IDEXX LABORATORIES INC /DE
Form 10-Q
April 23, 2010

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

(Mark One)

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

For the quarterly period ended March 31, 2010

OR

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

For the transition period from _______________ to _______________.

COMMISSION FILE NUMBER: 0-19271

IDEXX LABORATORIES, INC.
(Exact name of registrant as specified in its charter)

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

207-556-0300
(Registrant’s telephone number, including area code)

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

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

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

Large accelerated filer x	Accelerated filer o

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. The number of shares outstanding of the registrant's Common Stock, $0.10 par value, was 57,652,045 on April 19, 2010.

IDEXX LABORATORIES, INC.
Quarterly Report on Form 10-Q
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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

IDEXX LABORATORIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)
(Unaudited)

	March 31, 2010	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 106,354	$ 106,728
Accounts receivable, net of reserves of $2,384 in 2010 and $2,331 in 2009	130,519	115,107
Inventories, net	122,384	110,425
Deferred income tax assets	22,872	25,188
Other current assets	16,240	18,890
Total current assets	398,369	376,338
Long-Term Assets:		
Property and equipment, net	197,063	199,946
Goodwill	146,534	148,705
Intangible assets, net	61,304	63,907
Other long-term assets, net	21,014	19,631
Total long-term assets	425,915	432,189
TOTAL ASSETS	$ 824,284	$ 808,527
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable, principally trade accounts	$ 24,104	$ 19,133
Accrued liabilities	94,616	104,959
Line of credit	157,388	118,790
Current portion of long-term debt	825	813
Current portion of deferred revenue	12,234	12,610
Total current liabilities	289,167	256,305
Long-Term Liabilities:		
Deferred income tax liabilities	17,795	18,283
Long-term debt, net of current portion	4,070	4,281
Long-term deferred revenue, net of current portion	4,421	3,813
Other long-term liabilities	11,699	11,266
Total long-term liabilities	37,985	37,643
Total liabilities	327,152	293,948
Commitments and Contingencies (Note 12)		
Stockholders' Equity:		
Common stock, $0.10 par value: Authorized: 120,000 shares; Issued: 96,794 and 96,334 shares in 2010 and 2009, respectively	9,679	9,633

Additional paid-in capital		593,924		580,797
Deferred stock units: Outstanding: 127 and 117 units in 2010 and 2009, respectively		4,753		4,301
Retained earnings		857,282		824,256
Accumulated other comprehensive income		6,543		10,341
Treasury stock, at cost: 39,258 and 38,118 shares in 2010 and 2009, respectively		(975,061)		(914,759)
Total IDEXX Laboratories, Inc. stockholders' equity		497,120		514,569
Noncontrolling interest		12		10
Total stockholders' equity		497,132		514,579
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	824,284	$	808,527

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

IDEXX LABORATORIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(Unaudited)

	For the Three Months Ended March 31, 2010	2009
Revenue:		
Product revenue	$ 176,761	$ 155,895
Service revenue	91,764	80,560
Total revenue	268,525	236,455
Cost of Revenue:		
Cost of product revenue	68,634	59,267
Cost of service revenue	57,530	52,755
Total cost of revenue	126,164	112,022
Gross profit	142,361	124,433
Expenses:		
Sales and marketing	44,416	40,985
General and administrative	32,808	29,068
Research and development	16,709	15,939
Income from operations	48,428	38,441
Interest expense	(365)	(640)
Interest income	53	244
Income before provision for income taxes	48,116	38,045
Provision for income taxes	15,088	11,974
Net income	33,028	26,071
Less: Net income attributable to noncontrolling interest	2	-
Net income attributable to IDEXX Laboratories, Inc. stockholders	$ 33,026	$ 26,071
Earnings per Share:		
Basic	$ 0.57	$ 0.44
Diluted	$ 0.55	$ 0.43
Weighted Average Shares Outstanding:		
Basic	58,033	59,172
Diluted	60,029	60,606

