in 2017.

To the extent some of our products may now, or in the future, embody technologies protected by patents, copyrights or trade secrets of others, we may be required to obtain licenses to such technologies in order to continue to sell our products. These licenses may not be available on commercially reasonable terms or at all. Our failure to obtain any such licenses may delay or prevent the sale of certain new or existing products. See "Part I, Item 1A. Risk Factors."

PRODUCTION AND SUPPLY

Many of the instruments that we sell are manufactured by third parties and we rely on third parties to supply us with certain important components, raw materials and consumables used in or with our products. In some cases these third parties are sole or single source suppliers.

Instruments and consumables.

Significant products supplied by sole and single source providers include VetTest® analyzers and consumables, Catalyst Dx® consumables (other than electrolyte consumables), LaserCyte® consumables and VetAutoread™, VetLyte®, Coag Dx™ and ProCyte Dx™ analyzers and consumables.

VetTest® slides and Catalyst Dx® chemistry slides are supplied by Ortho under supply agreements that expire in 2025. We were required to purchase a minimum volume of chemistry slides through the end of 2010; thereafter, we do not have minimum purchase obligations. The agreements provide for price increases based upon the U.S. Producer Price Index. The agreements also prohibit Ortho from promoting and selling these chemistry slides in the veterinary market other than to IDEXX.

We purchase other analyzers and consumables under supply agreements with terms ranging from 1 year to 14 years, which in some cases may be extended at our option. We have minimum purchase obligations under some of these agreements, and our failure to satisfy these obligations may result in loss of some or all of our rights under these agreements or require us to compensate the supplier. See “Part I, Item 1A. Risk Factors.”

Other components.

We purchase certain other products, raw materials and components from sole and single source suppliers. These products include certain digital radiography systems and certain components used in our SNAP® rapid assay and dairy devices, livestock and poultry testing kits, water testing products, and blood analyzers, including our LaserCyte® and ProCyte Dx™ analyzers.

Certain components incorporated into our SNAP® products are supplied by Moss, Inc. (“Moss”) under a supply agreement that Moss may terminate with 24 months notice. We are required annually to purchase a minimum amount from Moss equal to our average purchase volumes in 2004, 2005 and 2006. Annual price increases are capped at 3%. Pursuant to the terms of the supply agreement, Moss has escrowed its manufacturing information relating to the components, which may be released to us upon certain triggering events that would render Moss incapable of supplying the components to us. If such a triggering event occurs, we will make royalty payments to Moss for the use of such information until Moss is able to again begin manufacturing.

We have in the past been successful in ensuring an uninterrupted supply of products purchased from single source suppliers. However, there can be no assurance that uninterrupted supply can be maintained if these agreements terminate for any reason or our suppliers otherwise are unable to satisfy our requirements for products. See “Part I, Item 1A. Risk Factors.”

We do not generally maintain significant backlog and believe that our backlog at any particular date historically has not been indicative of future sales.

COMPETITION

We face intense competition within the markets in which we sell our products and services. This competition is intensifying and increasing, as new competitors have entered our markets and some of our competitors have expanded the range of products and services offered to the companion animal veterinary market and expanded the geographic scope of their operations. In addition, we have to compete with changing technologies, which could affect the marketability of our products and services. Our competitive position will depend on our ability to develop proprietary or highly differentiated products and services, integrate our products, develop and maintain effective sales channels, attract and retain qualified scientific and other personnel, develop and implement production and marketing plans, obtain or license patent rights, and obtain adequate capital resources.

We compete with many companies ranging from large human pharmaceutical and medical diagnostics companies to small businesses focused on animal health. Our companion animal veterinary diagnostic products and services compete with both reference laboratory service and in-clinic product providers. Our competitors vary in our different markets. In some markets, academic institutions, governmental agencies and other public and private research

organizations conduct research activities and may commercialize products, which could compete with our products, on their own or through joint ventures. Several of our direct and indirect competitors have substantially greater capital, manufacturing, marketing, and research and development resources than we do.

Competitive factors in our different business areas are detailed below:

- Veterinary diagnostic, water, livestock and poultry and dairy testing products. We compete primarily on the basis of the ease of use, speed, accuracy, quality of the information provided, and other performance characteristics of our products and services (including unique tests), the breadth of our product line and services, the effectiveness of our sales and distribution channels, the quality of our technical and customer service, and our pricing relative to the value of our products in comparison with competitive products and services. We compete in most geographic locations in North America with Abaxis, Inc. in respect to our veterinary diagnostic products.

- Veterinary reference laboratory diagnostic and consulting services. We compete primarily on the basis of quality, consistency of service levels, technology, information management, medical consultation and our pricing relative to the value of our services in comparison with competitive products and services. We compete in most geographic locations in North America with Antech Diagnostics, a unit of VCA Antech, Inc.

- Practice information management and digital radiography systems. We compete primarily on the basis of functionality, connectivity to equipment and other systems, performance characteristics, effectiveness of our customer service, information handling capabilities, advances in technologies, and our pricing relative to the value of our products and services.

- Electrolyte and blood gas analyzers for the human point-of-care medical diagnostics market. We compete primarily with large human medical diagnostics companies such as Radiometer A/S, Siemens Medical Solutions Diagnostics, Instrumentation Laboratory, Abbott Diagnostics, and Roche Diagnostics. We compete primarily on the basis of the ease of use, menu, convenience, international distribution and service, instrument reliability, and our pricing relative to the value of our products.

GOVERNMENT REGULATION

Many of our products are subject to comprehensive regulation by U.S. and foreign regulatory agencies that relate to, among other things, product approvals, manufacturing, marketing and promotion, labeling, recordkeeping, testing, quality, storage, and product disposal. The following is a description of the principal regulations affecting our businesses.

Veterinary diagnostic products. Diagnostic tests for animal health infectious diseases, including most of our livestock and poultry products and our rapid assay products, are regulated in the U.S. by the Center for Veterinary Biologics within the United States Department of Agriculture (“USDA”) Animal and Plant Health Inspection Service (“APHIS”). These products must be approved by APHIS before they may be sold in the U.S. The APHIS regulatory approval process involves the submission of product performance data and manufacturing documentation. Following regulatory approval to market a product, APHIS requires that each lot of product be submitted for review before release to customers. In addition, APHIS requires special approval to market products where test results are used in part for government-mandated disease management programs. A number of foreign governments accept APHIS approval as part of their separate regulatory approvals. However, compliance with an extensive regulatory process is required in connection with marketing diagnostic products in Japan, Germany, the Netherlands and many other countries. We also are required to have a facility license from APHIS to manufacture USDA-licensed products. We have obtained such a license for our manufacturing facility in Westbrook, Maine and our distribution center in Memphis, Tennessee.

Our veterinary diagnostic instrument systems are medical devices regulated by the U.S. Food and Drug Administration (“FDA”) under the Food, Drug and Cosmetics Act (the “FDC Act”). While the sale of these products does not require premarket approval by the FDA and does not subject us to the FDA’s current Good Manufacturing Practices regulations (“cGMP”), these products must not be adulterated or misbranded under the FDC Act.

These instrument systems also are subject to the European Medical Device Directives, which create a single set of medical device regulations for all European Union (“EU”) member countries and require companies that wish to manufacture and distribute medical devices in EU member countries to obtain European Conformity (“CE”) marking for their products.

Water testing products. Our water tests are not subject to formal premarket regulatory approval. However, before a test can be used as part of a water quality monitoring program in the U.S. that is required by the EPA, the test must first be approved by the EPA. The EPA approval process involves submission of extensive product performance data in accordance with an EPA-approved protocol, evaluation of the data by the EPA and publication for public comment of any proposed approval in the Federal Register before final approval. Our Colilert®, Colilert®-18, Colisure®, Quanti-Tray®, Filta-Max®, Enterolert®, and SimPlate® for heterotropic plate counts products have been approved by the EPA. The sale of water testing products also is subject to extensive and lengthy regulatory processes in many other countries around the world.

Dairy testing products. Dairy products used in National Conference on Interstate Milk Shipments ("NCIMS") milk-monitoring programs are regulated by the FDA. Before products requiring FDA approval can be sold in the U.S., extensive product performance data must be submitted in accordance with an FDA approved protocol administered by AOAC Research Institute ("AOAC RI"). Following approval of a product by the FDA, the product must also be approved by NCIMS, an oversight body that includes state, federal and industry representatives. Our SNAP® Beta-Lactam dairy antibiotic residue testing product has been approved by the FDA, NCIMS and AOAC RI. While some foreign countries accept AOAC RI approval as part of their regulatory approval process, many countries have separate regulatory processes.

