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

FORM 10-Q

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

For the quarterly period ended June 30, 2007

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 of incorporation)	*(IRS Employer Identification No.)*
ONE IDEXX DRIVE, WESTBROOK, MAINE	**04092**
(Address of principal executive offices)	*(ZIP Code)*

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. The number of shares outstanding of the registrant's Common Stock, $0.10 par value, was 30,591,893 on July 24, 2007.

IDEXX LABORATORIES, INC. AND SUBSIDIARIES

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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)

	June 30, 2007	December 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 49,588	$ 61,666
Short-term investments	—	35,000
Accounts receivable, less reserves of $1,579 in 2007 and $1,783 in 2006	106,684	81,389
Inventories	91,551	95,996
Deferred income taxes	22,852	16,884
Other current assets	11,793	11,328
Total current assets	282,468	302,263
Property and Equipment, at cost:		
Land and improvements	7,624	6,062
Buildings and improvements	51,982	50,105
Leasehold improvements	14,667	11,454
Machinery and equipment	79,561	72,146
Office furniture and equipment	55,423	43,632
Construction in progress	9,275	8,139
	218,532	191,538
Less accumulated depreciation and amortization	100,726	91,910
Property and equipment, net	117,806	99,628
Other Long-term Assets:		
Goodwill and other intangible assets, net	230,562	148,179
Other noncurrent assets, net	15,333	9,490
	245,895	157,669
TOTAL ASSETS	$ 646,169	$ 559,560
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 28,366	$ 24,374
Accrued expenses	33,049	25,590
Accrued employee compensation and related expenses	33,533	33,368
Accrued taxes	10,488	18,465
Accrued customer programs	15,195	13,292
Short-term debt	83,748	—
Current portion of long-term debt	699	678
Deferred revenue	8,491	8,976
Total current liabilities	213,569	124,743
Long-term Liabilities:		
Deferred tax liabilities	15,286	7,154
Long-term debt, net of current portion	6,092	6,447
Deferred revenue	8,409	6,834
Other long-term liabilities	18,261	4,521
Total long-term liabilities	48,048	24,956
Commitments and Contingencies (Note 11)		
Stockholders' Equity:		
Common stock, $0.10 par value: Authorized: 120,000 shares; Issued: 46,999 and 46,621 shares in 2007 and 2006, respectively	4,700	4,662
Additional paid-in capital	500,447	479,993
Deferred stock units: Issued 34 and 31 units in 2007 and 2006, respectively	2,094	1,852
Retained earnings	534,539	490,614
Accumulated other comprehensive income	13,131	10,566
Treasury stock, at cost: (16,520 and 15,456 shares in 2007 and 2006, respectively)	(670,359)	(577,826)
Total stockholders' equity	384,552	409,861
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 646,169	$ 559,560

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 June 30,		For the Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
Revenue:				
Product revenue	$ 159,886	$ 136,853	$ 305,350	$ 255,409
Service revenue	77,160	54,511	142,851	104,119
	237,046	191,364	448,201	359,528
Cost of Revenue:				
Cost of product revenue	72,319	57,288	130,609	106,137
Cost of service revenue	50,506	35,040	94,792	68,330
	122,825	92,328	225,401	174,467
Gross profit	114,221	99,036	222,800	185,061
Expenses:				
Sales and marketing	36,747	28,679	72,329	55,617
General and administrative	27,690	20,039	53,839	39,473
Research and development	17,317	13,292	33,288	25,970
Income from operations	32,467	37,026	63,344	64,001
Interest expense	(1,454)	(76)	(2,088)	(189)
Interest income	620	670	1,282	1,552
Income before provision for income taxes and partner's interest	31,633	37,620	62,538	65,364
Provision for income taxes	9,969	11,879	19,847	21,463
Partner's interest in loss of subsidiary	—	(39)	—	(152)
Net income	$ 21,664	$ 25,780	$ 42,691	$ 44,053
Earnings per Share:				
Basic	$ 0.70	$ 0.82	$ 1.38	$ 1.39
Diluted	$ 0.67	$ 0.78	$ 1.32	$ 1.33
Weighted Average Shares Outstanding:				
Basic	30,849	31,467	30,992	31,633
Diluted	32,201	33,014	32,380	33,216

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

IDEXX LABORATORIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	For the Six Months Ended June 30,	
	2007	**2006**
Cash Flows from Operating Activities:		
Net income	$ 42,691	$ 44,053
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	19,271	14,209
Navigator® inventory write-down and royalty license impairment	10,138	—
Partner's interest in loss of subsidiary	—	(152)
Provision for uncollectible accounts	295	338
Benefit of deferred income taxes	(4,346)	(3,136)
Share-based compensation expense	4,113	5,558
Tax benefit from exercises of stock options	(4,070)	(5,935)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(18,070)	(12,059)
Inventories	1,802	(15,610)
Other assets	(1,480)	1,223
Accounts payable	1,969	4,321
Accrued liabilities	9,940	11,822
Deferred revenue	883	156
Net cash provided by operating activities	63,136	44,788
Cash Flows from Investing Activities:		
Purchases of short- and long-term investments	—	(43,391)
Sales and maturities of short- and long-term investments	35,000	82,000
Purchases of property, plant and equipment	(26,235)	(13,810)
Purchase of land and buildings	—	(11,521)
Acquisitions of equipment leased to customers	(525)	(918)
Acquisitions of intangible assets and businesses, net of cash acquired	(85,507)	(8,245)
Net cash provided (used) by investing activities	(77,267)	4,115
Cash Flows from Financing Activities:		
Borrowings (payments) on revolving credit facilities, net	79,827	—
Payment of other notes payable	(2,042)	(647)
Purchase of treasury stock	(92,533)	(85,228)
Proceeds from exercises of options	11,986	13,245
Tax benefit from exercises of stock options	4,070	5,935
Net cash provided (used) by financing activities	1,308	(66,695)
Net effect of exchange rates on cash	745	664
Net decrease in cash and cash equivalents	(12,078)	(17,128)
Cash and cash equivalents at beginning of period	61,666	67,151
Cash and cash equivalents at end of period	$ 49,588	$ 50,023
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 1,440	$ 94
Income taxes paid	$ 18,011	$ 13,117

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

The accompanying unaudited, condensed consolidated financial statements of IDEXX Laboratories, Inc. ("IDEXX", the "Company", "we" or "our") have been prepared in accordance with accounting principles generally accepted in the United States of America 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 interim condensed consolidated financial statements reflect, in the opinion of our management, all adjustments necessary for a fair statement of our financial position and results of operations. The condensed balance sheet data as of December 31, 2006 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. The results of operations for the six months ended June 30, 2007 are not necessarily indicative of the results to be expected for the full year or any future period. These financial statements should be read in conjunction with this Form 10-Q for the three and six months ended June 30, 2007, and our Annual Report on Form 10-K for the year ended December 31, 2006 filed with the Securities and Exchange Commission.

NOTE 2. ACCOUNTING POLICIES

Recent Accounting Pronouncements

We adopted the provisions of Emerging Issues Task Force ("EITF") consensus on Issue 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, Accounting for Compensated Absences" ("EITF 06-2") and of FASB Interpretation No. ("FIN") 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") as of January 1, 2007. EITF 06-2 requires that the costs associated with unrestricted sabbaticals and other similar benefit arrangements be recognized over the service period during which the employee earns the benefit. We provide an additional four weeks of compensated leave to all U.S. salaried employees in their tenth anniversary year of employment and again at each fifth year thereafter. As a result of adopting the provisions of EITF 06-2, we recognized an increase in assets of $1.2 million, an increase in liabilities of $3.0 million, and a decrease in retained earnings of $1.8 million as of January 1, 2007. Beginning in 2007, we recognize estimated costs for estimated future compensated leave benefits as they are earned. We do not expect this change in accounting principle to have a material impact on net income in any individual period. See Note 8 for a discussion of our adoption of FIN 48.

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits entities to choose, at specified election dates, to measure eligible items at fair value (the "fair value option"). A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting period. The provisions of SFAS No. 159 are required as of the beginning of the first fiscal year beginning after November 15, 2007. We are studying SFAS No. 159 and have not yet determined the expected impact of the implementation of this pronouncement.

In April 2007, the FASB issued FASB Staff Position No. FIN 39-1 ("FSP FIN 39-1"). FSP FIN 39-1 amends FIN 39, "Offsetting of Amounts Related to Certain Contracts." FSP FIN 39-1 requires reporting entities to make an accounting policy decision whether or not to offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim, or the obligation to return, cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement. FSP FIN 39-1 also requires related disclosures. If a reporting entity changes its accounting policy upon adoption of FSP FIN 39-1, the effects of applying FSP FIN 39-1 shall be retrospectively applied for all financial statements presented. The provisions of FSP FIN 39-1 are required as of the beginning of the first fiscal year beginning after November 15, 2007. We do not expect the adoption of FSP FIN 39-1 to have a material impact on our financial position. The adoption of FSP FIN 39-1 will not have an effect on our results of operations or cash flows.

Reclassifications

Reclassifications have been made to the prior year condensed consolidated financial statements to conform to the current year presentation.

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) collectibility 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 as title and risk of loss pass to these customers 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, noncancelable software licenses and hardware systems upon installation (and completion of training if applicable) and the customer's acceptance of the instrument or system because at this time we have no significant further obligations.
- We recognize service revenue at the time the service is performed.
- We recognize revenue associated with extended maintenance agreements 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.

Certain diagnostic instruments and practice information management systems offered for sale may include software that is considered more than incidental to the utility and value of the product. Sales arrangements may provide for software update rights or postcontract customer support. Judgment is required to determine whether sales arrangements include multiple elements.

Shipping costs reimbursed by the customer are included in revenue.