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

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IDEXX LABORATORIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	For the Three Months Ended March 31,	
	2010	2009
Cash Flows from Operating Activities:		
Net income	$ 33,028	$ 26,071
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,246	12,556
Loss on disposal of property and equipment	1,092	491
Increase (decrease) in deferred compensation liability	101	(100)
Provision for uncollectible accounts	385	246
Provision for deferred income taxes	769	1,465
Share-based compensation expense	3,344	2,930
Tax benefit from exercises of stock options and vesting of restricted stock units	(3,318)	(161)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(17,393)	(6,072)
Inventories	(12,179)	(8,067)
Other assets	1,441	179
Accounts payable	5,081	(4,315)
Accrued liabilities	(4,916)	(12,394)
Deferred revenue	524	(205)
Net cash provided by operating activities	19,205	12,624
Cash Flows from Investing Activities:		
Purchases of property and equipment	(7,789)	(9,114)
Proceeds from disposition of pharmaceutical product lines	-	1,377
Proceeds from sale of property and equipment	27	1,046
Acquisitions of equipment leased to customers	(684)	(188)
Acquisitions of intangible assets	(144)	-
Net cash used by investing activities	(8,590)	(6,879)
Cash Flows from Financing Activities:		
Borrowings on revolving credit facilities, net	38,523	15,019
Payment of other notes payable	(200)	(190)
Purchase of treasury stock	(57,728)	(14,986)
Proceeds from exercises of stock options and employee stock purchase plans	6,483	3,281
Tax benefit from exercises of stock options and vesting of restricted stock units	3,318	161
Net cash provided (used) by financing activities	(9,604)	3,285
Net effect of changes in exchange rates on cash	(1,385)	(1,603)
Net increase (decrease) in cash and cash equivalents	(374)	7,427
Cash and cash equivalents at beginning of period	106,728	78,868
Cash and cash equivalents at end of period	$ 106,354	$ 86,295
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 373	$ 1,105

Income taxes paid	$	3,790	$	3,337

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

IDEXX LABORATORIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

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

The accompanying condensed consolidated financial statements include the accounts of IDEXX Laboratories, Inc. and our wholly-owned and majority-owned subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

The accompanying condensed consolidated financial statements reflect, in the opinion of our management, all adjustments necessary for a fair presentation of our financial position and results of operations. All such adjustments are of a recurring nature. The consolidated balance sheet data at December 31, 2009 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. The results of operations for the three months ended March 31, 2010 are not necessarily indicative of the results to be expected for the full year or any future period. These condensed consolidated financial statements should be read in conjunction with this Quarterly Report on Form 10-Q for the three months ended March 31, 2010, and our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission.

NOTE 2. ACCOUNTING POLICIES

Significant Accounting Policies

The significant accounting policies used in preparation of these condensed consolidated financial statements for the three months ended March 31, 2010 are consistent with those discussed in Note 3 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2009, except for the adoption of new accounting standards during the three months ended March 31, 2010 as discussed below.

Recent Accounting Pronouncements

On January 1, 2010, we adopted amendments to authoritative literature that modifies the revenue recognition guidance for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable in the arrangement based on relative selling price of the elements. The selling price for each deliverable is 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. BESP must be determined in a manner that is consistent with that used to determine the price to sell the specific elements on a standalone basis. The authoritative literature permits prospective or retrospective adoption, and we elected prospective adoption. The adoption of these amendments did not have a significant impact on our financial position, results of operations, or cash flows for the three months ended March 31, 2010, nor do we anticipate a significant impact for the year ended December 31, 2010.

On January 1, 2010, we adopted amendments to authoritative literature that modifies the revenue recognition guidance for the sale of tangible products that contain software that is more than incidental to the functionality of the product as

a whole. More specifically, the revised accounting guidance indicates that when a product has tangible and software components that function together to deliver the essential functionality of the product as a whole, that product should be excluded from the scope of software revenue accounting guidance, as opposed to the previous accounting guidance where such an instrument would be subject to the rules detailed in the software revenue guidance. The authoritative literature permits prospective or retrospective adoption, and we elected prospective adoption. Certain sales of our instruments are subject to these amendments. However, the adoption of these amendments did not have a significant impact on our financial position, results of operations, and cash flows for the three months ended March 31, 2010, nor do we anticipate a significant impact for the year ended December 31, 2010.

Our updated revenue recognition policy in its entirety reflecting the adoption of these amendments is provided in the following discussion.

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. Revenue-generating transactions generally fall into one of the following categories of revenue recognition:

- We recognize revenue at the time of shipment to U.S. distributors for substantially all products sold through distributors because title and risk of loss pass to the distributors on delivery to the common carrier. Our distributors do not have the right to return products. We recognize revenue for the remainder of our customers when the product is delivered to the customer, except as noted below.

- We recognize revenue from the sales of instruments, non-cancelable software licenses and hardware systems upon installation (and completion of training if applicable) and the customer's acceptance of the instrument or system as we have no significant further obligations after this point in time.

- We recognize service revenue at the time the service is performed.

- We recognize revenue associated with extended maintenance agreements ("EMAs") over the life of the contracts using the straight-line method, which approximates the expected timing in which applicable services are performed. Amounts collected in advance of revenue recognition are recorded as a current or long-term liability based on the time from the balance sheet date to the future date of revenue recognition.