Human point-of-care electrolyte and blood gas analyzers. Our OPTI® instrument systems are classified as Class II medical devices, and their design, manufacture and marketing are regulated by the FDA. Accordingly, we must comply with cGMP in the manufacture of our OPTI® products. The FDA's Quality System regulations further set forth standards for product design and manufacturing processes, require the maintenance of certain records, and provide for inspections of our facilities by the FDA. New OPTI® products fall into FDA classifications that require notification of and review by the FDA before marketing, submitted as a 510(k) application.

OPTI® products are also subject to the European Medical Device Directives and regulations governing the manufacture and marketing of medical devices in other countries in which they are sold.

Any acquisitions of new products and technologies may subject us to additional areas of government regulation. These may involve food, medical device and water-quality regulations of the FDA, the EPA and the USDA, as well as state, local and foreign governments. See "Part I, Item 1A. Risk Factors."

EMPLOYEES

At February 11, 2011, we had approximately 4,800 full-time and part-time employees.

ITEM 1A. RISK FACTORS

Our future operating results involve a number of risks and uncertainties. Actual events or results may differ materially from those discussed in this report. Factors that could cause or contribute to such differences include, but are not limited to, the factors discussed below, as well as those discussed elsewhere in this report.

Our Failure to Successfully Execute Certain Strategies Could Have a Negative Impact on Our Growth and Profitability

The companion animal health care industry is highly competitive and we anticipate increasing levels of competition from both existing competitors and new market entrants. Our ability to maintain or enhance our growth rates and our profitability depends on our successful execution of many elements of our strategy, which include:

- Developing, manufacturing and marketing innovative new in-clinic laboratory analyzers that drive sales of IDEXX VetLab® instruments, grow our installed base of instruments, and create a recurring revenue stream from consumable products, services and accessories;

- Developing and introducing new proprietary diagnostic tests and services that provide valuable medical information to our customers and effectively differentiate our products and services from those of our competitors;

- Increasing the value to our customers of our companion animal products and services by enhancing the integration of these products and managing the diagnostic information derived from our products;

- Achieving cost improvements in our worldwide network of laboratories by implementing global best practices including lean processing techniques, incorporating technological enhancements including laboratory automation and a global laboratory information management system, employing purchasing strategies to maximize leverage of our global scale, increasing the leverage of existing infrastructure and consolidating testing in high volume laboratory hubs;

- Achieving cost improvements in the manufacture and service of our in-clinic laboratory analyzers by employing the benefits of economies of scale in both negotiating supply contracts and leveraging manufacturing overhead and improving reliability of our instruments;

- Expanding our served market and growing our market share by strengthening our sales and marketing activities both within the U.S. and in geographies outside of the U.S.; and

- Developing and implementing new technology and licensing strategies.

If we are unsuccessful in implementing some or all of these strategies, our rate of growth or profitability may be negatively impacted.

Our Dependence on a Limited Number of Suppliers Could Limit Our Ability to Sell Certain Products or Reduce Our Profitability

We currently purchase many products and materials from sole or single sources. Some of the products that we purchase from these sources are proprietary and, therefore, cannot be readily or easily replaced by alternative sources. These products include our ProCyte Dx™ hematology, IDEXX VetAutoread™ hematology, VetLyte® electrolyte, IDEXX VetLab® UA™ urinalysis, VetTest® chemistry, and Coag Dx™ blood coagulation analyzers and related consumables and accessories; image capture plates used in our digital radiography systems; Catalyst Dx® and VetTest® consumables; and certain components and raw materials used in our SNAP® rapid assay devices, water testing products, livestock and poultry diagnostic tests, dairy testing products and LaserCyte® hematology analyzers. To mitigate risks associated with sole and single source suppliers we seek where possible to enter into long-term contracts that ensure an uninterrupted supply of products at predictable prices. However, some suppliers decline to enter into long-term contracts and we are required to purchase products on a purchase order basis. There can be no assurance that suppliers with which we do not have contracts will continue to supply our requirements for products, that suppliers with which we do have contracts will always fulfill their obligations under these contracts, or that any of our suppliers will not experience disruptions in their ability to supply our requirements for products. In cases where we purchase sole and single source products or components under purchase orders, we are more susceptible to unanticipated cost increases or changes in other terms of supply. In addition, under some contracts with suppliers we have minimum purchase obligations and our failure to satisfy those obligations may result in loss of some or all of our rights under these contracts or require us to compensate the supplier. If we are unable to obtain adequate quantities of sole and single source products in the future, we may be unable to supply the market, which would have a material adverse effect on our results of operations.

Our Biologic Products Are Complex and Difficult to Manufacture, Which Could Negatively Affect Our Ability to Supply the Market

Many of our rapid assay, livestock and poultry diagnostic, water and dairy products are biologics, which are products that are comprised of materials from living organisms, such as antibodies, cells and sera. Manufacturing biologic products is highly complex. Unlike products that rely on chemicals for efficacy (such as most pharmaceuticals), biologics are difficult to characterize due to the inherent variability of biological input materials. Difficulty in characterizing biological materials or their interactions creates greater risk in the manufacturing process. There can be no assurance that we will be able to maintain adequate sources of biological materials or that biological materials that we maintain in inventory will yield finished products that satisfy applicable product release criteria. Our inability to produce or obtain necessary biological materials or to successfully manufacture biologic products that incorporate such materials could result in our inability to supply the market with these products, which could have a material adverse effect on our results of operations.

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A Weak Economy Could Result in Reduced Demand for Our Products and Services

A substantial percentage of our sales are made worldwide to the companion animal veterinary market. Demand for our companion animal diagnostic products and services is driven in part by the number of pet visits to veterinary hospitals and the practices of veterinarians with respect to diagnostic testing. Economic weakness in our significant markets in recent years has caused and could continue to cause pet owners to skip or defer visits to veterinary hospitals or could affect their willingness to treat certain pet health conditions, approve certain diagnostic tests, or continue to own a pet. In addition, concerns about the financial resources of pet owners could cause veterinarians to be less likely to recommend certain diagnostic tests and concerns about the economy may cause veterinarians to defer purchasing capital items such as our instruments. A decline in pet visits to the hospital, in the willingness of pet owners to treat certain health conditions or approve certain tests, in pet ownership, or in the inclination of veterinarians to recommend certain tests or make capital purchases could result in a decrease in sales of diagnostic products and services. This, in turn, may cause deterioration in the financial condition of our distributors and customers, which could inhibit their ability to pay us amounts owed for products delivered or services provided.

Demand for our water products is driven in part by the availability of funds at the government laboratories, water utilities and private certified laboratories that utilize our products. Availability of funds also affects demand by the government laboratories and cattle, swine and poultry producers that utilize our livestock and poultry diagnostic products. Economic weakness in our significant markets has caused and could continue to cause our consumers to reduce their investment in such testing.

Strengthening of the Rate of Exchange for the U.S. Dollar Has a Negative Effect on Our Business

Any strengthening of the rate of exchange for the U.S. dollar against the Euro, the British Pound, the Canadian Dollar, the Japanese Yen and the Australian Dollar adversely affects our results, as it reduces the dollar value of sales that are made in those currencies and reduces the profits on products manufactured or sourced in U.S. dollars and exported to international markets. For the years ended December 31, 2010, 2009 and 2008, approximately 25%, 24% and 24%, respectively, of IDEXX sales were derived from products manufactured in the U.S. and sold internationally in local currencies. To mitigate such foreign currency exposure, we utilize non-speculative forward currency exchange contracts. A strengthening U.S. dollar could also negatively impact the ability of customers outside the U.S. to pay for purchases denominated in U.S. dollars.

Various Government Regulations Could Limit or Delay Our Ability to Market and Sell Our Products

In the U.S., the manufacture and sale of our products are regulated by agencies such as the United States Department of Agriculture (“USDA”), the U.S. Food and Drug Administration (“FDA”) and the U.S. Environmental Protection Agency (“EPA”). Most diagnostic tests for animal health applications, including our canine, feline, poultry and livestock tests, must be approved by the USDA prior to sale in the U.S. Our water testing products must be approved by the EPA before they can be used by customers in the U.S. as a part of a water quality monitoring program required by the EPA. Our dairy testing products require approval by the FDA. The manufacture and sale of our OPTI® line of human point-of-care electrolytes and blood gas analyzers are regulated by the FDA and these products require approval by the FDA before they may be sold commercially in the U.S. The manufacture and sale of our products are subject to similar laws in many foreign countries. Any failure to comply with legal and regulatory requirements relating to the manufacture and sale of our products in the U.S. or in other countries could result in fines and sanctions against us or suspensions or discontinuations of our ability to manufacture or sell our products, which could have a material adverse effect on our results of operations. In addition, delays in obtaining regulatory approvals for new products or product upgrades could have a negative impact on our growth and profitability.