Multiple element arrangements. When multiple products and/or services are sold together, we generally allocate the total consideration received amongst the elements based on their relative fair values, which is determined by amounts charged separately for the delivered and undelivered elements to other customers. When there is objective and reliable evidence of the fair value of the undelivered elements but no such evidence for the delivered elements, the fair value of the undelivered elements is deferred and the residual revenue is allocated to the delivered elements. The delivered elements are recognized as revenue when appropriate under the policies described above. If there is not sufficient evidence of the fair value of the undelivered elements, no revenue is allocated to the delivered elements and the total consideration received is deferred until delivery of those elements for which objective and reliable evidence of the fair value is not available.

Customer programs. We record estimated reductions to revenue in connection with customer marketing programs and incentive offerings, which may give customers credits or award points. Award points 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. 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 awards program that permits customers to earn points by purchasing quarterly minimums in certain product and service categories. Points may then be applied against the purchase price for IDEXX products and services purchased in the future. 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 Practice Developer® program awarded at the end of the SUTS program year (August 30) based on total purchase volume of qualified products during the year. For the Practice Developer program, we reduce revenue assuming all points granted will result in future credits because the historical forfeitures have been de minimis. 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. On November 30 of each year, unused points granted before January 1 of the prior year expire and are accounted for as a favorable change in estimate.

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 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.

Other Significant Accounting Policies

The significant accounting policies used in preparation of these condensed consolidated financial statements for the six months ended June 30, 2007 are consistent with those discussed in Note 2 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2006.

NOTE 3. BUSINESS ACQUISITIONS

In January 2007, we acquired substantially all of the assets and liabilities of the Critical Care Division of Osmetech plc. The acquired business is based in the United States and develops, designs, manufactures, and distributes point-of-care electrolyte and blood gas analyzers and related consumable products for the human medical and veterinary diagnostics markets. In March 2007, we acquired all of the equity of Vita-Tech Canada Inc. (“Vita-Tech”), Institut Pourquier SAS (“Pourquier”), and a veterinary reference laboratory based in North Carolina in separate transactions. Vita-Tech is the largest provider of reference laboratory testing services to veterinarians in Canada and has operations in Toronto and Montreal, Canada. Institut Pourquier is based in Montpellier, France and develops, designs, manufactures, and distributes production animal diagnostic products. In April 2007, we acquired certain assets of a veterinary reference laboratory based in Switzerland.

We believe that the acquired businesses enhance our existing businesses by either expanding the geographic range of our existing businesses or expanding our existing product lines. We determined the purchase price of each acquired business based on our assessment of estimated future cash flows attributable to the business enterprise taken as a whole, the strength of the business in the marketplace, the strategic importance of the acquisition to IDEXX, and the seller’s desire to be acquired by IDEXX versus perceived alternatives. We recognized goodwill based on the excess of the purchase price for each business over the fair values of the individual tangible and separately identified intangible assets acquired, which were valued in accordance with SFAS No. 141, “Business Combinations.”

We paid $84.4 million to acquire businesses during the six months ended June 30, 2007 and assumed liabilities of $17.7 million, including $7.8 million of deferred tax liabilities associated with purchase accounting. We have commitments outstanding at June 30, 2007 for additional purchase price payments of $0.7 million related to businesses acquired during the six months ended June 30, 2007. In connection with business acquisitions during the six months ended June 30, 2007, we recognized goodwill of $44.9 million and amortizable intangible assets of $36.7 million (with a weighted average amortization life of 12 years).

During the six months ended June 30, 2007, we revised the purchase price allocations related to certain businesses acquired during the year ended December 31, 2006. The revisions to the purchase price allocations resulted in a decrease in goodwill assigned to the Companion Animal Group (“CAG”) segment of $0.8 million and a corresponding increase in property, equipment and other intangible assets. During the six months ended June 30, 2007, we also paid purchase price payments of $1.1 million related to businesses acquired in prior years.

We have commitments outstanding at June 30, 2007 for additional purchase price payments of up to $3.7 million in connection with acquisitions of businesses and intangible assets during the current and prior periods, of which $1.3 million is contingent on the achievement by certain acquired businesses of specified milestones. In addition to these purchase price payments of $3.7 million, we also have agreed to make payments of up to $0.8 million to sellers of certain acquired businesses that are conditional upon those sellers providing future services to IDEXX for specified periods of time. These contingent payments will be recognized as compensation and consulting expense over the remaining service periods when management deems payment to be probable.

The results of operations of the acquired businesses have been included since their respective acquisition dates. Pro forma information has not been presented because such information is not material to the financial statements taken as a whole. The purchase price allocations for 2007 and certain 2006 acquisitions are preliminary and subject to finalization of the valuation of certain assets and liabilities.

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)*:

	June 30, 2007	December 31, 2006
Raw materials	$ 24,806	$ 33,199
Work-in-process	14,716	13,804
Finished goods	52,029	48,993
	$ 91,551	$ 95,996

During the three months ended June 30, 2007, we recognized a write-down of pharmaceutical raw materials inventory of $9.1 million and a write-off of a prepaid royalty license of $1.0 million associated with Navigator® Antiprotozoal Oral Paste ("Navigator® paste" or "Navigator®"), our nitazoxanide product for the treatment of equine protozoal myeloencephalitis. These write-downs are included in cost of product revenue in the condensed consolidated statement of operations. We have written down these assets because the third-party contract manufacturer of finished goods recently notified us that it will discontinue manufacturing the product in 2009. Additionally, product sales have been lower than projected. We believe that we will not be able to enter into a replacement manufacturing arrangement on economically feasible terms and that we will not be able to obtain the product after termination of the existing manufacturing arrangement because the estimated production volume is low. Accordingly, we have evaluated our associated inventory for obsolescence based on our changed estimates of product availability and estimated future demand and market conditions. At June 30, 2007, this inventory comprised $9.1 million of active ingredient and other raw materials, for which we recognized a full write-down, and $0.1 million of finished goods. Additionally, because of lower sales volume estimates and the reduced product life, we determined that we will not realize our related investment in prepaid royalties and, therefore, fully expensed this asset.

NOTE 5. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	June 30, 2007	December 31, 2006
CAG Segment:		
Instruments and consumables	$ 25,661	$ 117
Rapid assay products	1,631	1,952
Laboratory and consulting services	83,559	63,485
Practice information management systems and digital radiography	1,453	1,453
Pharmaceutical products	13,745	13,745
CAG Segment total	126,049	80,752
Water segment	17,627	17,282
Production animal segment	8,761	6,792
	$ 152,437	$ 104,826

During the six months ended June 30, 2007, we recognized goodwill of $44.1 million (of which $27.4 million is expected to be tax deductible) related to business acquisitions and purchase accounting adjustments. We assigned $42.1 million and $2.0 million to the CAG segment and Production Animal Segment ("PAS"), respectively. See Note 3 for additional information. The remaining changes in goodwill during the six months ended June 30, 2007 resulted from changes in foreign currency exchange rates.

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

	June 30, 2007		December 31, 2006	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Patents	$ 10,910	$ 3,493	$ 10,491	$ 2,932
Other product rights	27,024	8,541	18,743	7,660
Customer-related intangible assets	53,116	5,332	25,955	3,496
Other, primarily noncompete agreements	6,170	1,729	3,521	1,269
	$ 97,220	$ 19,095	$ 58,710	$ 15,357

In connection with business acquisitions and purchase accounting adjustments during the six months ended June 30, 2007, we acquired patents of $0.3 million, other product rights of $9.9 million, customer-related intangible assets of $24.6 million, and other intangible assets of $2.2 million, with weighted amortization periods of 8 years, 13 years, 12 years and 6 years, respectively. See Note 3 for additional information. We recognized an impairment charge to write-off a prepaid royalty license associated with Navigator® paste that had a net book value of $1.0 million. See Note 4 for additional information. The remaining changes in the cost of intangible assets other than goodwill during the six months ended June 30, 2007 resulted from changes in foreign currency exchange rates.

Amortization expense of intangible assets was $2.4 million and $4.2 million for the three and six months ended June 30, 2007, respectively. Amortization expense of intangible assets was $1.5 million and $2.6 million for the three and six months ended June 30, 2006, respectively.

NOTE 6. 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. 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 customer's environment and associated costs incurred in servicing instruments. Should actual service rates or costs differ from our estimates, which are based on historical data, revisions to the estimated warranty liability would be required. Following is a summary of changes in accrued warranty reserve for instruments sold to customers for the three and six months ended June 30, 2007 and 2006, respectively *(in thousands)*:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
Balance, beginning of period	$ 1,831	$ 3,008	$ 1,978	$ 3,159
Provision for warranty expense	292	311	782	870
Liability assumed in connection with business acquisition	—	—	86	—
Change in estimate of prior warranty expense	75	31	251	(119)
Settlement of warranty liability	(447)	(586)	(1,346)	(1,146)
Balance, end of period	$ 1,751	$ 2,764	$ 1,751	$ 2,764

NOTE 7. DEBT

The components of debt at June 30, 2007 are consistent with those discussed in our Annual Report on Form 10-K for the year ended December 31, 2006 in Note 7 to the consolidated financial statements, except as described below.