- We recognize revenue on certain instrument systems under rental programs over the life of the rental agreement using the straight-line method. Amounts collected in advance of revenue recognition are recorded as a current or long-term liability based on the time from the balance sheet date to the future date of revenue recognition.

- We recognize revenue on practice information management systems sales either by allocating the revenue to each element of the sale based on relative fair values of the elements, including post-contract support when fair value for all elements is available, or by use of the residual method when only the fair value of the post-contract support is available. We recognize revenue for the system on installation and customer acceptance and recognize revenue equal to the fair value of the post-contract support over the support period.

- Shipping costs reimbursed by the customer are included in 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; consumables; laboratory diagnostic and consulting services; and practice management software. Practice management software is frequently sold with postcontract 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 laboratory diagnostic and consulting services generally are delivered over a period of 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 VSOE if available, TPE if VSOE is not available, or 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 an EMA, we recognize revenue related to the EMA at the stated contractual price on a straight-line basis over the life of the agreement.

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 residual fair value when there is VSOE for the undelivered elements but no such evidence for the delivered elements. When allocating revenue based on residual fair value, 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 sufficient VSOE does not exist for the allocation of revenue to the various elements of the arrangement, 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.

Customer programs. We record estimated reductions to revenue in connection with customer marketing programs and incentive offerings that may give customers rebates or award points, or provide other incentives. Award points granted under our IDEXX Points customer programs may be applied to trade receivables owed to us and/or toward future purchases of our products or services. We establish accruals for estimated revenue reductions attributable to customer programs and incentive offerings for each program. Revenue reductions are recorded quarterly based on issuance of credits, points earned but not yet issued, and estimates of credits and points to be earned in the future based on current revenue. As points are redeemed we recognize the benefit of points expected to expire, or breakage, using historical forfeiture rates. On November 30 of each year, unused points granted before January 1 of the prior year expire and any variance from the breakage estimate is accounted for as a change in estimate.

Within our overall IDEXX Points program, our two most significant customer programs are Practice Developer® and SNAP® up the Savings™ (“SUTS”), both of which are offered only to North American customers. Our Practice Developer® program is a Companion Animal Group (“CAG”) awards program that permits customers to earn points by purchasing quarterly minimums in certain product and service categories, including IDEXX Reference Laboratories services, Catalyst Dx® and VetTest® slides, SNAPShot Dx® Analyzer and VetTest® SNAP® Reader reagents, LaserCyte® and VetAutoread™ tubes, and service and maintenance agreements. For the Practice Developer® program, the accrued revenue reduction is calculated each quarter based on sales to end users during the quarter by either us or our distributors and on our estimate of future points to be issued upon sale of applicable product inventories held by distributors at the end of the quarter. 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) points under the IDEXX Points program awarded and paid out quarterly throughout the SUTS program year (which ends on August 31) based on total purchase volume of qualified SNAP® products during the given quarter.

Doubtful accounts receivable. We recognize revenue only in those situations where collection from the customer is reasonably assured. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We base our estimates on a detailed analysis of specific customer situations and a percentage of our accounts receivable by aging category. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required. Account balances are charged off against the allowance when we believe the receivable will not be recovered.

NOTE 3. SHARE-BASED COMPENSATION

The fair value of options, restricted stock units, deferred stock units with vesting conditions, and employee stock purchase rights awarded during the three months ended March 31, 2010 and 2009 totaled $15.0 million and $15.1 million, respectively. Share-based compensation expense for the three months ended March 31, 2010 and 2009 was $3.3 million and $2.9 million, respectively. The total unrecognized compensation expense for unvested awards outstanding at March 31, 2010 was $36.5 million, net of approximately $2.8 million related to estimated forfeitures. The weighted average remaining expense recognition period at March 31, 2010 was approximately 2.3 years.

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Options

We determine the assumptions used in the valuation of option grants as of the date of grant. Differences in the stock price volatility, terms of options granted to different segments of employees, or risk-free interest rates may necessitate distinct valuation assumptions at those grant dates. As such, we may use different assumptions during the fiscal year if we grant options at different dates or with varying terms. Option awards are granted to employees with an exercise price equal to not less than the closing market price of our common stock at the date of grant. We have never paid any cash dividends on our common stock and we have no present intention to pay a dividend; therefore, we assume that no dividends will be paid over the expected terms of option awards. The weighted averages of the valuation assumptions used to determine the fair value of each option grant on the date of grant and the weighted average estimated fair values were as follows:

	For the Three Months Ended March 31,	
	2010	2009
Expected stock price volatility	31%	30%
Expected term, in years	4.9	4.8
Risk-free interest rate	2.3%	1.6%
Weighted average fair value of options granted	$ 16.53	$ 9.97

NOTE 4. INVENTORIES

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

	March 31, 2010	December 31, 2009
Raw materials	$ 28,331	$ 28,426
Work-in-process	15,448	17,761
Finished goods	78,605	64,238
	$ 122,384	$ 110,425

NOTE 5. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in goodwill and the cost of intangible assets other than goodwill during the three months ended March 31, 2010 resulted primarily from changes in foreign currency exchange rates.