The Duration and Resolution of Government Investigations into Our Marketing and Sales Practices for Companion Veterinary Products and Services is Unpredictable

In January 2010, we received a letter from the U.S. Federal Trade Commission (“ FTC”), stating that it was conducting an investigation to determine whether IDEXX or others have engaged in, or are engaging in, unfair methods of competition in violation of Section 5 of the Federal Trade Commission Act (“FTC Act”), through pricing or marketing policies for companion animal veterinary products and services, including but not limited to exclusive dealing or tying arrangements with distributors or end-users of those products or services. The letter requested that we preserve all materials potentially relevant to this investigation. The letter stated that the FTC has not concluded that IDEXX or anyone else has violated Section 5 of the FTC Act.

We received a subpoena from the FTC on April 15, 2010 requesting that we provide the FTC with documents and information relevant to this investigation and we are cooperating fully with the FTC in its investigation. We cannot predict how long any investigation might be ongoing.

In November 2010, we received notification that the United Kingdom Office of Fair Trading ("OFT") was conducting an investigation to determine whether IDEXX had engaged in, or is engaging in, practices foreclosing the supply of companion animal diagnostic testing services in violation of the United Kingdom Competition Act of 1998. We have provided the OFT with documents and information relevant to this investigation as requested and we are cooperating fully with the OFT on this matter. We cannot predict how long any investigation might be ongoing.

We believe that our marketing and sales practices for companion animal veterinary products and services do not violate the antitrust laws of the U.S., U.K. or any other country. However, we cannot predict whether government investigations will lead to enforcement proceedings, or what the outcomes of those proceedings will be. Were any investigation to lead to an enforcement proceeding, we would defend ourselves vigorously. Even if we were required to change one or more of our marketing or sales practices as a result of any enforcement proceeding, we do not believe that any such change would have a material adverse effect on our business.

Our Success Is Heavily Dependent Upon Our Proprietary Technologies

We rely on a combination of patent, trade secret, trademark and copyright laws to protect our proprietary rights. If we do not have adequate protection of our proprietary rights, our business may be affected by competitors who utilize substantially equivalent technologies that compete with us.

We cannot ensure that we will obtain issued patents, that any patents issued or licensed to us will remain valid, or that any patents owned or licensed by us will provide protection against competitors with similar technologies. Even if our patents cover products sold by our competitors, the time and expense of litigating to enforce our patent rights could be substantial, and could have a material adverse effect on our results of operations. In addition, expiration of patent rights could result in substantial new competition in the markets for products previously covered by those patent rights. In June 2009, one of the U.S. patents covering our SNAP® FIV/FeLV Combo and SNAP® Feline Triple tests expired. We had licensed this broad patent exclusively from the University of California. Expiration of this patent could result in increased competition in the U.S. market for feline immunodeficiency virus tests and if this competition arises, we expect that revenues and profit margins associated with sales of our SNAP® FIV/FeLV Combo and SNAP® Feline Triple tests will likely decline.

In the past, we have received notices claiming that our products infringe third-party patents and we may receive such notices in the future. Patent litigation is complex and expensive, and the outcome of patent litigation can be difficult to predict. We cannot ensure that we will win a patent litigation case or negotiate an acceptable resolution of such a case. If we lose, we may be stopped from selling certain products and/or we may be required to pay damages and/or ongoing royalties as a result of the lawsuit. Any such adverse result could have a material adverse effect on our results of operations.

Distributor Purchasing Patterns Could Negatively Affect Our Operating Results

We sell many of our products, including substantially all of the rapid assays and instrument consumables sold in the U.S., through distributors. Distributor purchasing patterns can be unpredictable and may be influenced by factors unrelated to the end-user demand for our products. In addition, our agreements with distributors may generally be terminated by the distributors for any reason on 60 days notice. Because significant product sales are made to a limited number of distributors, the unanticipated loss of a distributor or unanticipated changes in the frequency, timing or size of distributor purchases, could have a negative effect on our results of operations.

Distributors of veterinary products have entered into business combinations resulting in fewer distribution companies. Consolidation within distribution channels increases our customer concentration level, which could increase the risks described in the preceding paragraph. See “Part 1. Item 1 Business – Marketing and Distribution.”

Increased Competition and Technological Advances by Our Competitors Could Negatively Affect Our Operating Results

We face intense competition within the markets in which we sell our products and services and we expect that future competition will become even more intense. The introduction by competitors of new and competitive products and services could result in a decline in sales and/or profitability of our products and services. In addition, competitors may develop products or services that are superior to our products and services, which could cause us to lose existing customers and market share. Some of our competitors and potential competitors, including large diagnostic and pharmaceutical companies, have substantially greater financial resources than us, and greater experience in manufacturing, marketing, research and development and obtaining regulatory approvals than we do.

Changes in Testing Patterns Could Negatively Affect Our Operating Results

The market for our companion animal and livestock and poultry diagnostic tests and our dairy and water testing products could be negatively impacted by a number of factors impacting testing practices. The introduction or broad market acceptance of vaccines or preventatives for the diseases and conditions for which we sell diagnostic tests and services could result in a decline in testing. Changes in accepted medical protocols regarding the diagnosis of certain diseases and conditions could have a similar effect. Eradication or substantial declines in the prevalence of certain diseases also could lead to a decline in diagnostic testing for such diseases. Our livestock and poultry products business in particular is subject to fluctuations resulting from changes in disease prevalence. In addition, changes in government regulations or in the availability of government funds available for monitoring programs could negatively affect sales of our products that are driven by compliance testing, such as our livestock and poultry, dairy and water products. Declines in testing for any of the reasons described, along with lost opportunities associated with a reduction in veterinary visits, could have a material adverse effect on our results of operations.

Effective January 1, 2009, the age at which healthy cattle to be slaughtered are required to be tested for bovine spongiform encephalopathy (“BSE”) in the European Union was increased from 30 months to 48 months, which reduced the population of cattle tested by approximately 30%. It is likely that the European Union will increase the recommended testing age again, which will further reduce the population of cattle tested, depending on the extent to which each country in the European Union decides to adopt the new guidelines. The demand for this product may be impacted as a result of this and future regulatory changes.

Consolidation of Veterinary Hospitals Could Negatively Affect Our Business

An increasing percentage of veterinary hospitals in the U.S. is owned by corporations that are in the business of acquiring veterinary hospitals and/or opening new veterinary hospitals nationally or regionally. Major corporate hospital owners in the U.S. include VCA Antech, Inc., National Veterinary Associates and Banfield Pet Hospital, each of which is currently a customer of IDEXX. A similar trend exists in the U.K. and may in the future also develop in other countries. Corporate owners of veterinary hospitals could attempt to improve profitability by leveraging the buying power they derive from their scale to obtain favorable pricing from suppliers, which could have a negative impact on our results. Decisions by larger corporate owners to shift their purchasing of products and services away from us and to a competitor would have a negative impact on our results. In addition, certain corporate owners, most notably VCA Antech, our primary competitor in the U.S. and Canadian markets for veterinary reference laboratory diagnostic services, also operate reference laboratories that serve both their hospitals and unaffiliated hospitals. Any hospitals acquired by these companies generally use their reference laboratory services almost exclusively and shift a large portion of their testing from in-clinic testing to their reference laboratories. Furthermore, because these companies compete with us in the reference laboratory services marketplace, hospitals acquired by these companies may cease to be customers or potential customers of our other companion animal products and services, which would cause our sales of these products and services to decline.

Our Limited Experience in the Human Point-of-Care Market Could Inhibit Our Success in this Market

We have limited experience in the human point-of-care medical diagnostics market. This market differs in many respects from the veterinary medical market. Significant differences include the impact of third party reimbursement on diagnostic testing, more extensive regulation, greater product liability risks, larger competitors, a more segmented customer base, and more rapid technological innovation. Our limited experience in the human point-of-care medical diagnostics market could negatively affect our ability to successfully manage the risks and features of this market that differ from the veterinary medical market. There can be no assurance that we will be successful in achieving growth and profitability in the human point-of-care medical diagnostics market comparable to the results we have achieved in the veterinary medical market.