In January 2007, we entered into an unsecured short-term revolving credit facility with a bank in the principal amount of $125.0 million that would have matured on June 30, 2007. On March 30, 2007, we refinanced this short-term facility by entering into an unsecured revolving credit facility with four multinational banks that matures on March 30, 2012 (the "Credit Facility"). The Credit Facility may be used for general corporate purposes, including repurchases of our common stock and business acquisitions. The applicable interest rates generally range from 0.375% to 0.875% above the London interbank rate or the Canadian Dollar-denominated bankers' acceptance rate, dependent on our leverage ratio. Under the Credit Facility, we pay quarterly commitment fees of 0.08% to 0.20%, dependent on our leverage ratio, on any unused commitment. The Credit Facility contains financial and other affirmative and negative covenants, as well as customary events of default, that would allow any amounts outstanding under the Credit Facility to be accelerated, or restrict our ability to borrow thereunder, in the event of noncompliance. The financial covenant requires our ratio of debt to earnings before interest, taxes, depreciation and amortization, as defined by the agreement, not to exceed 3-to-1. At June 30, 2007, we had $83.7 million outstanding under the Credit Facility.

We assumed $0.6 million of unsecured notes payable in connection with business acquisitions during the six months ended June 30, 2007. The notes bear interest at rates ranging from 3.1% to 8.0%.

NOTE 8. INCOME TAXES

Our effective tax rates for the three and six months ended June 30, 2007 were 31.5% and 31.7%, respectively, compared with 31.5% and 32.8% for the three and six months ended June 30, 2006, respectively. In both periods, several factors had favorable impacts on the effective tax rate compared to the same periods of 2006, including federal tax incentives recognized during the six months ended June 30, 2007 that were not available for the six months ended June 30, 2006, a settlement during the three months ended June 30, 2007 with state tax authorities regarding our tax position concerning certain state tax benefits, and a state tax law change during the three months ended June 30, 2007 that we anticipate will reduce our future effective tax rate by one percentage point. This tax law change did not have a significant impact to the current period because the reduction in our current expense was offset by the impact of the initial application of the new rate to our net deferred tax assets. These effective tax rate reductions were partly offset by favorable changes due, in part, to a discrete benefit recognized during the three months ended June 30, 2006 that did not recur in the current period. The prior year benefit related to the release of a valuation allowance on certain international deferred tax assets as a result of a subsidiary demonstrating consistent sustained profitability.

We file income tax returns in the U.S. federal jurisdiction and in various state and foreign jurisdictions. We are no longer subject to U.S. federal examinations for tax years before 2005. With few exceptions, we are no longer subject to income tax examinations in any state and local, or foreign jurisdictions in which we conduct significant taxable activities for years before 2002. In the ordinary course of our business, our income tax filings are regularly under audit by tax authorities.

We adopted the provisions of FIN 48, "Accounting for Uncertainty in Income Taxes" as of January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements under SFAS No. 109 and prescribes a comprehensive model for the recognition, measurement, and financial statement disclosure of uncertain tax positions. Unrecognized tax benefits are the differences between tax positions taken, or expected to be taken, in tax returns, and the benefits recognized for accounting purposes pursuant to FIN 48. As a result of adopting the provisions of FIN 48, we recognized an increase in assets of $4.0 million, an increase in liabilities of $1.1 million, a decrease in additional paid-in capital of $0.2 million, and an increase in retained earnings of $3.1 million as of January 1, 2007. In connection with the adoption of FIN 48, we have classified uncertain tax positions as long-term liabilities.

The total amount of unrecognized tax benefits as of January 1, 2007 was $9.6 million, of which $5.4 million comprises unrecognized tax positions that would, if recognized, affect our effective tax rate. The ultimate deductibility of the remaining unrecognized tax positions of $4.2 million is highly certain but there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and

penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. In the ordinary course of our business, our income tax filings are regularly under audit by tax authorities. While we believe we have appropriately provided for all uncertain tax positions, amounts asserted by taxing authorities could be greater or less than our accrued position. Accordingly, additional provisions on income tax matters, or reductions of previously accrued provisions, could be recorded in the future as we revise our estimates due to changing facts and circumstances or the underlying matters are settled or otherwise resolved. We are currently undergoing tax examinations by various state tax authorities and we anticipate that these examinations will be concluded within the next twelve months. However, the ultimate outcomes of these state tax examinations may differ from the estimated outcomes that we have recognized in accordance with FIN 48 and could cause a significant change in unrecognized tax benefits.

In ensuing quarters, we anticipate recognizing income tax benefits related to certain discrete events that occurred in July 2007. Subsequent to June 30, 2007, we received notification of the final settlement of certain tax incentives that we have not previously recognized, in accordance with Financial Interpretation No. 48, due to uncertainty regarding the ultimate outcome of our tax positions. As a result, we anticipate recognizing $0.6 million of net tax benefits and reducing tax expense during the quarter ending September 30, 2007. Additionally, in July 2007, certain foreign governments approved business tax reforms that will reduce the respective corporate tax rates beginning in 2008. Consequently, we anticipate a reduction of certain foreign deferred tax liabilities and a corresponding income tax benefit of approximately $0.8 million to $1.0 million during the quarter ending September 30, 2007.

We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense. Interest and penalties of $0.6 million were accrued as of January 1, 2007.

NOTE 9. COMPREHENSIVE INCOME

The following is a summary of comprehensive income for the three and six months ended June 30, 2007 and 2006 *(in thousands)*:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
Net income	$ 21,664	$ 25,780	$ 42,691	$ 44,053
Other comprehensive income (loss):				
Foreign currency translation adjustments	1,970	4,840	3,039	5,198
Change in fair value of foreign currency contracts classified as hedges, net of tax	(576)	(1,584)	(529)	(2,314)
Change in fair market value of investments, net of tax	48	18	55	38
Comprehensive income	$ 23,106	$ 29,054	$ 45,256	$ 46,975

NOTE 10. EARNINGS PER SHARE

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
Shares Outstanding for Basic Earnings per Share:				
Weighted average shares outstanding	30,808	31,435	30,959	31,603
Weighted average vested deferred stock units outstanding	41	32	33	30
	30,849	31,467	30,992	31,633
Shares Outstanding for Diluted Earnings per Share:				
Shares outstanding for basic earnings per share	30,849	31,467	30,992	31,633
Dilutive effect of options issued to employees and directors	1,329	1,466	1,361	1,522
Dilutive effect of restricted stock units issued to employees	18	74	21	56
Dilutive effect of nonvested deferred stock units issued to directors	5	7	6	5
	32,201	33,014	32,380	33,216

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
Weighted average number of shares underlying anti-dilutive options	380	176	342	161
Weighted average exercise price per underlying share of anti- dilutive options	$ 86.02	$ 75.25	$ 84.58	$ 72.23

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*):

	June 30,	
	2007	2006
Closing price per share of our common stock	$ 94.63	$ 75.13
Number of shares underlying options with exercise prices below the closing price	2,908	3,261
Number of shares underlying options with exercise prices equal to or above the closing price	100	161
Total number of shares underlying outstanding options	3,008	3,422

NOTE 11. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Significant commitments, contingencies and guarantees at June 30, 2007 are consistent with those discussed in our Annual Report on Form 10-K for the year ended December 31, 2006 in Note 11 to the consolidated financial statements, except as described in Notes 3 and 7.

On June 30, 2006, Cyntegra, Inc. filed suit against IDEXX in the U.S. District Court for the Central District of California alleging that IDEXX had violated U.S. federal antitrust laws and California state unfair trade practices laws. The complaint alleged, among other things, that IDEXX was monopolizing the U.S. market for companion animal diagnostic products. In November 2006, Cyntegra filed a motion for preliminary injunction requesting, among other things, that the Court enjoin IDEXX from withdrawing or threatening to withdraw its products from distributors that wish to sell products that compete with IDEXX's products. On February 5, 2007, the Court denied this motion and stated that Cyntegra had failed to show a likelihood of success on the merits. IDEXX has filed a motion for summary judgment seeking judgment in its favor on all of Cyntegra's claims. Oral arguments on the motion are currently scheduled to be held September 20, 2007. Although a favorable outcome for IDEXX cannot be assured, we believe that Cyntegra's claims are without merit and we intend to continue to defend our positions vigorously. We have not accrued a contingent litigation loss reserve in connection with this suit because we believe that the possibility of an adverse result is remote and that, even if an adverse outcome were to occur, any loss would not be material.

In connection with certain contractual obligations that commit us to minimum future payments to purchase inventory, we estimated incremental contractual losses at June 30, 2007 and accordingly recognized expenses of $1.1 million. The changes in estimate resulted primarily from a reduction in forecast product demand due to a change in distribution strategy during the second quarter that favors an alternate IDEXX product, partly offset by a reduction in the applicable purchase volume commitments.

NOTE 12. TREASURY STOCK

Our Board of Directors has approved the repurchase of up to 18,000,000 shares of our common stock in the open market or in negotiated transactions. From the inception of the program in August 1999 to June 30, 2007, we repurchased 16,345,000 shares for $663.9 million. At June 30, 2007, we had 1,655,000 shares remaining under our share repurchase authorization. From the inception of the program in August 1999 to June 30, 2007, we also received 176,000 shares of stock with a market value of $6.5 million that were surrendered by employees in payment for the minimum required withholding taxes due on the exercise of stock options, vesting of restricted stock units and settlement of deferred stock units, and in payment for the exercise price of stock options.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
Shares acquired	655	538	1,064	1,080
Total cost of shares acquired	$ 57,714	$ 42,547	$ 92,533	$ 85,242
Average cost per share	$ 88.14	$ 79.06	$ 86.93	$ 78.96

NOTE 13. SEGMENT REPORTING

We disclose information regarding our segments in accordance with the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"). SFAS No. 131 requires disclosures about operating segments in annual financial statements and requires selected information about operating segments in interim financial statements. It also requires related disclosures about products and services and geographic areas. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision-maker is the Chief Executive Officer.