NOTE 6. ACCRUED LIABILITIES

Accrued liabilities consisted of the following (in thousands):

	March 31, 2010	December 31, 2009
Accrued expenses	$ 28,387	$ 33,094
Accrued employee compensation and related expenses	31,790	44,497

Accrued taxes		15,702		9,980
Accrued customer programs		18,737		17,388
	$	94,616	$	104,959

NOTE 7. WARRANTY RESERVES

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

The following is a summary of changes in accrued warranty reserves during the three months ended March 31, 2010 and 2009 (in thousands):

	For the Three Months Ended March 31, 2010	2009
Balance, beginning of period	$ 3,086	$ 2,837
Provision for warranty expense	1,082	1,264
Change in estimate	(478)	(69)
Settlement of warranty liability	(1,076)	(926)
Balance, end of period	$ 2,614	$ 3,106

NOTE 8. TREASURY STOCK

We primarily acquire shares by means of repurchases in the open market. We also acquire shares that are surrendered by employees in payment for the minimum required withholding taxes due on the exercise of stock options, the vesting of restricted stock units and the settlement of deferred stock units, and in payment for the exercise price of stock options.

Information about our treasury stock purchases and other receipts for the three months ended March 31, 2010 and 2009 (in thousands, except per share amounts):

	For the Three Months Ended March 31, 2010	2009
Shares acquired	1,140	499
Total cost of shares acquired	$ 60,302	$ 16,058
Average cost per share	$ 52.89	$ 32.20

NOTE 9. INCOME TAXES

Our effective income tax rates were 31.4% and 31.5% for the three months ended March 31, 2010 and 2009, respectively. The decrease in the effective tax rate was due primarily to tax benefits related to U.S. manufacturing activities that were fully phased-in effective January 1, 2010, partly offset by the expiration of federal research and development tax incentives that were available during the three months ended March 31, 2009.

NOTE 10. COMPREHENSIVE INCOME

The following is a summary of comprehensive income for the three months ended March 31, 2010 and 2009 (in thousands):

	For the Three Months Ended March 31, 2010	2009
Net income	$ 33,028	$ 26,071
Less: Net income attributable to noncontrolling interest	2	-

Net income attributable to IDEXX Laboratories, Inc. stockholders		33,026		26,071
Other comprehensive income (loss) attributable to IDEXX Laboratories, Inc. stockholders:				
Foreign currency translation adjustments		(5,548)		(7,093)
Change in fair value of foreign currency contracts classified as hedges, net of tax		2,275		(1,287)
Change in fair value of interest rate swaps classified as hedges, net of tax		(582)		(213)
Change in fair market value of investments, net of tax		57		(63)
Comprehensive income attributable to IDEXX Laboratories, Inc. stockholders	$	29,228	$	17,415

NOTE 11. EARNINGS PER SHARE

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

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

	For the Three Months Ended March 31,	
	2010	2009
Shares Outstanding for Basic Earnings per Share:		
Weighted average shares outstanding	57,911	59,064
Weighted average vested deferred stock units outstanding	122	108
	58,033	59,172
Shares Outstanding for Diluted Earnings per Share:		
Shares outstanding for basic earnings per share	58,033	59,172
Dilutive effect of options issued to employees and directors	1,821	1,386
Dilutive effect of restricted stock units issued to employees and directors	170	41
Dilutive effect of unvested deferred stock units issued to directors	5	7
	60,029	60,606

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

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

	For the Three Months Ended March 31,	
	2010	2009
Weighted average number of shares underlying anti-dilutive options	605	1,432
Weighted average exercise price per underlying share of anti-dilutive options	$ 54.85	$ 44.60
Weighted average number of shares underlying anti-dilutive restricted stock units	-	302

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

March 31,

	2010	2009
Closing price per share of our common stock	$ 57.55	$ 34.58
Number of shares underlying options with exercise prices below the closing price	4,882	4,382
Number of shares underlying options with exercise prices equal to or above the closing price	-	1,104
Total number of shares underlying outstanding options	4,882	5,486

NOTE 12. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Significant commitments, contingencies and guarantees at March 31, 2010 are consistent with those discussed in Note 12 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2009.