Risks Associated with Doing Business Internationally Could Negatively Affect Our Operating Results

For the year ended December 31, 2010, 41% of our revenue was attributable to sales of products and services to customers outside the U.S. Various risks associated with foreign operations may impact our international sales. Possible risks include disruptions in transportation of our products, the differing product and service needs of foreign customers, difficulties in building and managing foreign operations, import/export duties and licensing requirements, and unexpected regulatory, economic or political changes in foreign markets. Prices that we charge to foreign customers may be different than the prices we charge for the same products in the U.S. due to competitive, market or other factors. As a result, the mix of domestic and international sales in a particular period could have a material impact on our results for that period.

Our Operations are Vulnerable to Interruption as a Result of Natural Disasters or System Failures

The operation of all of our facilities is vulnerable to interruption as a result of natural and man-made disasters, interruptions in power supply, or other system failures. While we maintain plans to continue business under such circumstances, there can be no assurance that such plans will be successful in fully or partially mitigating the effects of such events.

We manufacture many of our significant companion animal products, including our rapid assay devices and certain instruments, many of our water testing products and certain of our livestock and poultry testing products at a single facility in Westbrook, Maine. We also manufacture certain of our livestock and poultry testing products in Bern, Switzerland and Montpellier, France. In addition, we maintain major distribution facilities in North America and in the Netherlands, and major reference laboratories in Memphis, Tennessee; Ludwigsburg, Germany; Sacramento, California; Elmhurst, Illinois; North Grafton, Massachusetts; East Brisbane, Australia; and Wetherby, the United Kingdom. Therefore, interruption of operations at any of these facilities would have a material adverse effect on our results of operations.

We rely on several information systems throughout our company to keep financial records, process customer orders, manage inventory, process shipments to customers and operate other critical functions. If we were to experience a system disruption in the information technology systems that enable us to interact with customers and suppliers, it could result in the loss of sales and customers and significant incremental costs, which could adversely affect our business.

We maintain property and business interruption insurance to insure against the financial impact of certain events of this nature. However, this insurance may be insufficient to compensate us for the full amount of any losses that we may incur. In addition, such insurance will not compensate us for the long-term competitive effects of being off the market for the period of any interruption in operations.

The Loss of Our President, Chief Executive Officer and Chairman Could Adversely Affect Our Business

We rely on the management and leadership of Jonathan W. Ayers, our President, Chief Executive Officer and Chairman. We do not maintain key man life insurance coverage for Mr. Ayers. The loss of Mr. Ayers could have a material adverse impact on our business.

We Could Be Subject to Class Action Litigation Due to Stock Price Volatility, which, if it Occurs, Could Result in Substantial Costs or Large Judgments Against Us

The market for our common stock may experience extreme price and volume fluctuations, which may be unrelated or disproportionate to our operating performance or prospects. In the past, securities class action litigation has often been

brought against companies following periods of volatility in the market prices of their securities. We may be the target of similar litigation in the future. Securities litigation could result in substantial costs and divert our management's attention and resources, which could have a negative effect on our business, operating results and financial condition.

If Our Quarterly or Annual Results of Operations Fluctuate, This Fluctuation May Cause Our Stock Price to Decline, Resulting in Losses to You

Our prior operating results have fluctuated due to a number of factors, including seasonality of certain product lines; changes in our accounting estimates; the impact of acquisitions; timing of distributor purchases, product launches, operating expenditures, litigation and claim-related expenditures; changes in competitors' product offerings; changes in the economy affecting consumer spending; and other matters. Similarly, our future operating results may vary significantly from quarter to quarter or year to year due to these and other factors, many of which are beyond our control. If our operating results or projections of future operating results do not meet the expectations of market analysts or investors in future periods, our stock price may fall.

Future Operating Results Could Be Negatively Affected by the Resolution of Various Uncertain Tax Positions and by Potential Changes to Tax Incentives

In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Significant judgment is required in determining our worldwide provision for income taxes. We periodically assess our exposures related to our worldwide provision for income taxes and believe that we have appropriately accrued taxes for contingencies. Any reduction of these contingent liabilities or additional assessment would increase or decrease income, respectively, in the period such determination was made. Our income tax filings are regularly under audit by tax authorities and the final determination of tax audits could be materially different than that which is reflected in historical income tax provisions and accruals. Additionally, we benefit from certain tax incentives offered by various jurisdictions. If we are unable to meet the requirements of such incentives, or if they expire or are renewed at less favorable terms, our inability to realize these benefits could have a material negative effect on future earnings.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our worldwide headquarters is located on a company-owned, 65-acre site in Westbrook, Maine where we occupy a 535,700 square foot building utilized for manufacturing, research and development, marketing, sales and general and administrative support functions.

Additional property ownership and leasing arrangements with approximate square footage, purpose and location are as follows:

Additional Properties Owned:

- 40,000 square feet of office and laboratory space located in the U.S., used for our Veterinary Reference Laboratory Diagnostic and Consulting Services line of business
- 23,000 square feet of office and laboratory space located in the U.K., used for our Veterinary Reference Laboratory Diagnostic and Consulting Services line of business
- 3,100 square feet of office and laboratory space located in Canada, used for our Veterinary Reference Laboratory Diagnostic and Consulting Services line of business

Additional Properties Leased:

- 352,400 total square feet of laboratory, office and warehousing space located throughout the United States, Europe, Canada, Australia, Asia and Africa, primarily used for our Veterinary Reference Laboratory Diagnostic and Consulting Services line of business
- 108,600 square feet of distribution, warehousing and office space in the Netherlands, which serves as our European headquarters
- 113,500 square feet of industrial space in Tennessee for distribution and warehousing related to various lines of business
- 90,800 square feet of office space in Maine for Corporate, Customer Service and IT support services
- 70,100 square feet of office, manufacturing and warehousing space in Georgia related to our OPTI Medical Systems line of business
- 69,300 square feet of office and manufacturing space in Wisconsin related to our Practice Information Systems and Services line of business
- 64,400 total square feet of office and manufacturing space in France, Switzerland and Asia related to our Livestock and Poultry Diagnostics business
- 7,600 square feet of office and manufacturing space in the U.K. related to our Water business

We consider that our owned and leased properties are generally in good condition, are well-maintained, and are generally suitable and adequate to carry on our business.

ITEM 3. LEGAL PROCEEDINGS

We are not a party to any material legal proceedings.

From time to time, we are subject to other legal proceedings and claims, which arise in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our results of operations, financial condition or cash flows.

EXECUTIVE OFFICERS OF THE COMPANY

Our executive officers at February 11, 2011 were as follows:

Name	Age	Title
Jonathan W. Ayers	54	Chairman of the Board of Directors, President and Chief Executive Officer
William E. Brown III, PhD	56	Corporate Vice President and Chief Scientific Officer
Conan R. Deady	49	Corporate Vice President, General Counsel and Secretary
Thomas J. Dupree(1)	42	Corporate Vice President
William B. Goodspeed	52	Corporate Vice President
Daniel V. Meyaard	53	Corporate Vice President
Ali Naqui, PhD	57	Corporate Vice President
James F. Polewaczyk	47	Corporate Vice President
Johnny D. Powers, PhD	49	Corporate Vice President
Merilee Raines	55	Corporate Vice President, Chief Financial Officer and Treasurer
Giovani Twigge	47	Corporate Vice President
Michael J. Williams, PhD	43	Corporate Vice President

(1) Mr. Dupree has announced his intention to resign from the company effective June 30, 2011. See Item 9B.

Mr. Ayers has been Chairman of the Board, Chief Executive Officer and President of IDEXX since January 2002. Prior to joining IDEXX, from 1999 to 2001, Mr. Ayers was President of Carrier Corporation, the then-largest business unit of United Technologies Corporation, and from 1997 to 1999, he was President of Carrier's Asia Pacific Operations. From 1995 to 1997, Mr. Ayers was Vice President, Strategic Planning at United Technologies. Before joining United Technologies, from 1986 to 1995, Mr. Ayers held various positions at Morgan Stanley & Co. in mergers and acquisitions and corporate finance. Prior to Morgan Stanley, Mr. Ayers was a strategy consultant for Bain & Company from 1983 to 1986 and was in the field sales organization of IBM's Data Processing Division from 1978 to 1981. Mr. Ayers holds an undergraduate degree in molecular biophysics and biochemistry from Yale University and graduated from Harvard Business School in 1983.