We are organized into business units by market and customer group. Our reportable segments include: products and services for the veterinary market, which we refer to as our Companion Animal Group ("CAG"), water quality products ("Water") and products for production animal health, which we refer to as the Production Animal Segment ("PAS"). We also operate two smaller segments that comprise products for dairy quality, which we refer to as Dairy, and products for the human medical market, which we refer to as OPTI Medical. Financial information about the Dairy and OPTI Medical operating segments are combined and presented in an "Other" category because they do not meet the quantitative or qualitative thresholds for reportable segments. We added the OPTI Medical operating segment in connection with our acquisition of substantially all of the assets and liabilities of the Critical Care Division of Osmetech plc in January 2007. The segment information for the three and six months ended June 30, 2006 has been restated to conform to our presentation of reportable segments for the three and six months ended June 30, 2007. Previously, PAS and Dairy were aggregated into a single reportable segment, which we referred to as the Food Diagnostics Group.

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

Unallocated items that are not allocated to our operating segments are comprised primarily of corporate research and development expenses, interest income and expense, and income taxes. Share-based compensation expense was also reported in "unallocated amounts" in 2006. Beginning in 2007, we allocate a portion of share-based compensation expense to the operating segments. This allocation differs from the actual expense and consequently yields a difference between the total allocated share-based compensation expense and the actual expense for the total company, which is categorized as "unallocated amounts." Share-based compensation expense of $1.3 million, $0.1 million, $0.2 million and less than $0.1 million was included in the income (loss) from operations of the CAG, Water, PAS and Other operating segments, respectively, for the three months ended June 30, 2007. Share-based compensation expense of $0.1 million was unallocated for the three months ended June 30, 2007, compared to $2.7 million for the three months ended June 30, 2006. Share-based compensation expense of $3.2 million, $0.2 million, $0.3 million and $0.1 million was included in the income (loss) from operations of the CAG, Water, PAS and Other operating segments, respectively, for the six months ended June 30, 2007. Share-based compensation expense of $0.2 million was unallocated for the six months ended June 30, 2007, compared to $5.5 million for the six months ended June 30, 2006.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in our Annual Report on Form 10-K for the year ended December 31, 2006 in Notes 2 and 16, and in Note 2 to these condensed consolidated financial statements.

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

	For the Three Months Ended June 30,					
	CAG	Water	PAS	Other	Unallocated Amounts	Consolidated Total
2007						
Revenues	$ 194,025	$ 17,105	$ 18,683	$ 7,233	$ —	$ 237,046
Income (loss) from operations	$ 23,179	$ 7,156	$ 3,760	$ (101)	$ (1,527)	$ 32,467
Interest income (expense), net						(834)
Income before provisions for income taxes and partner's interest						31,633
Provision for income taxes						9,969
Partner's interest in loss of subsidiary						—
Net income						$ 21,664
2006						
Revenues	$ 156,903	$ 15,087	$ 15,450	$ 3,924	$ —	$ 191,364
Income (loss) from operations	$ 29,501	$ 6,817	$ 4,134	$ 607	$ (4,033)	$ 37,026
Interest income, net						594
Income before provisions for income taxes and partner's interest						37,620
Provision for income taxes						11,879
Partner's interest in loss of subsidiary						(39)
Net income						$ 25,780

	For the Six Months Ended June 30,					
	CAG	Water	PAS	Other	Unallocated Amounts	Consolidated Total
2007						
Revenues	$ 367,458	$ 31,510	$ 35,494	$ 13,739	$ —	$ 448,201
Income (loss) from operations	$ 46,764	$ 12,798	$ 7,725	$ (514)	$ (3,429)	$ 63,344
Interest income (expense), net						(806)
Income before provisions for income taxes and partner's interest						62,538
Provision for income taxes						19,847
Partner's interest in loss of subsidiary						—
Net income						$ 42,691
2006						
Revenues	$ 296,266	$ 27,153	$ 28,403	$ 7,706	$ —	$ 359,528
Income (loss) from operations	$ 52,105	$ 11,639	$ 7,371	$ 1,041	$ (8,155)	$ 64,001
Interest income, net						1,363
Income before provisions for income taxes and partner's interest						65,364
Provision for income taxes						21,463
Partner's interest in loss of subsidiary						(152)
Net income						$ 44,053

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
CAG segment revenue:				
Instruments and consumables	$ 71,490	$ 61,211	$ 138,446	$ 117,031
Rapid assay products	36,588	32,627	67,825	58,631
Laboratory and consulting services	68,548	47,811	126,436	91,394
Practice information systems and digital radiography	11,697	10,782	24,222	20,477
Pharmaceutical products	5,702	4,472	10,529	8,733
CAG segment revenue	194,025	156,903	367,458	296,266
Water segment revenue	17,105	15,087	31,510	27,153
Production animal segment revenue	18,683	15,450	35,494	28,403
Other revenue	7,233	3,924	13,739	7,706
Total revenue	$ 237,046	$ 191,364	$ 448,201	$ 359,528

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

This quarterly report on Form 10-Q includes or incorporates forward-looking statements about our business and expectations within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements relating to future revenue growth rates, demand for our products, realizability of assets, warranty expense, share-based compensation expense, and competition. You can generally identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. Words such as "expects," "may," "anticipates," "intends," "would," "will," "plans," "believes," "estimates," "should," and similar words and expressions are intended to help you identify forward-looking statements. These statements give 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 Form 10-Q. The risks and uncertainties discussed herein do not reflect the potential future impact of any mergers, acquisitions or dispositions. In addition, any forward-looking statements represent our estimates only as of the day this Quarterly Report was first filed with the Securities and Exchange Commission and should not be relied upon as representing our estimates as of any subsequent date. While we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, even if our estimates or expectations change.

- **Business Overview**

We operate primarily through three business segments: products and services for the veterinary market, which we refer to as our Companion Animal Group ("CAG"), water quality products ("Water") and products for production animal health, which we refer to as the Production Animal Segment ("PAS"). We also operate two smaller segments that comprise products for dairy quality, which we refer to as Dairy, and products for the human medical market, which we refer to as OPTI Medical. Financial information about the Dairy and OPTI Medical operating segments are combined and presented in an "Other" category because they do not meet the quantitative or qualitative thresholds for reportable segments. We added the OPTI Medical operating segment in connection with our acquisition of substantially all of the assets and liabilities of the Critical Care Division of Osmetech plc in January 2007. The segment information for the three and six months ended June 30, 2006 has been restated to conform to our presentation of reportable segments for the three and six months ended June 30, 2007. Previously, PAS and Dairy were aggregated into a single reportable segment, which we referred to as the Food Diagnostics Group.

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

Unallocated items that are not allocated to our operating segments are comprised primarily of corporate research and development expenses, interest income and expense, and income taxes. Share-based compensation expense was also reported in "unallocated amounts" in 2006. Beginning in 2007, we allocate a portion of share-based compensation expense to the operating segments. This allocation differs from the actual expense and consequently yields a difference between the total allocated share-based compensation expense and the actual expense for the total company, which is categorized as "unallocated amounts."

- **Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Note 2 to the consolidated financial statements for the year ended December 31, 2006 included in our Annual Report on Form 10-K for the year ended December 31, 2006 and Note 2 to the condensed consolidated financial statements included in this Form 10-Q describe the significant accounting policies used in preparation of these condensed 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

Customer programs. We record estimated reductions to revenue in connection with customer marketing programs and incentive offerings, which may give customers credits or award points. Award points 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 based on numerous factors, including:

- forecasted purchasing patterns of those enrolled in the program based on historical experience with similar programs, current sales trends and market analyses;
- inventory levels of eligible products in the distribution channel; and
- estimated number of participants that will ultimately reach volume purchase thresholds.

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. In our analysis, we utilize data supplied from distributors and collected in-house that details the volume of qualifying products purchased as well as price paid per clinic ("practice-level sales data").

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. For the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, we recorded revenue reductions of $3.6 million, $5.1 million and $4.8 million, respectively, related to our Practice Developer® program and $2.4 million, $4.9 million and $5.1 million, respectively, related to our SUTS program. As of June 30, 2007 and December 31, 2006 and 2005, the accrued revenue reductions were $9.5 million, $10.4 million and $7.1 million, respectively, for the Practice Developer® program and $4.0 million, $1.4 million and $1.4 million, respectively, for the SUTS program. Following is a summary of changes in the accrual for estimated revenue reductions attributable to customer programs and incentive offerings for the six months ended June 30, 2007 (*in thousands*):

	For the Six Months Ended June 30, 2007
Practice Developer®	
Balance, beginning of period	$ 10,399
Current provision related to current period	3,596
Change in estimate related to sales in prior periods	(52)
Issuance of points for SNAP up the Savings™ program (1)	—
Issuance of points for other programs (1)	1,579
Actual points redeemed	(6,066)
Balance, end of period	$ 9,456
SNAP up the Savings™	
Balance, beginning of period	$ 1,429
Current provision related to current period	2,429
Change in estimate related to sales in prior periods	93
Issuance of points for SNAP up the Savings™ program (1)	—
Balance, end of period	$ 3,951
Other Customer Programs	
Balance, beginning of period	$ 1,464
Current provision related to current period	2,453
Change in estimate related to sales in prior periods	(76)
Issuance of points for other programs (1)	(1,579)
Actual credits issued	(474)
Balance, end of period	$ 1,788

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

Our Practice Developer® program is a Companion Animal Group awards program that permits customers to earn points by purchasing quarterly minimums in certain product and service categories, including IDEXX Reference Laboratories services, VetTest® slides, LaserCyte® tubes, and Feline and Canine SNAP® tests. Points may then be applied against the purchase price for IDEXX products and services purchased in the future. 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 Practice Developer® program awarded at the end of the SUTS program year (August 30) based on total purchase volume of qualified products during the year.

For the Practice Developer program, we reduce revenue assuming all points granted will result in future credits because the historical forfeitures have been de minimis. 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. On November 30 of each year, unused points granted before January 1 of the prior year expire and are accounted for as a favorable change in estimate.