NOTE 13. SEGMENT REPORTING

The accounting policies of the segments are consistent with those discussed in Notes 1 and 13 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2009. Intersegment revenues, which are not included in the table below, were not significant for the three months ended March 31, 2010 and 2009.

Segment performance for the three months ended March 31, 2010 and 2009 is as follows (in thousands):

	For the Three Months Ended March 31,					
	CAG	Water	Production Animal Segment	Other	Unallocated Amounts	Consolidated Total
2010						
Revenue	$ 221,417	$ 17,864	$ 19,941	$ 9,303	$ -	$ 268,525
Income (loss) from operations	$ 39,767	$ 7,123	$ 4,734	$ 260	$ (3,456)	$ 48,428
Interest expense, net						312
Income before provision for income taxes						48,116
Provision for income taxes						15,088
Net income						33,028
Net income attributable to noncontrolling interest						2
Net income attributable to IDEXX Laboratories, Inc. stockholders						$ 33,026
2009						
Revenue	$ 193,692	$ 15,851	$ 18,266	$ 8,646	$ -	$ 236,455
Income (loss) from operations	$ 29,079	$ 7,312	$ 4,950	$ 129	$ (3,029)	$ 38,441
Interest expense, net						396
Income before provision for income taxes						38,045
						11,974

Provision for income taxes		
Net income		26,071
Net income attributable to noncontrolling interest		-
Net income attributable to IDEXX Laboratories, Inc. stockholders	$	26,071

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

	For the Three Months Ended March 31,			
		2010		2009
CAG segment revenue:				
Instruments and consumables	$	83,382	$	72,235
Rapid assay products		39,443		37,677
Laboratory diagnostic and consulting services		79,840		68,692
Practice information systems and digital radiography		18,752		15,034
Pharmaceutical products		-		54
CAG segment revenue		221,417		193,692
Water segment revenue		17,864		15,851
Production animal segment revenue		19,941		18,266
Other segment revenue		9,303		8,646
Total revenue	$	268,525	$	236,455

NOTE 14. FAIR VALUE MEASUREMENTS

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

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

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Foreign currency exchange contracts and interest rate swaps classified as derivative instruments are valued utilizing third-party pricing services.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. At March 31, 2010 and December 31, 2009, we had no Level 3 assets or liabilities.

Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. We did not have any significant nonfinancial assets or nonfinancial liabilities which required remeasurement during the three months ended March 31, 2010 or during the year ended December 31, 2009. We did not have any transfers between Level 1 and Level 2 measurements during the three months ended March 31, 2010.

The following tables set forth our assets and liabilities that were measured at fair value on a recurring basis at March 31, 2010 and at December 31, 2009 by level within the fair value hierarchy (in thousands):

As of March 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at March 31, 2010
Assets				
Money market funds(1)	$ 59,014	$ -	$ -	$ 59,014
Equity mutual funds(2)	1,993	-	-	1,993
Liabilities				
Foreign currency exchange contracts(3)	-	926	-	926
Deferred compensation(4)	1,993	-	-	1,993
Interest rate swaps(5)	-	1,515	-	1,515

As of December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2009
Assets				
Money market funds(1)	$ 47,021	$ -	$ -	$ 47,021
Equity mutual funds(2)	1,891	-	-	1,891
Liabilities				
Foreign currency exchange contracts(3)	-	4,221	-	4,221
Deferred compensation(4)	1,891	-	-	1,891
Interest rate swaps(5)	-	595	-	595

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(1) Money market funds are included within Cash and cash equivalents.

(2) Equity mutual funds relate to a deferred compensation plan that was assumed as part of a previous business combination. This amount is included within Other long-term assets, net. See item 4 below for a discussion of the related deferred compensation liability.

(3) Foreign currency exchange contracts are included within Accrued liabilities.

(4) Deferred compensation plans are included within Other long-term liabilities. The fair value of our deferred compensation plan is indexed to the performance of the underlying equity mutual funds discussed in item 1 above.

(5) Interest rate swaps are included within Accrued liabilities.

The estimated fair value of certain financial instruments, including cash and cash equivalents, investments, accounts receivable, derivative instruments, interest rate swap agreements, accounts payable, lines of credit, and notes payable approximate carrying value due to their short maturity. The estimated fair value of long-term debt approximates the carrying value based on current market prices for similar debt issues with similar remaining maturities.