Dr. Brown has been Corporate Vice President of the Company since December 2008 and was promoted to Chief Scientific Officer of the Company in March 2010. Prior to joining IDEXX, from 1982 to 2007, Dr. Brown held various positions at Abbott Laboratories, Inc., a broad-based healthcare company that manufactures and markets pharmaceuticals, medical products, and diagnostics, most recently as Corporate Officer and Divisional Vice President of R&D, Assays and Instrument Systems for the Diagnostic Division.

Mr. Deady has been Corporate Vice President and General Counsel of the Company since 1999 and has been leading the Company's business development activities since April 2005 and its regulatory function since October 2008. Mr. Deady was Deputy General Counsel of the Company from 1997 to 1999. Before joining the Company in 1997, Mr. Deady was Deputy General Counsel of Thermo Electron Corporation (now Thermo Fisher Scientific Inc.), a provider of analytical and laboratory products and services. Previously, Mr. Deady was a partner at Hale and Dorr LLP (now Wilmer Cutler Pickering Hale and Dorr LLP).

Mr. Dupree has been Corporate Vice President of the Company since September 2006 and has been leading the Companion Animal Group Customer Facing Organization in North America since January 2007. Mr. Dupree was General Manager of the Company's Rapid Assay line of business from April 2005 to January 2007. Prior to that, Mr.

Dupree was Vice President, Business Development. Before joining the Company in 2003, Mr. Dupree was employed at the Boston Consulting Group, a business strategy consulting firm, where he spent seven years leading project teams in the firm's technology and health care practices. Prior to that, Mr. Dupree held various management positions at Bath Iron Works Corporation.

Mr. Goodspeed joined IDEXX as Corporate Vice President in July 2007 and oversees the Company's Livestock and Poultry Diagnostics, Water and Dairy businesses. Prior to joining the Company, from 1994 to 2007, Mr. Goodspeed held various positions at J.M. Huber Corporation, a privately held company in the chemicals, food ingredients, building products, energy and timber industries, most recently as Sector CEO for Natural Resources and Technology-based Services.

Mr. Meyaard joined IDEXX as Corporate Vice President in September 2009 and oversees the Company's worldwide operations function, including supply chain management, instrument and reagent manufacturing, quality assurance, facilities and operational excellence. Prior to joining the Company, from 1980 to 2009, Mr. Meyaard held various positions at multiple divisions of Siemens Healthcare Diagnostics, a clinical diagnostics company, and its predecessors, most recently as Vice President of Global Instrument Manufacturing for Siemens Medical Solutions Diagnostics.

Dr. Naqui has been Corporate Vice President of the Company since January 2006 and has overseen the Company's international commercial operations since December 2007 and its Asia Pacific and Latin America operations since January 2006. Dr. Naqui led the Company's Water and Dairy businesses from January 2000 to December 2007. He was General Manager of the Water business from September 1997 to January 2000, and Director of Research and Development from February 1993 to September 1997. Dr. Naqui joined the Company in 1993 as a result of the acquisition of Environetics, the original manufacturer of the Colilert water testing product line, where he was the Director of Research and Development. Prior to joining Environetics, he was a research and development manager with Becton, Dickinson and Company, a medical technology company.

Mr. Polewaczyk joined IDEXX as Corporate Vice President in February 2007 and oversees the Company's Rapid Assay, Digital Imaging and Telemedicine lines of business. Before joining IDEXX, Mr. Polewaczyk was employed from 2001 to 2006 at Philips Medical Systems, a subsidiary of Royal Philips Electronics, The Netherlands, a healthcare, lifestyle and lighting technologies company, as General Manager of their Medical Consumables and Sensors Business. Prior to that, Mr. Polewaczyk spent 15 years at Hewlett-Packard Corporation, an information and medical technology company, in a variety of senior marketing and product development roles.

Dr. Powers joined IDEXX as Corporate Vice President in February 2009 and oversees the Company's worldwide reference laboratories business. Prior to joining the Company, Dr. Powers was Vice President responsible for the Cancer Diagnostics business of Becton, Dickinson and Company from 2007 to 2008. Dr. Powers joined Becton, Dickinson and Company as a result of its acquisition in 2007 of TriPath Imaging Inc., a cancer screening products developer and manufacturer, where he held various positions from 2001 to 2007, most recently serving as President of the TriPath Oncology business unit. From 1996 to 2001, Dr. Powers was employed by Ventana Medical Systems, Inc., a developer and manufacturer of tissue-based diagnostic solutions, most recently as Vice President and General Manager of Manufacturing Operations. From 1989 to 1996, Dr. Powers was employed by Organon Teknika Corporation, a medical diagnostics company, in various technical manufacturing roles.

Ms. Raines has been Chief Financial Officer of the Company since October 2003 and Corporate Vice President, Finance of the Company since May 1995. Ms. Raines served as Vice President, Finance from March 1995 to May 1995, Director of Finance from 1988 to March 1995 and Controller from 1985 to 1988.

Mr. Twigge became a Corporate Vice President of the Company in August 2010, and oversees worldwide human resources. Before joining IDEXX, Mr. Twigge held various human resources leadership positions over the course of 11 years at Abbott Laboratories, Inc. Most recently Mr. Twigge was Divisional Vice President, HR, for Abbott Diagnostics. Prior to that, he served as Divisional Vice President, HR, for Abbott Nutrition International and as Regional HR Director for a number of international operations including those in Europe, Latin America/Canada and the Middle East.

Dr. Williams has been Corporate Vice President of the Company since September 2006 and General Manager of the Companion Animal Instrument and Consumables line of business since 2004. Dr. Williams has also overseen the OPTI Medical Systems business since its acquisition in January 2007. Dr. Williams was Vice President and General Manager of the Company's chemistry instruments and consumables business from 2003 to 2004. Prior to joining the Company in 2003, Dr. Williams was a healthcare strategy consultant at McKinsey & Company, a management

consulting firm, from 1995 to 2002 and a senior research associate at the Scripps Research Institute, a non-profit research organization, from 1992 to 1995.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is quoted on the NASDAQ Global Market under the symbol IDXX. The following table shows the quarterly range of high and low sale prices per share of our common stock as reported on the NASDAQ Global Market for the years 2010 and 2009.

For the Quarter Ended	High	Low
March 31, 2009	$ 36.89	$ 27.68
June 30, 2009	46.90	33.07
September 30, 2009	55.12	43.47
December 31, 2009	55.69	47.52
March 31, 2010	59.95	49.03
June 30, 2010	68.57	57.31
September 30, 2010	64.00	54.80
December 31, 2010	72.40	59.65

Holders of Common Stock

At February 11, 2011, there were 798 holders of record of our common stock.

Purchases of Equity Securities by the Issuer

During the three months ended December 31, 2010, we repurchased our shares as described below:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share (b)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (c)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (d)
October 1, 2010 to October 31, 2010	105,000	$ 62.11	105,000	4,108,372
November 1, 2010 to November 30, 2010	180,600	62.67	180,600	3,927,772
December 1, 2010 to December 31, 2010	122,154	66.71	121,300	3,806,472
Total	407,754	$ 63.74	406,900	3,806,472

Our board of directors has approved the repurchase of up to 44,000,000 shares of our common stock in the open market or in negotiated transactions. The plan was approved and announced on August 13, 1999, and subsequently amended on October 4, 1999, November 16, 1999, July 21, 2000, October 20, 2003, October 12, 2004, October 12, 2005, February 14, 2007, February 13, 2008 and February 10, 2010 and does not have a specified expiration date. There were no other repurchase plans outstanding during the year ended December 31, 2010, and no repurchase plans expired during the period. Repurchases of 406,900 shares were made during the three months ended December 31,

2010 in transactions made pursuant to our repurchase plan.

During the three months ended December 31, 2010, we received 854 shares of our common stock that were surrendered by employees in payment for the minimum required withholding taxes due on the vesting of restricted stock units and settlement of deferred stock units. In the above table, these shares are included in columns (a) and (b), but excluded from columns (c) and (d). These shares do not reduce the number of shares that may yet be purchased under the repurchase plan.

During the year ended December 31, 2010, we repurchased 2,487,089 shares of our common stock in transactions made pursuant to our repurchase plan and received 52,022 shares that were surrendered by employees in payment for the minimum required withholding taxes due on the vesting of restricted stock units and settlement of deferred stock units. See Note 18 to the consolidated financial statements for the year ended December 31, 2010 included in this Annual Report on Form 10-K for further information.

Dividends

We have never paid any cash dividends on our common stock. From time to time our board of directors may consider the declaration of a dividend. However, we have no present intention to pay a dividend.