Under the SUTS program, the discount ultimately received by a customer will depend on the volume of products purchased by the customer, either from us or our distributors, over the entire program period. Because at any time during the period we cannot be certain what discount level each customer ultimately will be entitled to, at the beginning of the period we develop a program model that forecasts a per-test discount for all tests sold over the program period based on program enrollee purchasing patterns, historical experience with similar programs, current sales trends, and marketing analysis. The per-test discount is adjusted quarterly during the program year based on our experience with the program and finalized when the program year ends in August. The accrued revenue reduction is calculated each quarter by applying the applicable per-test discount to sales to end users during the quarter by either us or our distributors. The accrued revenue reduction also includes our estimate of future points to be issued upon sale of applicable product inventories held by distributors at the end of the quarter.

If the per-test factor used to determine the revenue reduction under the SUTS program were to increase or decrease by 10% per test, we would be required to further reduce revenue or increase revenue, as the case may be, by $0.4 million.

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 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. Write-offs of customer accounts during the six months ended June 30, 2007 and the years ended December 31, 2005 and 2006 were $0.6 million, $0.4 million and $0.5 million, respectively.

Inventory Valuation

We write down inventory for estimated obsolescence when warranted by estimates of future demand and market conditions. If actual market conditions are less favorable than those we estimated, additional inventory write-downs may be required, which would have a negative effect on results of operations. Certain major components of inventory for which we have made critical valuation judgments are discussed in more detail below.

LaserCyte® Hematology Analyzer. At June 30, 2007 and December 31, 2006, $2.4 million and $1.7 million, respectively, of inventory associated with our LaserCyte® hematology instrument required rework before it could be used to manufacture finished goods, which was net of $1.0 million and $0.9 million of write-downs for inventory estimated to be obsolete. We determined obsolescence based on our estimate of the costs to rework inventory and the probability of success, primarily based on historical experience. We expect to fully realize our net investment in inventory. However, if we are unsuccessful reworking this inventory, if we revise our judgment of our ability to successfully rework inventory due to new experience in reworking this inventory, or if we alter the design of this product, we may be required to write off some or all of the remaining associated inventory.

Nitazoxanide. At December 31, 2006, our inventories included $9.3 million of inventory associated with Navigator®, our nitazoxanide product for the treatment of equine protozoal myeloencephalitis. This inventory consisted of $0.2 million of finished goods and $9.1 million of active ingredient and other raw materials. We have an agreement with our supplier of nitazoxanide under which the supplier agreed until 2017 to replace any expiring inventory of nitazoxanide with longer-dated material. During the three months ended June 30, 2007, we recognized a write-down of pharmaceutical raw materials inventory of $9.1 million and a write-off of a prepaid royalty license of $1.0 million associated with Navigator® paste, our nitazoxanide product for the treatment of equine protozoal myeloencephalitis. We have written down these assets because the third-party contract manufacturer of finished goods recently notified us that it will discontinue manufacturing the product in 2009. Additionally, product sales have been lower than projected. We believe that we will not be able to enter into a replacement manufacturing arrangement on economically feasible terms and that we will not be able to obtain the product after termination of the existing manufacturing arrangement because the estimated production volume is low. Accordingly, we have evaluated our associated inventory for obsolescence based on our changed estimates of product availability and estimated future demand and market conditions. At June 30, 2007, this inventory comprised $9.1 million of active ingredient and other raw materials, for which we recognized a 100% write-down, and $0.1 million of finished goods. Sales of Navigator® were $0.2 million for the six months ended June 30, 2007.

Valuation of Goodwill and Other Intangible Assets

A significant portion of the purchase prices for acquired businesses are assigned to intangible assets. Intangible assets other than goodwill are initially valued at the lesser of fair value or, if applicable, fair value proportionately reduced by the excess of the fair value of acquired net assets over the purchase price (collectively, "fair value") of the acquired business. If a market value is not readily available, the fair value of the intangible asset is estimated based on discounted cash flows using market participant assumptions, which are assumptions that are not specific to IDEXX. The selection of appropriate valuation methodologies and the estimation of discounted cash flows require significant assumptions about the timing and amounts of future cash flows, risks, appropriate discount

rates, and the useful lives of intangible assets. When deemed appropriate by management, we utilize independent valuation experts to advise and assist us in allocating the purchase prices for acquired businesses to the fair values of the identified intangible assets and in determining appropriate amortization methods and periods for those intangible assets. Goodwill is initially valued based on the excess of the purchase price of a business combination over the fair values of acquired net assets.

We assess goodwill for impairment annually and whenever events or circumstances indicate an impairment may exist, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). For impairment testing, the fair values of the reporting units that include goodwill are estimated using a discounted cash flow approach. The cash flows used contain our best estimates, using appropriate and customary assumptions and projections at the time. No impairments were identified as a result of the annual or event-driven reviews during the years ended December 31, 2006, 2005 or 2004.

Changes in forecast cash flows or the discount rate would affect the estimated fair values of reporting units and could result in a goodwill impairment charge in a future period. However, a 25% decrease in the current estimated fair value of any of our reporting units would not result in a goodwill impairment charge for any of our reporting units that include goodwill. Because our pharmaceutical business is still substantially in an investment stage, the determination of the fair value of this business unit requires significant assumptions about the timing and amounts of the unit's future cash flows, including assumptions about the markets for our products and proprietary technologies, the future success of research and development activities, the attainment and timing of regulatory approvals to manufacture and sell new products, the introduction and success of competitive products by other market participants, and other business risks. We believe that the goodwill attributable to our pharmaceutical business of $13.7 million was not impaired at June 30, 2007. However, significant changes in our assumptions and estimates due to new information, or actual results that are below our expectations could result in an impairment in the future of some or all of the goodwill attributable to our pharmaceutical products business.

We assess the realizability of intangible assets other than goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). If an impairment review is triggered, we evaluate the carrying value of intangible assets based on estimated undiscounted future cash flows over the remaining useful life of the assets and comparing that value to the carrying value of the assets. The cash flows that are used contain our best estimates, using appropriate and customary assumptions and projections at the time. During the three months ended June 30, 2007, we recognized an impairment charge to write-off a prepaid royalty license of $1.0 million associated with Navigator® paste, our nitazoxanide product for the treatment of equine protozoal myeloencephalitis. We also recognized a related inventory write-down and the circumstances are described in the above discussion of critical accounting estimates and assumptions used in inventory valuation and in Note 4 to the condensed consolidated financial statements included in this Form 10-Q. Based on our changed estimates of product availability and estimated future demand and market conditions, we determined that we will not realize our investment in prepaid royalties and, therefore, fully expensed this asset. No impairments were identified during the years ended December 31, 2006, 2005 or 2004.

Share-Based Compensation

We adopted the provisions of SFAS No. 123(R), "Share-Based Payment" ("SFAS No. 123(R)") on January 1, 2006. Beginning in 2006, we modified our share-based employee compensation programs to shift from the grant of stock options and employee stock purchase rights only to the grant of a mix of restricted stock units and stock options, along with employee stock purchase rights. There were no modifications to the terms of outstanding options during 2006 or 2005.

In connection with the adoption of SFAS No. 123(R), we adopted the straight-line method to prospectively expense share-based awards granted subsequent to December 31, 2005. The graded-vesting, or accelerated, method has been used to calculate the expense for stock options granted prior to January 1, 2006. If the total fair value of share-based compensation awards, as well as other features that impact expense, including forfeitures and capitalization of costs, was consistent from year-to-year in each of the last five years and through 2010, this change in expense method from graded-vesting to straight-line expensing would yield decreasing annual expense through 2010 until awards granted prior to January 1, 2006 were fully expensed. However, the total fair value of future awards may vary significantly from past awards based on a number of factors, including our share-based award practices. Therefore, share-based compensation expense is likely to fluctuate, possibly significantly, from year to year.

The fair value of options, restricted stock units, deferred stock units with vesting conditions, and employee stock purchase rights awarded during the six months ended June 30, 2007 and the years ended December 31, 2006, 2005 and 2004 totaled $17.4 million, $11.9 million, $15.7 million and $13.4 million, respectively. The total unrecognized compensation cost for unvested share-based compensation awards outstanding at June 30, 2007, net of estimated forfeitures, was $25.0 million. Approximately $8.8 million is expected to be recognized in the year ending December 31, 2007 for previously granted share-based compensation awards, of which $4.0 million has been recognized during the six months ended June 30, 2007, and decreasing amounts of the total expense are expected to be recognized over the subsequent five years, resulting in a weighted average expense recognition period of approximately 2 years.

The weighted average valuation assumptions used to determine the fair value of each option grant on the date of grant were as follows:

	For the Six Months Ended June 30, 2007	For the Year Ended December 31, 2006
Expected stock price volatility	29%	30%
Expected term, in years	5.0	5.0
Risk-free interest rate	4.7%	4.6%

We use the Black-Scholes-Merton option-pricing model to determine the fair value of options granted. Option-pricing models require the input of highly subjective assumptions, particularly for the expected stock price volatility and the expected term of options. Changes in the subjective input assumptions can materially affect the fair value estimate. Our expected stock price volatility assumptions are based on the historical volatility of our stock over periods that are similar to the expected terms of grants and other relevant factors. Lower estimated volatility reduces the fair value of an option. The total fair value of options awarded during the six months ended June 30, 2007 ($7.4 million) would have increased by approximately 7% or decreased by approximately 6% if the stock price volatility assumption were increased or decreased by 10%, respectively. The total cost recognized for options awarded during the six months ended June 30, 2007 would have increased or decreased by less than $0.1 million if the stock price volatility assumption were increased or decreased by 10%, respectively.