Financial instruments that potentially subject us to concentrations of credit risk are principally cash and cash equivalents, investments and accounts receivable. To mitigate such risk, we place our cash and cash equivalents and investments in highly-rated financial institutions and money market funds invested in government securities. Concentration of credit risk with respect to accounts receivable is limited to certain customers to whom we make substantial sales. To reduce risk, we routinely assess the financial strength of our customers and closely monitor their amounts due to us and, as a consequence, believe that our accounts receivable credit risk exposure is limited. We maintain an allowance for doubtful accounts, but historically have not experienced any significant losses related to an individual customer or group of customers in any particular industry or geographic area.

NOTE 15. DERIVATIVE INSTRUMENTS AND HEDGING

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

We are exposed to certain risks related to our ongoing business operations. The primary risks that we manage by using derivative instruments are foreign currency exchange risk and interest rate risk. Our subsidiaries enter into foreign currency exchange contracts to manage the exchange risk associated with their forecasted intercompany inventory purchases for the next year. From time to time, we may also enter into foreign currency exchange contracts to minimize the impact of foreign currency fluctuations associated with specific, significant transactions. Interest rate swaps are entered into to manage interest rate risk associated with $80 million of our variable-rate debt.

The primary purpose of our foreign currency hedging activities is to protect against the volatility associated with foreign currency transactions. We also utilize natural hedges to mitigate our transaction and commitment exposures. Our corporate policy prescribes the range of allowable hedging activity. We enter into exchange contracts with large multinational financial institutions, and we do not hold or engage in transactions involving derivative instruments for purposes other than risk management. Our accounting policies for these contracts are based on our designation of such instruments as hedging transactions. Market gains and losses are deferred in OCI until the contract matures, which is the period when the related obligation is settled. We primarily utilize forward exchange contracts with durations of less than 24 months.

Cash Flow Hedges

We have designated our forward currency exchange contracts and variable-to-fixed interest rate swaps as cash flow hedges. For derivative instruments that are designated as hedges, changes in the fair value of the derivative are recognized in OCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. We de-designate derivative instruments from hedge accounting when the probability of the hedged transaction occurring becomes less than probable, but remains reasonably possible. For de-designated instruments, the gain or loss from the time of de-designation through maturity of the instrument is recognized in earnings. Any gain or loss in other comprehensive income at the time of de-designation is reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. We did not de-designate any instruments from hedge accounting treatment during the three months ended March 31, 2010 or 2009. We immediately record in earnings the extent to which a hedge is not effective in achieving offsetting changes in fair value of the hedged item. Gains or losses related to hedge ineffectiveness recognized in earnings during the three months ended March 31, 2010 and 2009 were not material. At March 31, 2010, the estimated net amount of losses that are expected to be reclassified out of accumulated other comprehensive income and into earnings within the next 12 months is $0.6 million if exchange rates do not fluctuate from the levels at March 31, 2010.

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

Under our current credit facility agreement, the applicable interest rates on our unsecured short-term revolving credit facility (“Credit Facility”) generally range from 0.375 to 0.875 percentage points (“Credit Spread”) above the London interbank offered rate or the Canadian Dollar-denominated bankers’ acceptance rate, dependent on our consolidated leverage ratio. In March 2009, we entered into two forward fixed interest rate swap agreements to manage the economic effect of variable interest obligations on amounts borrowed under the terms of our Credit Facility. Under these agreements, beginning on March 31, 2010 the variable interest rate associated with $80 million of borrowings outstanding under the Credit Facility has effectively become fixed at 2% plus the Credit Spread through March 30, 2012. The critical terms of the interest rate swap agreements match the critical terms of the underlying borrowings, including notional amounts, underlying market indices, interest rate reset dates and maturity dates.

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

Currency Sold	U.S. Dollar Equivalent		
	March 31, 2010	December 31, 2009	March 31, 2009
Euro	$ 49,882	$ 53,091	$ 48,843
British Pound	19,017	19,238	23,541
Canadian Dollar	18,095	18,849	24,740
Australian Dollar	6,863	7,086	6,414
Japanese Yen	9,040	9,795	7,253
	$ 102,897	$ 108,059	$ 110,791

Currency Purchased	U.S. Dollar Equivalent		
	March 31, 2010	December 31, 2009	March 31, 2009
Swiss Franc	$ 8,425	$ 8,808	$ 7,306

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

	U.S. Dollar Equivalent		
	March 31, 2010	December 31, 2009	March 31, 2009
Interest rate swap	$ 80,000	$ 80,000	$ 80,000

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

	Liability Derivatives			
	March 31, 2010		December 31, 2009	
	Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
Derivatives designated as hedging instruments				
Foreign currency exchange contracts	Accrued expenses	$ 926	Accrued expenses	$ 4,221
Interest rate swaps	Accrued expenses	1,515	Accrued expenses	595
Total derivative instruments		$ 2,441		$ 4,816