Securities Authorized for Issuance Under Equity Compensation Plans

	December 31, 2010		
Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	4,383,061(1)	$ 33.34	3,876,311(2)
Equity compensation plans not approved by security holders	-	-	-
Total	4,383,061	$ 33.34	3,876,311

(1) Consists of shares of common stock subject to outstanding options, restricted stock units and deferred stock units under the following compensation plans: 1991 Stock Option Plan (356,554 shares), 1998 Stock Incentive Plan (574,832 shares), 2000 Director Option Plan (7,000 shares), 2003 Stock Incentive Plan (2,748,083 shares) and 2009 Stock Incentive Plan (696,592 shares). Excludes 260,657 shares issuable under the 1997 Employee Stock Purchase Plan in connection with the current and future offering periods.

(2) Includes 3,615,654 shares available for issuance under our 2009 Plan. The 2009 Stock Incentive Plan provides for the issuance of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock unit awards and other stock unit awards. Also includes 260,657 shares issuable under our 1997 employee stock purchase plan in connection with the current and future offering periods. No new grants may be made under the other plans listed in footnote (1) except for the 2009 Stock Incentive Plan.

(3) Only stock option awards were used in computing the weighted-average exercise price.

Stock Performance

This graph compares our total stockholder returns, the Standard & Poor's ("S&P") MidCap 400 Health Care Index, the S&P SmallCap 600 Health Care Index and the Total Return Index for the NASDAQ Stock Market (U.S. Companies) prepared by the Center for Research in Security Prices (the "NASDAQ Index"). This graph assumes the investment of $100 on December 31, 2005 in IDEXX's common stock, the S&P MidCap 400 Health Care Index, the S&P SmallCap 600 Health Care Index and the NASDAQ Index and assumes dividends, if any, are reinvested. Measurement points are the last trading days of the years ended December 2006, 2007, 2008, 2009 and 2010.

	12/30/2005	12/29/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010
IDEXX Laboratories, Inc.	$ 100.00	$ 110.17	$ 162.91	$ 100.25	$ 148.51	$ 192.33
S&P MidCap 400 Health Care Index	100.00	98.85	111.22	74.19	99.91	122.46
S&P SmallCap 600 Health Care Index	100.00	108.53	128.87	92.22	112.71	137.77
NASDAQ Index	100.00	109.84	119.14	57.41	82.53	97.95

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial data of the Company for each of the five years ending with December 31, 2010. The selected consolidated financial data presented below has been derived from the Company's consolidated financial statements. These financial data should be read in conjunction with the consolidated financial statements, related notes and other financial information appearing elsewhere in this Annual Report on Form 10-K.

	For the Years Ended December 31, (in thousands, except per share data)				
	2010	2009	2008	2007	2006
INCOME STATEMENT DATA:					
Revenue	$ 1,103,392	$ 1,031,633	$ 1,024,030	$ 922,555	$ 739,117
Cost of revenue	524,769	505,352	494,264	459,033	359,588
Gross profit	578,623	526,281	529,766	463,522	379,529
Expenses:					
Sales and marketing	179,626	167,748	169,956	151,882	115,882
General and administrative	126,519	117,440	116,681	108,119	82,097
Research and development	68,597	65,124	70,673	67,338	53,617
Income from operations	203,881	175,969	172,456	136,183	127,933
Interest (expense) income, net	(1,752)	(1,430)	(2,269)	(1,340)	2,817
Income before provision for income taxes	202,129	174,539	170,187	134,843	130,750
Provision for income taxes	60,809	52,304	54,018	40,829	37,224
Net income	141,320	122,235	116,169	94,014	93,526
Less: Net income attributable to noncontrolling interest	36	10	-	-	(152)
Net income attributable to IDEXX Laboratories' stockholders	$ 141,284	$ 122,225	$ 116,169	$ 94,014	$ 93,678
Earnings per share(1):					
Basic	$ 2.45	$ 2.08	$ 1.94	$ 1.53	$ 1.49
Diluted	2.37	2.01	1.87	1.46	1.42
Weighted average shares outstanding(1):					
Basic	57,713	58,809	59,953	61,560	62,866
Diluted	59,559	60,682	62,249	64,455	65,907
BALANCE SHEET DATA:					
Cash and investments	$ 156,915	$ 106,728	$ 78,868	$ 60,360	$ 96,666
Working capital	175,479	120,033	60,598	82,271	177,520
Total assets	897,144	808,527	765,437	702,179	559,560
Total debt	133,280	123,884	156,479	76,683	7,125
Total stockholders' equity	574,281	514,579	438,194	438,323	409,861

(1) Share and per share amounts originally reported for 2006 have been adjusted as appropriate to reflect the effect of a two-for-one stock split, which was effected in the form of a common stock dividend distributed on November 26, 2007.

PART II

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Description of Segments. During 2010, we operated primarily through three business segments: diagnostic and information technology-based products and services for the veterinary market, which we refer to as the Companion Animal Group ("CAG"), water quality products ("Water") and products for livestock and poultry health, which we refer to as the Livestock and Poultry Diagnostics ("LPD"). Prior to the second quarter of 2010, we referred to LPD as our Production Animal Segment. We also operate two smaller segments that comprise products for milk quality ("Dairy") and products for the human point-of-care medical diagnostic market ("OPTI Medical"). Financial information about the Dairy and OPTI Medical operating segments and other licensing arrangements is combined and presented in an "Other" category because they do not meet the quantitative or qualitative thresholds for reportable segments. See Note 15 to the consolidated financial statements for the year ended December 31, 2010 included in this Annual Report on Form 10-K for financial information about our segments, including geographic information, and about our product and service categories.

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. In our segment disclosure of gross profit, operating expenses and operating income, these amounts are shown under the caption "Unallocated Amounts." We estimate our share-based compensation expense for the year and allocate the estimated 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 resulting in an unallocated amount reported under the Unallocated Category.

The following is a discussion of the strategic and operating factors that we believe have the most significant effect on the performance of our business.

Companion Animal Group

In the CAG segment, we believe we have developed a strategic advantage over companies with more narrow product or service offerings. The breadth and complementary nature of our products and services give us scale in sales and distribution, permit us to offer integrated disease-management diagnostic solutions that leverage the advantages of both point-of-care and outside laboratory testing, and facilitate the flow of medical and business information in the veterinary practice by connecting practice information software systems with reference laboratory test data, in-clinic test data from our IDEXX VetLab® suite of analyzers and rapid assay tests, and radiographic data from the IDEXX-PACS™ and IDEXX EquiView PACS™ software generated by our digital radiography systems.

Instruments and Consumables. Our strategy in our IDEXX VetLab® instrument line of business is to provide veterinarians with an integrated set of instruments that, individually and together, provide superior diagnostic information and performance features, enabling veterinarians to practice better medicine and improve practice efficiency and, in doing so, achieve their practice economic objectives, including growth and profitability. We derive substantial revenues and margins from the sale of consumables that are used in these instruments. Additionally, we offer extended maintenance agreements in connection with the sale of our instruments.

During the early stage of an instrument's life cycle, we derive relatively greater revenues from instrument placements, while consumable sales become relatively more significant in later stages as the installed base of instruments increases and instrument placement revenues begin to decline. Instrument sales have significantly lower gross margins than

sales of consumables, and therefore the mix of instrument and consumable sales in a particular period will impact our gross margins in this line of business.

Our Catalyst Dx® analyzer is our latest generation chemistry analyzer, which was launched in the first quarter of 2008. In addition, we continue to place VetTest® instruments through sales, lease, rental and other programs, with substantially all of our revenues from that product line currently derived from consumable sales. The two chemistry analyzers provide for an active installed base of approximately 31,000 units. A substantial portion of 2010 Catalyst Dx® analyzer placements were to veterinary clinics that already own our VetTest® analyzer, however, an increasing number of placements were to competitive accounts in comparison to 2009. As we continue to experience growth in sales of Catalyst Dx® analyzers and the related consumables, we expect to see a decline in the sales of VetTest® consumables. Based on projections of future sales volume and the average unit price of consumables used in the Catalyst Dx® and VetTest® analyzers, we do not expect a future shift to Catalyst Dx® consumables to significantly impact gross margin percentage. We do, however, expect near-term downward pressure on gross margin percentage in the instruments and consumables business due to higher relative instrument placement revenues as compared to consumables' sales with continued penetration of the Catalyst Dx® analyzer. Our long-term success in this area of our business is dependent upon new customer acquisition, customer loyalty and retention and customer utilization of existing and new assays introduced for use on our analyzers. To increase utilization, we seek to educate veterinarians about best medical practices that emphasize the importance of blood and urine chemistry testing for a variety of diagnostic purposes. Utilization can increase either by an increased number of patient samples being run or by an increase in the quantity of instrument consumables used per patient sample. Our strategy is to increase both parameters.