To develop the expected term assumption for 2007 option awards, we elected to use the simplified method described in the Securities and Exchange Commission Staff Accounting Bulletin No. 107, which is based on vesting and contractual terms. The application of the simplified method is allowable for options granted through December 31, 2007. We will transition to developing expected term assumptions for future awards based on historical experience and other relevant factors concerning expected employee behavior with regards to option exercise. Longer expected term assumptions increase the fair value of option awards, and therefore increase the expense recognized per award. The total fair value of options awarded during the six months ended June 30, 2007 ($7.4 million) would have increased by approximately 12% or decreased by approximately 10% if the expected term assumption were increased or decreased by one year, respectively. The total cost recognized for options awarded during the six months ended June 30, 2007 would have increased by $0.1 million or decreased by less than $0.1 million if the expected term assumption were increased or decreased by one year, respectively.

Share-based compensation expense is based on the number of awards ultimately expected to vest and is, therefore, reduced for an estimate of the number of awards that are expected to be forfeited. The forfeiture estimates are based on historical data and other factors, and compensation expense is adjusted for actual results. At June 30, 2007, we applied annual forfeiture rates ranging from 3% to 16% to estimate future forfeitures of previously granted options and restricted stock units that had vesting dates after June 30, 2007. Net share-based compensation costs for the six months ended June 30, 2007 were $4.0 million, which is net of a reduction of $1.0 million for estimated forfeitures. Changes in estimated forfeiture rates and differences between estimated forfeiture rates and actual experience may result in significant, unanticipated increases or decreases in share-based compensation expense from period to period. The termination of employment by certain employees who hold large numbers of share-based compensation instruments may also have a significant, unanticipated impact on forfeiture experience and, therefore, on share-based compensation expense.

Income Taxes

We recognize a current tax liability or asset for current taxes payable or refundable, respectively; and a deferred tax liability or asset, as the case may be, for the estimated future tax effects of temporary differences between book and tax treatment of assets and liabilities and carryforwards to the extent they are realizable.

The future tax benefit arising from net deductible temporary differences and tax carryforwards, net of valuation allowances, was $11.8 million, $12.9 million and $7.9 million at June 30, 2007, December 31, 2006 and December 31, 2005, respectively. We believe that our earnings during the periods when the temporary differences become deductible will be sufficient to realize the related future tax benefits. Should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made. A reduction of net income before taxes in each subsidiary equal to 5% of revenue, compared to the corresponding reported amounts for the six months ended June 30, 2007, would not result in the recognition of incremental valuation allowances except in one subsidiary where a 5% reduction could result in our recording a valuation allowance of $0.5 million for that subsidiary.

For those jurisdictions where the expiration date of tax carryforwards or the projected operating results indicate that realization is not likely, a valuation allowance is recorded to offset the deferred tax asset within that jurisdiction. In assessing the need for a valuation allowance, we consider future taxable income and ongoing prudent and feasible tax planning strategies. In the event that we were to determine that we would be able to realize our deferred tax assets in the future in excess of the net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Similarly, a determination that a higher valuation allowance is required would decrease income in the period such determination was made.

Our net deductible temporary differences and tax carryforwards are recorded using the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax liability or asset is expected to be settled or realized. Should the expected applicable tax rates change in the future, an adjustment to the net deferred tax asset would be credited or charged, as appropriate, to income in the period such determination was made. For example, an increase of one percentage point in our anticipated U.S. state income tax rate would cause us to increase our net deferred tax asset balance by $0.3 million. This increase in the net deferred asset would increase net income in the period that our rate was adjusted. Likewise, a decrease of one percentage point to our anticipated U.S. state income tax rate would have the opposite effect.

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.

We consider the operating earnings of non-United States subsidiaries, the cumulative amount of which was $111.4 million at December 31, 2006, respectively, to be indefinitely invested outside the United States. No provision has been made for United States federal and state, or international taxes that may result from future remittances of undistributed earnings of non-United States subsidiaries. Should we repatriate non-United States earnings in the future, we would have to adjust the income tax provision in the period in which the decision to repatriate earnings is made.

Estimates for Certain Contingencies

Under our workers' compensation insurance policies for U.S. employees for the years ended December 31, 2006, 2005, 2004 and 2003, we retain the first $250,000 in claim liability per incident and $3.1 million, $2.8 million, $3.0 million and $1.4 million, respectively, in aggregate claim liability. We entered into a similar workers' compensation insurance policy effective January 1, 2007 and estimate that our retained aggregate claim liability will approximate $2.7 million. The insurance company provides insurance for claims above the individual occurrence and aggregate limits. We estimate claim liability based on claims incurred and the estimated ultimate cost to settle the claims. Based on this analysis, we have recognized cumulative expenses of $0.2 million for claims incurred during the six months ended June 30, 2007 and cumulative expenses of $1.3 million, $0.6 million, $0.8 million and $0.8 million for claims incurred during the years ended December 31, 2006, 2005, 2004 and 2003, respectively. Claims incurred during the six months ended June 30, 2007 and year ended December 31, 2006 are relatively new and significant additional healthcare and wage indemnification costs could arise from those claims. Our liability for claims incurred during the year ended December 31, 2006 could exceed our estimate and we could be liable for up to $1.8 million in excess of the expense we have recognized. For the three years ended on or prior to December 31, 2005, based on our retained claim liability per incident and our aggregate claim liability, our maximum liability at June 30, 2007 is $1.0 million in excess of the amounts deemed probable and previously recognized.

Under our employee health care insurance policy, we retain claims liability risk up to $150,000 per incident and an aggregate claim limit based on the number of employees enrolled in the plan per month. We have insurance coverage of $1.0 million for claims above the aggregate limit. Should employee health insurance claims exceed this coverage, we would have further obligations for the amount in excess of such coverage. We estimate our liability for the uninsured portion of employee health care obligations that have been incurred but not reported based on individual and aggregate coverage, our claims experience, the number of employees enrolled in the program, and the average time from when a claim is incurred to the time it is paid. We recognized employee health care claim expense of $6.1 million during the six months ended June 30, 2007 and $10.8 million during the year ended December 31, 2006, which includes actual claims paid and an estimate for our liability for the uninsured portion of employee health care obligations that have been incurred but not paid. At June 30, 2007, should actual employee health care claims liability exceed estimates, we are liable for up to $3.9 million before reaching our aggregate limit. If our liability for the uninsured portion of employee health care obligations that have been incurred but not paid is 10% greater than our estimates at June 30, 2007, we would incur additional expense of $0.2 million.

- **Results of Operations**

Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006

Revenue

Total Company. Revenue increased $45.7 million, or 24%, to $237.0 million from $191.4 million for the same period of the prior year. Incremental sales from businesses acquired since April 1, 2006 contributed 9% to revenue growth. These acquired businesses consisted primarily of veterinary reference laboratories in the United States, Canada and South Africa; intellectual property and distribution rights of a veterinary diagnostics business; a France-based production animal diagnostic products business; and the Critical Care Division of Osmetech plc. The favorable impact of currency exchange rates contributed 2% to revenue growth. The following table presents revenue by operating segment:

	For the Three Months Ended June 30,						
Net Revenue *(dollars in thousands)*	**2007**	**2006**	**Dollar Change**	**Percentage Change**	**Percentage Change from Currency (1)**	**Percentage Change from Acquisitions (2)**	**Percentage Change Net of Acquisitions and Currency Effect**
CAG	$194,025	$156,903	$37,122	23.7%	1.8%	8.1%	13.8%
Water	17,105	15,087	2,018	13.4%	2.6%	—	10.8%
PAS	18,683	15,450	3,233	20.9%	5.4%	13.9%	1.6%
Other	7,233	3,924	3,309	84.3%	2.2%	77.8%	4.3%
Total	$237,046	$191,364	$45,682	23.9%	2.2%	9.3%	12.4%

(1) Represents the percentage change in revenue attributed to the effect of changes in currency rates from the three months ended June 30, 2006 to the three months ended June 30, 2007.

(2) Represents the percentage change in revenue attributed to incremental revenues during the three months ended June 30, 2007 compared to the three months ended June 30, 2006 from businesses acquired since April 1, 2006.

Companion Animal Group. Revenue for CAG increased $37.1 million, or 24%, to $194.0 million from $156.9 million for the same period of the prior year. Incremental sales from businesses acquired since April 1, 2006, consisting primarily of veterinary reference laboratories and intellectual property and distribution rights of a veterinary diagnostics business, contributed 8% to CAG revenue growth. The favorable impact of currency exchange rates contributed 2% to the increase in CAG revenue. The following table presents revenue by product and service category for CAG:

	For the Three Months Ended June 30,						
Net Revenue *(dollars in thousands)*	**2007**	**2006**	**Dollar Change**	**Percentage Change**	**Percentage Change from Currency (1)**	**Percentage Change from Acquisitions (2)**	**Percentage Change Net of Acquisitions and Currency Effect**
Instruments and consumables	$ 71,490	$ 61,211	$10,279	16.8%	2.2%	—	14.6%
Rapid assay products	36,588	32,627	3,961	12.1%	0.2%	2.4%	9.5%
Laboratory and consulting services	68,548	47,811	20,737	43.4%	2.7%	24.9%	15.8%
Practice information management systems and digital radiography	11,697	10,782	915	8.5%	0.5%	—	8.0%
Pharmaceutical products	5,702	4,472	1,230	27.5%	—	—	27.5%
Net CAG revenue	$194,025	$156,903	$37,122	23.7%	1.8%	8.1%	13.8%

(1) Represents the percentage change in revenue attributed to the effect of changes in currency rates from the three months ended June 30, 2006 to the three months ended June 30, 2007.

(2) Represents the percentage change in revenue attributed to incremental revenues during the three months ended June 30, 2007 compared to the three months ended June 30, 2006 from businesses acquired since April 1, 2006.