The effect of derivative instruments designated as cash flow hedges on the condensed consolidated balance sheet for the three months ended March 31, 2010 and 2009 consisted of the following (in thousands):

Gain (Loss) Recognized in OCI on Derivative Instruments (Effective Portion)

Derivative instruments	For the Three Months Ended March 31, 2010	2009
Foreign exchange contracts, net of tax	$ 2,275	$ (1,287)
Interest rate swaps, net of tax	(582)	(213)
Total loss, net of tax	$ 1,693	$ (1,500)

The effect of derivative instruments designated as cash flow hedges on the condensed consolidated statement of operations for the three months ended March 31, 2010 and 2009 consisted of the following (in thousands):

Derivative instruments	Classification of Gain (Loss) Reclassified from OCI into Income (Effective Portion)	Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) For the Three Months Ended March 31, 2010	2009
Foreign exchange contracts	Cost of revenue	$ (411)	$ 4,818

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

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

Business Overview

Operating segments. We operate primarily through three business segments: diagnostic and information technology products and services for the veterinary market, which we refer to as our Companion Animal Group (“CAG”), water quality products (“Water”) and products for production animal health, which we refer to as our Production Animal Segment (“PAS”). We also operate two smaller operating segments that comprise products for dairy 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 and other licensing arrangements are combined and presented in an “Other” category because they do not meet the quantitative or qualitative thresholds for reportable segments. See Note 13 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for financial information about our segments.

CAG develops, designs, manufactures and distributes products and performs services for veterinarians, primarily related to diagnostics and information management. Water develops, designs, manufactures and distributes products to detect contaminants in water. PAS develops, designs, manufactures and distributes products to detect disease in

production animals. Dairy develops, designs, manufactures and distributes products to detect contaminants in dairy products. OPTI Medical develops, designs, manufactures and distributes point-of-care electrolyte and blood gas analyzers and related consumable products for the human medical diagnostics market and also manufactures our VetStat® electrolyte and blood gas analyzer and electrolyte consumables used with our Catalyst Dx® analyzer sold in the veterinary market.

Items that are not allocated to our operating segments are comprised primarily of corporate research and development expenses that do not align with one of our existing business or service categories, a portion of share-based compensation expense, interest income and expense, and income taxes. We 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 caption “Unallocated Amounts.” 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 business or service categories are reported under the caption “Unallocated Amounts.”

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

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

Currency Impact. Approximately 25% of our revenue is derived from products manufactured in the U.S. and sold internationally in local currencies. Strengthening of the rate of exchange for the U.S. dollar relative to other currencies has a negative impact on our international revenues and on profits of products manufactured in the U.S. and sold internationally. In addition, to the extent that the U.S. dollar is stronger in future periods relative to the exchange rates in effect in the corresponding prior periods, our growth rate will be negatively affected. The impact of foreign currency denominated operating expenses, foreign currency denominated supply contracts and the impact of foreign currency hedge contracts in place partly offset this exposure. See also the section of this Quarterly Report on Form 10-Q under the heading “Part 1, Item 3. Quantitative and Qualitative Disclosures About Market Risk.”

Effect of Economic Conditions. We believe that our financial results in the first quarter of 2010 continued to be negatively impacted by weakened economic conditions. We believe that a weak economy has caused patient visits to U.S. and European veterinary clinics for routine screening, preventive care and elective procedures to remain depressed. As a result, the growth rate of sales of rapid assay tests, instrument consumables, and laboratory diagnostic and consulting services in our CAG segment has been negatively affected. In addition, we believe that the rate of growth of sales of our instruments, which are larger capital purchases for veterinarians, has been negatively affected by increased caution among veterinarians regarding economic prospects. Weaker economic conditions also increased the sensitivity of our customers to the pricing of our products and services, resulting in lower growth from price increases for certain products over the course of the first quarter of 2010 relative to the comparable period for the prior year.

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

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

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates. We base our estimates on historical experience and on various assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The significant accounting policies used in preparation of these condensed consolidated financial statements for the three months ended March 31, 2010 are consistent with those discussed in Note 3 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2009, except as discussed in Note 2 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q. The critical accounting policies and the significant judgments and estimates used in the preparation of our condensed consolidated financial statements for the three months ended March 31, 2010 are consistent with those discussed in our Annual Report on Form 10-K for the year ended December 31, 2009 in the section under the heading "Part 2, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates."