The ProCyte Dx™ analyzer is our latest generation hematology analyzer, which we launched in the third quarter of 2010. In addition we sell the LaserCyte® analyzer and VetAutoread™ analyzer. A substantial portion of ProCyte Dx™ placements have been made at veterinary clinics that already own a LaserCyte® analyzer and a substantial portion of LaserCyte® placements continue to be made at veterinary clinics that already own our VetAutoread™ analyzer. Growth in sales of hematology consumables is attributable to an increase in the installed base of our LaserCyte® and ProCyte Dx™ analyzers.

With all of our instrument lines, we seek to differentiate our products from those of other in-clinic instrument manufacturers and reference laboratory diagnostic service providers based on time-to-result, ease-of-use, throughput, breadth of diagnostic menu, flexibility of menu selection, accuracy, reliability, ability to handle compromised samples, analytical capability of software, integration with the IDEXX VetLab® Station, education and training, and superior sales and customer service. Our success depends, in part, on our ability to differentiate our products in a way that justifies a premium price.

Rapid Assay Products. Our rapid assay line of business consists primarily of single-use kits for point-of-care testing and, to a limited degree, microwell-based kits for laboratory testing for canine and feline diseases and conditions. Our rapid assay strategy is to develop, manufacture, market and sell proprietary tests that address important medical needs for particular diseases prevalent in the companion animal population. We seek to differentiate our tests from those of other in-clinic test providers and reference laboratory diagnostic service providers through ease-of-use and superior performance, including by providing our customers with combination tests that test a single sample for multiple analytes. Where alternative point-of-care offerings exist, we seek to differentiate our tests with superior performance. As in our other lines of business, we also seek to differentiate our products through superior customer service. We further augment our product development and customer service efforts with sales and marketing programs that enhance medical awareness and understanding regarding certain diseases and the importance of diagnostic testing.

We also seek to enhance the attractiveness of our tests by providing the SNAPshot Dx® analyzer, which automatically reads certain SNAP® test results, and records those results in the electronic medical record. We are currently working on enhancing the functionality of the SNAPshot Dx® analyzer to read the results of additional tests from our canine and feline family of rapid assay products.

Veterinary Reference Laboratory Diagnostic and Consulting Services. We believe that more than half of all diagnostic testing by U.S. veterinarians is provided by outside reference laboratories such as our IDEXX Reference Laboratories. In markets outside the U.S., in-clinic testing is less prevalent and an even greater percentage of diagnostic testing is done in reference laboratories. We attempt to differentiate our reference laboratory testing services from those of our competitors and in-clinic offerings primarily on the basis of quality, customer service, technology employed and specialized test menu.

Revenue growth in this line of business is achieved both through increased sales to existing customers and through the acquisition of new customers, including through reference laboratory acquisitions, customer list acquisitions and the opening of new reference laboratories, including laboratories that are co-located with large practice customers. Profitability of this business is largely the result of our ability to achieve efficiencies from both volume and operational improvements. New laboratories that we open typically will operate at a loss until testing volumes reach a level that permits profitability. Acquired laboratories frequently operate less profitably than our existing laboratories and those laboratories may not achieve profitability comparable to our existing laboratories for several years until we complete the implementation of operating improvements and efficiencies. Therefore, in the short term, new and acquired reference laboratories generally will have a negative effect on the operating margin of the reference laboratory diagnostic and consulting services line of business.

Practice Information Systems and Digital Radiography. Our strategy in the practice information systems line of business is to provide superior integrated information solutions, backed by superior customer support and education, to allow the veterinarian to practice better medicine and achieve the practice's business objectives, including superior client experience, staff efficiency and practice profitability. We differentiate our software systems through enhanced functionality and ease of use. Our veterinary-specific digital radiography systems allow veterinarians to capture digital radiographs with ease and without the use of hazardous chemicals. Our strategy in digital radiography is to offer a system that provides superior image quality and software capability at a competitive price, backed by the same customer support provided for our other products and services in CAG.

Water

Our strategy in the water testing business is to develop, manufacture, market and sell proprietary products with superior performance, supported by exceptional customer service. Our customers are primarily water utilities, government laboratories and private certified laboratories that highly value strong relationships and customer support. International sales of water testing products represented 49% of total water product sales in 2010, and we expect that future growth in this business will be significantly dependent on our ability to increase international sales. Growth also will be dependent on our ability to enhance and broaden our product line. Most water microbiological testing is driven by regulation, and, in many countries, a test may not be used for compliance testing unless it has been approved by the applicable regulatory body. As a result, we maintain an active regulatory program that involves applying for regulatory approvals in a number of countries, primarily in Europe.

Livestock and Poultry Diagnostics

We develop, manufacture, market and sell a broad range of tests for various cattle, swine and poultry diseases and conditions, and have an active research and development, and in-licensing program in this area. Our strategy is to offer proprietary tests with superior performance characteristics, with growth primarily coming from disease outbreaks, emerging markets and our Farm Animal Side Test initiative, a line of products and services designed specifically for livestock and poultry veterinarians and producers. Disease outbreaks are episodic and unpredictable, and certain diseases that are prevalent at one time may be substantially contained or eradicated at a later time. In response to outbreaks, testing initiatives may lead to exceptional demand for certain products in certain periods. Conversely, successful eradication programs may result in significantly decreased demand for certain products. The performance of this business, therefore, can fluctuate. In 2010, approximately 88% of our sales in this business were international. Because of the significant dependence of this business on international sales, the performance of the business is particularly subject to the various risks described above that are associated with doing business internationally. See "Part I, Item 1A. Risk Factors."

Other

Dairy. Our strategy in the dairy testing business is to develop, manufacture and sell antibiotic residue testing products that satisfy applicable regulatory requirements for testing of milk by processors and producers and provide reliable field performance. The manufacture of these testing products leverage, almost exclusively, the SNAP® platform as well as the production equipment of our rapid assay business, incorporating customized reagents for antibiotic detection. The majority of our sales in this business are international. To successfully increase sales of dairy testing products, we believe that we need to increase penetration in the processor and producer segments of the dairy market, and to develop product line enhancements and extensions. Because of the significant dependence of this business on international sales, the performance of the business is particularly subject to the various risks described above that are associated with doing business internationally. See "Part I, Item 1A. Risk Factors."

OPTI Medical Systems. Our strategy in the OPTI Medical Systems business for the human market is to develop, manufacture, and sell electrolyte and blood gas analyzers and related consumable products for the medical point-of-care diagnostics market worldwide, with a focus on small- to mid-sized hospitals. We seek to differentiate our products based on ease of use, menu, convenience, international distribution and service, and instrument reliability. Similar to our veterinary instruments and consumables strategy, a substantial portion of the revenues from this product line is derived from the sale of consumables for use on the installed base of electrolyte and blood gas analyzers. During the early stage of an instrument's life cycle, relatively greater revenues are derived from instrument placements, while consumable sales become relatively more significant in later stages as the installed base of instruments increases and instrument placement revenues begin to decline. Our long-term success in this area of our business is dependent upon new customer acquisition, customer retention and increased customer utilization of existing and new assays introduced on these instruments.

OPTI Medical Systems also manufactures our VetStat® analyzer, an instrument and consumable system that is a member of the IDEXX VetLab® suite for the veterinary market. In addition, OPTI Medical Systems provides the electrolyte module and dry slide reagents that make up the electrolyte testing functionality of the Catalyst Dx® analyzer. Our strategy in the OPTI Medical Systems business for the veterinary market is to utilize this unit's know-how, intellectual property and manufacturing capability to continue to expand the menu and instrument capability of the VetStat® and Catalyst Dx® platforms for veterinary applications while reducing our cost of consumables by leveraging experience and economies of scale.

Other Activities. We have developed certain proprietary technology that we believe may have application in areas that do not align with one of our existing business or service categories. Our strategy is to out-license these technologies to partners that are best positioned to complete the development and commercialization of products utilizing these technologies. To the extent we are successful in doing so, we may receive one-time or recurring payments based on the achievement of development or sales milestones. Our ability to succeed in this area of our business depends on our ability to attract and retain qualified scientific personnel to develop proprietary products or technology and our ability to identify suitable third parties to complete the commercialization of these technologies.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). 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 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. Note 3 to the consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2010 describes the significant accounting policies used in preparation of these consolidated financial statements.