The following revenue analysis reflects the results of operations net of the impact of currency exchange rates on sales outside the U.S. and net of incremental sales from businesses acquired since April 1, 2006.

Because our instrument consumables, rapid assay products, and pharmaceutical products 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 distributors' inventories have a positive impact on our reported sales growth in the current period.

The increase in sales of instruments and consumables was due mainly to higher unit sales volume of consumables and, to a lesser extent, higher unit sales volume of instruments and higher average unit sales prices for slides that are sold for use in VetTest® chemistry analyzers. Higher consumables sales volumes were attributable primarily to higher worldwide practice-level sales of slides and, to a lesser extent, to increased practice-level sales of tubes used with our hematology analyzers, with all consumables categories benefiting from the continued growth of our installed base of instruments. Sales volumes of consumables also benefited from temporary additional diagnostic testing volume related to the recall of certain pet foods in mid-March 2007 in the U.S. and Canada. We believe that the recall resulted in a higher than usual number of pet visits to veterinary clinics in North America in the first and second quarters of 2007. Higher instrument sales volume resulted mainly from sales of LaserCyte® Hematology Analyzers. Changes in distributors' inventory levels did not have a meaningful impact on reported instruments and consumables revenue growth.

The increase in practice-level sales of rapid assay products was due primarily to higher average unit sales prices of canine products, partly offset by lower sales volume of feline products. Higher average unit sales prices were due, in part, to higher relative sales of canine combination test products, such as the SNAP®4Dx® which was launched in the U.S. in September 2006, and less promotional discounting in connection with our SNAP up the Savings™ customer program. The impact from changes in distributors' inventory levels reduced reported rapid assay revenue growth by 9%.

The increase in sales of laboratory and consulting services resulted primarily from higher testing volume and, to a lesser extent, the impact of price increases. Sales volume benefited from temporary additional diagnostic testing volume resulting from the March 2007 pet food recall, as discussed above, and from new test offerings.

The increase in sales of practice information management systems and digital radiography resulted primarily from higher sales of Cornerstone® practice information management systems and services, increased service revenue in support of the growing installed base of digital radiography systems, and the impact of price increases for support services for our practice information management systems, partly offset by a decrease in the number of radiography systems sold.

The increase in sales of pharmaceutical products resulted primarily from higher sales volume and, to a lesser extent, price increases, in each case related largely to PZI VET®, our insulin product for the treatment of diabetic cats.

Water. Revenue for Water increased $2.0 million, or 13%, to $17.1 million from $15.1 million for the same period of the prior year. The increase resulted primarily from higher worldwide sales volume. The favorable impact of currency exchange rates contributed 3% to the increase in Water revenue.

Production Animal Segment. Revenue for PAS increased $3.2 million, or 21%, to $18.7 million from $15.5 million for the same period of the prior year. The increase resulted primarily from higher livestock diagnostics sales volume, including sales attributable to Institut Pourquier, a France-based manufacturer of production animal diagnostic products that we acquired in March 2007. Sales of Pourquier products contributed 14% to PAS revenue growth. The favorable impact of higher sales volume was partly offset by lower average unit sales prices for our HerdChek® products that test for transmissible spongiform encephalopathies ("TSE") due to greater price competition. The favorable impact of currency exchange rates contributed 5% to the increase in PAS revenue.

Other. Revenue for Other operating units increased $3.3 million, or 84%, to $7.2 million from $3.9 million for the same period of the prior year due primarily to incremental revenue attributable to OPTI Medical, which was acquired in January 2007.

Gross Profit

Total Company. Gross profit increased $15.2 million, or 15%, to $114.2 million from $99.0 million for the same period of the prior year. As a percentage of total revenue, gross profit decreased to 48% from 52%.

During the three months ended June 30, 2007, we recognized a write-down of pharmaceutical raw materials inventory of $9.1 million and a write-off of a prepaid royalty license of $1.0 million associated with Navigator® paste, our nitazoxanide product for the treatment of equine protozoal myeloencephalitis, which resulted in an unfavorable impact of 4.3% of total company revenue. These write-downs are included in cost of product revenue in the condensed consolidated statement of operations. We have written down these assets because the third-party contract manufacturer of finished goods recently notified us that it will discontinue manufacturing the product in 2009. Additionally, product sales have been lower than projected. We believe that we will not be able to enter into a replacement manufacturing arrangement on economically feasible terms and that we will not be able to obtain the product after termination of the existing manufacturing arrangement because the estimated production volume is low. Accordingly, we have evaluated our associated inventory for obsolescence based on our changed estimates of product availability and estimated future demand and market conditions. Additionally, because of lower sales volume estimates and the reduced product life, we determined that we will not realize our related investment in prepaid royalties and, therefore, fully expensed this asset.

Share-based compensation expense of $0.1 million was included in cost of revenue for the three months ended June 30, 2007, compared to $0.4 million for the same period of the prior year. Beginning in 2007, we allocate share-based compensation expense to the operating segments based on headcount and other personnel data. This allocation differs from the actual expense and consequently yields a difference between the total allocated share-based compensation expense and the actual expense for the total company, which is categorized as "unallocated amounts." Share-based compensation expense was not allocated to our operating segments in 2006. Therefore, the total company share-based compensation expense is categorized as "unallocated amounts" for the three months ended June 30, 2006.

The following table presents gross profit and gross profit percentage by operating segment:

	For the Three Months Ended June 30,					
Gross Profit *(dollars in thousands)*	**2007**	**Percent of Revenue**	**2006**	**Percent of Revenue**	**Dollar Change**	**Percentage Change**
CAG	$ 89,049	45.9%	$ 78,131	49.8%	$ 10,918	14.0%
Water	10,809	63.2%	9,866	65.4%	943	9.6%
PAS	11,302	60.5%	9,831	63.6%	1,471	15.0%
Other	2,931	40.5%	1,629	41.5%	1,302	79.9%
Unallocated amounts	130	N/A	(421)	N/A	551	130.9%
Total Company	$ 114,221	48.2%	$ 99,036	51.8%	$ 15,185	15.3%

Companion Animal Group. Gross profit for CAG increased $10.9 million, or 14%, to $89.0 million from $78.1 million for the same period of the prior year due to increased revenue across the CAG product lines, partly offset by a decrease in the gross profit percentage to 46% from 50% for the same period of the prior year. The write-down of pharmaceutical inventory and the related prepaid royalty impairment charge, discussed above, resulted in an unfavorable impact of 5.2% of CAG revenue. To a lesser extent, the gross profit percentage also decreased due to greater relative sales of lower margin products and services such as laboratory and consulting services. These decreases were partly offset by higher average unit sales prices and a lower cost of slides that are sold for use in VetTest® chemistry analyzers.

Water. Gross profit for Water increased $0.9 million, or 10%, to $10.8 million from $9.9 million for the same period of the prior year due to higher revenue, partly offset by a decrease in the gross profit percentage to 63% from 65%. The decrease in the gross profit percentage was mainly due to higher manufacturing costs, partly offset by the favorable impact of foreign currency rates on sales denominated in those currencies, net of foreign exchange hedge contract losses.

Production Animal Segment. Gross profit for PAS increased $1.5 million, or 15%, to $11.3 million from $9.8 million for the same period of the prior year due to increased sales volume, partly offset by a decrease in the gross profit percentage to 60% from 64%. The gross profit percentage was unfavorably impacted by lower average unit sales prices and, to a lesser extent, the effect of purchase accounting for inventory acquired in connection with the Pourquier business acquisition, which resulted in an unfavorable impact of 1.5% of PAS revenue, and a relatively lower gross profit rate realized on sales by Pourquier. Finished goods inventory acquired in connection with a business acquisition is assigned a fair value that exceeds replacement cost, resulting in a low gross margin on the sale of those finished goods by the acquirer. The gross profit earned on sales by Pourquier, as a percentage of revenue, is lower than our historical PAS gross profit rate due to greater price competition in the primary markets served by Pourquier and higher production costs. Accordingly, we expect the PAS gross profit percentage to approximate 61% to 65% during the next twelve months with fluctuations within this range due, in part, to seasonal sales volumes.

Other. Gross profit for Other operating units increased $1.3 million, or 80%, to $2.9 million from $1.6 million for the same period of the prior year due primarily to incremental revenue attributable to OPTI Medical, partly offset by a decrease in the gross profit percentage to 41% from 42%. The decrease in the gross profit percentage is primarily attributable to higher manufacturing costs and lower average unit sales prices for Dairy products, partly offset by the impact of OPTI Medical, which was acquired in January 2007, and the favorable impact of foreign currency rates on sales denominated in those currencies, net of foreign exchange hedge contract losses.

Operating Expenses and Operating Income

Total Company. Total operating expenses increased $19.7 million to $81.8 million from $62.0 million for the same period of the prior year. As a percentage of revenue, operating expenses increased to 34% from 32%.

Share-based compensation expense of $1.5 million was included in operating expenses for the three months ended June 30, 2007, compared to $2.2 million for the same period of the prior year. Beginning in 2007, we allocate share-based compensation expense to the operating segments based on headcount and other personnel data. This allocation differs from the actual expense and consequently yields a difference between the total allocated share-based compensation expense and the actual expense for the total company, which is categorized as "unallocated amounts." Share-based compensation expense was not allocated to our operating segments in 2006. Therefore, the total company share-based compensation expense is categorized as "unallocated amounts" for the three months ended June 30, 2006.

Operating income decreased $4.6 million to $32.5 million from $37.0 million for the same period of the prior year. As a percentage of revenue, operating income decreased to 14% from 19%.