Results of Operations

Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2009

Revenue

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

	For the Three Months Ended March 31,						
Net Revenue (dollars in thousands)	2010	2009	Dollar Change	Percentage Change	Percentage Change from Currency (1)	Percentage Change from Acquisitions/ Divestitures (2)	Percentage Change Net of Acquisitions/ Divestitures and Currency Effect
CAG	$ 221,417	$ 193,692	$ 27,725	14.3%	3.6%	0.8%	9.9%
Water	17,864	15,851	2,013	12.7%	5.2%	-	7.5%
PAS	19,941	18,266	1,675	9.2%	4.7%	-	4.5%
Other	9,303	8,646	657	7.6%	1.5%	-	6.1%
Total	$ 268,525	$ 236,455	$ 32,070	13.6%	3.8%	0.6%	9.2%

(1) Represents the percentage change in revenue attributed to the effect of changes in currency rates from the three months ended March 31, 2009 compared to the three months ended March 31, 2010.

(2) Represents the percentage change in revenue during the three months ended March 31, 2010 compared to the three months ended March 31, 2009 attributed to incremental revenues from businesses acquired or revenues lost from businesses divested or discontinued subsequent to December 31, 2008.

The following revenue analysis and discussion reflects the results of operations net of the impact of currency exchange rates on sales outside the U.S. and net of incremental sales from businesses acquired or revenues lost from divisions divested subsequent to December 31, 2008.

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

For the Three Months Ended March 31,							
Net Revenue (dollars in thousands)	2010	2009	Dollar Change	Percentage Change	Percentage Change from Currency (1)	Percentage Change from Acquisitions/ Divestitures (2)	Percentage Change Net of Acquisitions/ Divestitures and Currency Effect
Instruments and consumables	$ 83,382	$ 72,235	$ 11,147	15.4%	3.8%	-	11.6%
Rapid assay products	39,443	37,677	1,766	4.7%	1.3%	-	3.4%
Laboratory diagnostic and consulting services	79,840	68,692	11,148	16.2%	5.1%	2.1%	9.0%
Practice information management systems and digital radiography	18,752	15,034	3,718	24.7%	1.9%	0.6%	22.2%
Pharmaceutical products	-	54	(54)	(100.0%)	-	(100.0%)	-
Net CAG revenue	$ 221,417	$ 193,692	$ 27,725	14.3%	3.6%	0.8%	9.9%

(1) Represents the percentage change in revenue attributed to the effect of changes in currency rates from the three months ended March 31, 2009 compared to the three months ended March 31, 2010.

(2) Represents the percentage change in revenue during the three months ended March 31, 2010 compared to the three months ended March 31, 2009 attributed to incremental revenues from businesses acquired or revenues lost from businesses divested or discontinued subsequent to December 31, 2008.

The increase in instruments and consumables revenue was due to higher sales volumes, partly offset by lower average unit sales prices. Higher sales volumes were driven primarily by sales of consumables that are sold for use in our chemistry analyzers. The impact from changes in distributors' inventory levels increased reported instruments and consumables revenue growth by 5%. Higher sales volumes were also attributable to sales of our Catalyst Dx® Analyzer and, to a lesser extent, our SNAPShot Dx® Analyzer and our IDEXX VetLab® Station. Instrument service and accessories revenue also contributed to revenue growth as our active installed base of instruments continued to increase. These favorable impacts were partly offset by lower average unit prices for our LaserCyte® instruments, resulting from discounts associated with customer purchase programs.

The increase in rapid assay revenue was due to the favorable impact from changes in distributors' inventory levels, which increased reported rapid assay revenue growth by 12%. This favorable impact was partly offset by lower practice-level sales. The decrease in practice-level sales was due primarily to lower volumes of canine combination test products purchased in connection with customer programs as a result of changes in program design from the prior year, and to a lesser extent, lower sales volumes of feline combination test products in the U.S.

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

The increase in practice information management systems and digital radiography revenue resulted primarily from higher sales volumes of companion animal radiography systems. Increased service revenue also contributed to revenue growth as our active installed base of systems continued to increase.

Water. The increase in Water revenue resulted primarily from higher Colilert® product sales volume. This favorable impact was partly offset by higher relative sales in geographies where products are sold at lower average unit sales prices.

Production Animal Segment. The increase in PAS revenue resulted primarily from higher sales volume of certain bovine tests. This favorable impact was partly offset by lower average unit sales prices.

Other. The increase in Other revenue was due primarily to higher sales volumes of OPTI Medical and Dairy products. Higher OPTI Medical sales volume was primarily attributable to sales of consumables used with our OPTI Medical instruments. Higher Dairy volume was primarily attributable to sales of our Dairy SNAP® residue test for detection of melamine.

Gross Profit

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

Gross Profit (dollars in thousands)	For the Three Months Ended March 31,