We believe the following critical accounting estimates and assumptions may have a material impact on reported financial condition and operating performance and involve significant levels of judgment to account for highly uncertain matters or are susceptible to significant change.

Revenue Recognition

We recognize revenue when four criteria are met: (i) persuasive evidence that an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the sales price is fixed or determinable; and (iv) collectability is

reasonably assured. See Note 3(i) to the consolidated financial statements for the year ended December 31, 2010 included in this Annual Report on Form 10-K for additional information about our revenue recognition policy and criteria for recognizing revenue.

Multiple element arrangements ("MEAs"). Arrangements to sell products to customers frequently include multiple deliverables. Our most significant MEAs include the sale of one or more of the instruments from the IDEXX VetLab® suite of analyzers or digital radiography systems, combined with one or more of the following products: extended maintenance agreements ("EMAs"); consumables; reference laboratory diagnostic and consulting services; and practice management software. Practice management software is frequently sold with post-contract customer support and implementation services. Delivery of the various products or performance of services within the arrangement may or may not coincide. Delivery of our IDEXX VetLab® instruments, digital radiography systems, and practice management software generally occurs at the onset of the arrangement. EMAs, consumables, and reference laboratory diagnostic and consulting services typically are delivered over future periods, generally one to five years. In certain arrangements revenue recognized is limited to the amount invoiced or received that is not contingent on the delivery of future products and services.

When arrangements outside of the scope of software revenue recognition guidance include multiple elements, we allocate revenue to each element based on the relative selling price and recognize revenue when the elements have standalone value and the four criteria for revenue recognition have been met for each element. We establish the selling price of each element based on vendor-specific objective evidence ("VSOE") if available, third-party evidence ("TPE") if VSOE is not available, or best estimate of selling price ("BESP") if neither VSOE nor TPE is available. We generally determine selling price based on amounts charged separately for the delivered and undelivered elements to similar customers in standalone sales of the specific elements. When arrangements outside of the scope of software revenue recognition guidance include a separately-priced EMA, we recognize revenue related to the EMA at the stated contractual price on a straight-line basis over the life of the agreement to the extent the separately stated price is substantive. If there is no stated contractual price for an EMA, or the separately stated price is not substantive, we recognize revenue according to the MEA policy stated above.

When arrangements within the scope of software revenue recognition guidance include multiple elements, we allocate revenue to each element based on relative fair value, when VSOE exists for all elements, or by using the residual method when there is VSOE for the undelivered elements but no such evidence for the delivered elements. Under the residual method, the fair value of the undelivered elements is deferred and the residual revenue is allocated to the delivered elements. Revenue is recognized on any delivered elements when the four criteria for revenue recognition have been met for each element. If VSOE does not exist for the undelivered element, all revenue from the arrangement is deferred until the earlier of the point at which such sufficient VSOE does exist or all elements of the arrangement have been delivered. We generally determine fair value based on amounts charged separately for the delivered and undelivered elements to similar customers in standalone sales of the specific elements.

Certain arrangements with customers include discounts on future sales of products and services. We apply judgment in determining whether discounts are significant and incremental. When the future discount offered is not considered significant and incremental, we do not account for the discount as an element of the original arrangement. If the future discount is significant and incremental, we recognize that discount as an element of the original arrangement and allocate the discount to the other elements of the arrangement based on relative selling price. To determine whether a discount is significant and incremental, we look to the discount provided in comparison to standalone sales of the same product to similar customers, the level of discount provided on other elements in the arrangement, and the significance of the discount to the overall arrangement. Determination of whether a discount is significant is subjective. If the discount in the MEA approximates the discount typically provided in standalone sales, that discount is not considered incremental.

Customer programs. We record estimated reductions to revenue in connection with customer marketing programs and incentive offerings that may give customers credits, award IDEXX points (under customer reward programs), or provide other incentives. Through the third quarter of 2010, our two most significant customer programs were Practice Developer® and SNAP® up the SavingsTM ("SUTS"). Effective October 1, 2010, we discontinued our Practice Developer® program and launched our Real-Time CareTM Protocols and Advanced Lab Protocols customer programs. These customer programs are only offered to North American CAG customers.

Our Practice Developer® program was a CAG awards program that permitted customers to earn IDEXX points by purchasing quarterly minimums in certain product and service categories, including IDEXX reference laboratory diagnostic and consulting services, Catalyst Dx® and VetTest® slides, SNAP® Reader reagents, LaserCyte® and VetAutoreadTM tubes, and service and maintenance agreements. Prior to 2010, customers could also earn IDEXX points under the Practice Developer® program based on purchases of SNAP® tests. SNAP® tests were removed from this program at the end of 2009, resulting in no IDEXX points awarded under this program for SNAP® tests purchased in 2010.

SUTS is our volume incentive program for selected SNAP® tests that provides customers with benefits in the form of (1) discounts off invoice at the time of purchase and (2) award points based on total purchase volume of qualified SNAP® products during the quarter. In 2009, coinciding with the removal of SNAP® products from the Practice Developer® program, the SUTS program was redesigned to provide customers the opportunity to earn higher award payouts and to allow for the payout of award points earned quarterly throughout the SUTS program year (which ends on September 30). The 2009 modifications to the SUTS program resulted in increased customer earning of award points in 2010 as compared to prior years.

The Real-Time CareTM Protocols and Advanced Lab Protocols customer programs permit IDEXX customers to earn award points by running or ordering certain qualifying tests. Revenue reductions recognized in 2010 related to these two programs were not material as these two programs had only been in place for the last three months of 2010.

Estimated revenue reductions are recorded quarterly based on the actual issuance of credits, award points earned but not yet issued, and estimates of credits and award points to be earned in the future based on applicable product inventories held by distributors at the end of the quarter. In our analysis we utilize data supplied from distributors and collected directly from customers, which includes the volume of qualifying products purchased as well as price paid per clinic (“practice-level sales data”) and the number of qualifying tests run as reported to us by our customers via IDEXX SmartServiceTM connectivity.

In addition, we sometimes offer incentives to customers that enter into agreements with us to purchase products or services in future periods. Incentives may be in the form of cash or IDEXX points and are granted to the customer at the inception of the agreement. These types of incentives are considered to be customer acquisition costs and are capitalized and recognized as a reduction of revenue over the term of the customer agreement.

Future market conditions and changes in product offerings may cause us to change marketing strategies to increase or decrease customer incentive offerings, possibly resulting in incremental reductions of revenue in future periods as compared to reductions in the current or prior periods. Additionally, certain incentive programs require us to estimate, based on historical experience, and apply judgment to approximate the number of customers who will actually redeem the incentive. Differences between estimated and actual customer participation in programs may impact the amount and timing of revenue recognition.

IDEXX points may be applied against the purchase price for IDEXX products and services purchased in the future or applied to trade receivables due to us. The most significant estimate related to IDEXX Point programs is estimating the amount of points expected to expire, or breakage. As IDEXX points are redeemed, we recognize the benefit of breakage using historical forfeiture rates. On November 30 of each year, unused points earned before January 1 of the prior year expire and any variance from the breakage estimate is accounted for as a change in estimate. This variance was not material for the years ended December 31, 2010, 2009 and 2008.

Following is a summary of revenue reductions recorded in connection with our customer programs for the years ended December 31, 2010, 2009 and 2008 (in thousands):

	For the Years Ended December 31,		
	2010	2009	2008
Revenue Reductions Recorded			
Practice Developer® program(1)	$ 5,025	$ 6,892	$ 7,521
SNAP® up the Savings™ program(1)	7,487	4,582	4,011
Other programs(1)	11,424	9,175	3,808
Total revenue reductions	$ 23,936	$ 20,649	$ 15,340

(1) Practice Developer®, SNAP® up the Savings™ and certain other customer program liabilities are settled through the issuance of IDEXX Points.

At December 31, 2010, 2009 and 2008, the total accrued revenue reductions were $22.2 million, $17.4 million and $15.2 million, respectively. Following is a summary of changes in the accrual for estimated revenue reductions attributable to IDEXX Points customer programs and incentive offerings and the ending accrued revenue reductions balance for the years ended December 31, 2010, 2009 and 2008 (in thousands):

	For the Years Ended December 31,		
	2010	2009	2008
Accrued Customer Programs:			
Balance, beginning of the year	$ 17,388	$ 15,183	$ 15,107
Current provision related to Practice Developer® program(1)	5,025	6,892	7,521
Current provision related to SNAP® up the Savings™ program(1)	7,487	4,582	4,011
Current provision related to other programs(1)	10,504	9,101	3,808
Customer acquisition costs			