The following tables present operating expenses and operating income by operating segment:

	For the Three Months Ended June 30,					
Operating Expenses *(dollars in thousands)*	**2007**	**Percent of Revenue**	**2006**	**Percent of Revenue**	**Dollar Change**	**Percentage Change**
CAG	$ 65,870	33.9%	$ 48,630	31.0%	$ 17,240	35.5%
Water	3,653	21.4%	3,049	20.2%	604	19.8%
PAS	7,542	40.4%	5,697	36.9%	1,845	32.4%
Other	3,032	41.9%	1,022	26.0%	2,010	196.7%
Unallocated amounts	1,657	N/A	3,612	N/A	(1,955)	(54.1%)
Total Company	$ 81,754	34.5%	$ 62,010	32.4%	$ 19,744	31.8%

Operating Income *(dollars in thousands)*	**2007**	**Percent of Revenue**	**2006**	**Percent of Revenue**	**Dollar Change**	**Percentage Change**
CAG	$ 23,179	11.9%	$ 29,501	18.8%	$ (6,322)	(21.4%)
Water	7,156	41.8%	6,817	45.2%	339	5.0%
PAS	3,760	20.1%	4,134	26.8%	(374)	(9.0%)
Other	(101)	(1.4%)	607	15.5%	(708)	(116.6%)
Unallocated amounts	(1,527)	N/A	(4,033)	N/A	2,506	62.1%
Total Company	$ 32,467	13.7%	$ 37,026	19.3%	$ (4,559)	(12.3%)

Companion Animal Group. Operating expenses for CAG increased $17.2 million, or 35%, to $65.9 million from $48.6 million for the same period of the prior year and, as a percentage of revenue, increased to 34% from 31%. Share-based compensation expense of $1.1 million, or 1% of revenue, is included in CAG operating expenses for the three months ended June 30, 2007. The increase in operating expenses consisted of a 54% ($7.9 million) increase in general and administrative expense, a 28% ($6.8 million) increase in sales and marketing expense, and a 27% ($2.6 million) increase in research and development expense. The increase in general and administrative expense resulted primarily from higher spending on facilities, information technology and other general support functions and, to a lesser extent, higher personnel-related costs due, in part, to expanded headcount; the inclusion of share-based compensation expense; incremental expenses associated with businesses acquired since April 1, 2006, comprised mainly of administrative expenses of a recurring nature to support the acquired business and amortization expense for intangible assets acquired; and the unfavorable impact of exchange rates on foreign currency denominated expenses. The increase in sales and marketing expense resulted primarily from higher personnel-related costs due, in part, to expanded worldwide sales, marketing and customer service headcount and higher sales commissions as a result of revenue performance. To a lesser extent, the unfavorable impact of exchange rates on foreign currency denominated expenses, incremental expenses associated with businesses acquired since April 1, 2006, and the inclusion of share-based compensation expense also contributed to the increase in sales and marketing expense. The increase in research and development expense resulted from increased product development spending related primarily to IDEXX VetLab® instrumentation and, to a lesser extent, rapid assay products and practice information management systems.

Water. Operating expenses for Water increased $0.6 million, or 20%, to $3.7 million from $3.0 million for the same period of the prior year and, as a percentage of revenue, increased to 21% from 20%. Share-based compensation expense of $0.1 million, or less than 1% of revenue, is included in Water operating expenses for the three months ended June 30, 2007. The increase in operating expenses consisted of a 32% ($0.4 million) increase in sales and marketing expense, a 12% ($0.1 million) increase in general and administrative expense, and a 6% (less than $0.1 million) increase in research and development expense. The increase in sales and marketing expense resulted largely from higher personnel-related costs. The increase in general and administrative expense resulted primarily from higher spending on facilities, information technology and other general support functions and the inclusion of share-based compensation expense. The increase in research and development expense resulted primarily from higher costs associated with new product development, partly offset by a favorable comparison due to prior year spending related to the launch of the IDEXX Filta-Max *xpress*™ system, a *Cryptosporidium* and *Giardia* testing product, in the second quarter of 2006.

Production Animal Segment. Operating expenses for PAS increased $1.8 million, or 32%, to $7.5 million from $5.7 million for the same period of the prior year and, as a percentage of revenue, increased to 40% from 37%. Share-based compensation expense of $0.2 million, or 1% of revenue, is included in PAS operating expenses for the three months ended June 30, 2007. The increase in operating expenses consisted of a 62% ($0.7 million) increase in research and development expense, a 33% ($0.7 million) increase in sales and marketing expense, and a 17% ($0.4 million) increase in general and administrative expense. The increase in research and development expense resulted primarily from higher development activities and associated higher personnel-related costs, including incremental development activities attributable to the Pourquier business acquired in March 2007. The increase in sales and marketing expense resulted primarily from incremental activities associated with the Pourquier business, higher personnel-related costs, and, to a lesser extent, the unfavorable impact of exchange rates on foreign currency denominated expenses. The increase in general and administrative expense resulted primarily from incremental expenses associated with the Pourquier business, comprised mainly of amortization expense for intangible assets and administrative expenses of a recurring nature to support the acquired business, and higher spending on facilities, information technology and other general support functions. These increases were partly offset by a favorable comparison due to the write-off, in the second quarter of 2006, of certain fixed assets located in our facility in China.

Other. Operating expenses for Other operating units increased $2.0 million to $3.0 million from $1.0 million for the same period of the prior year due primarily to incremental expenses attributable to OPTI Medical, which was acquired in January 2007. These costs are mainly composed of operating expenses of a recurring nature to support the OPTI Medical business and amortization expense for intangible assets acquired.

Unallocated Amounts. Operating expenses that are not allocated to our operating segments decreased $2.0 million to $1.7 million from $3.6 million. As described above, share-based compensation expense was not allocated to our operating segments in 2006. Therefore, total company share-based compensation expense included in operating expenses for the three months ended June 30, 2006 of $2.2 million is categorized as “unallocated amounts.” Beginning in 2007, we allocate a portion of share-based compensation expense to the operating segments. The unallocated share-based compensation expense for the three months ended June 30, 2007 is $0.1 million. Corporate research and development expense is also included in “unallocated amounts” for both periods and grew mainly due to personnel additions in 2006 and 2007 to support increased long-term product development activities.

Interest Income and Interest Expense

Interest income was $0.6 million for the three months ended June 30, 2007 compared to $0.7 million for the three months ended June 30, 2006. The decrease in interest income was primarily due to lower invested cash balances, partly offset by higher effective interest rates.

Interest expense was $1.5 million for the three months ended June 30, 2007 compared to $0.1 million for the three months ended June 30, 2006. The increase in interest expense was primarily due to interest expense incurred on borrowings under a revolving credit facility.

Provision for Income Taxes

Our effective tax rate was 31.5% for the three months ended June 30, 2007 and 2006. Several factors had favorable impacts on the effective tax rate compared to the same period of 2006, including federal tax incentives recognized during the three months ended June 30, 2007 that were not available for the three months ended June 30, 2006, a settlement with state tax authorities regarding our tax position concerning certain state tax benefits, and a state tax law change that we anticipate will reduce our future effective tax rate by one percentage point. This tax law change did not have a significant impact to the current period because the reduction in our current expense was offset by the impact of the initial application of the new rate to our net deferred tax assets. These effective tax rate reductions were offset by favorable changes due, in part, to a discrete benefit recognized during the three months ended June 30, 2006 that did not recur in the current period. The prior year benefit related to the release of a valuation allowance on certain international deferred tax assets as a result of a subsidiary demonstrating consistent sustained profitability.

In ensuing quarters, we anticipate recognizing income tax benefits related to certain discrete events that occurred in July 2007. Subsequent to June 30, 2007, we received notification of the final settlement of certain tax incentives that we have not previously recognized, in accordance with Financial Interpretation No. 48, due to uncertainty regarding the ultimate outcome of our tax positions. As a result, we anticipate recognizing $0.6 million of net tax benefits and reducing tax expense during the quarter ending September 30, 2007. Additionally, in July 2007, certain foreign governments approved business tax reforms that will reduce the respective corporate tax rates beginning in 2008. Consequently, we anticipate a reduction of certain foreign deferred tax liabilities and a corresponding income tax benefit of approximately $0.8 million to $1.0 million during the quarter ending September 30, 2007. We estimate that our effective tax rate will be 30% to 31% for the full year ending December 31, 2007.

Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006

Revenue

Total Company. Revenue increased $88.7 million, or 25%, to $448.2 million from $359.5 million for the same period of the prior year. Incremental sales from businesses acquired since January 1, 2006 contributed 8% to revenue growth. The favorable impact of currency exchange rates contributed 3% to revenue growth. The following table presents revenue by operating segment:

	For the Six Months Ended June 30,						
Net Revenue *(dollars in thousands)*	**2007**	**2006**	**Dollar Change**	**Percentage Change**	**Percentage Change from Currency (1)**	**Percentage Change from Acquisitions (2)**	**Percentage Change Net of Acquisitions and Currency Effect**
CAG	$367,458	$296,266	$71,192	24.0%	2.0%	6.5%	15.5%
Water	31,510	27,153	4,357	16.0%	2.9%	—	13.1%
PAS	35,494	28,403	7,091	25.0%	6.1%	10.1%	8.8%
Other	13,739	7,706	6,033	78.3%	2.8%	74.3%	1.2%
Total	$448,201	$359,528	$88,673	24.7%	2.5%	7.7%	14.5%

(1) Represents the percentage change in revenue attributed to the effect of changes in currency rates from the six months ended June 30, 2006 to the six months ended June 30, 2007.

(2) Represents the percentage change in revenue attributed to incremental revenues during the six months ended June 30, 2007 compared to the six months ended June 30, 2006 from businesses acquired since January 1, 2006.

Companion Animal Group. Revenue for CAG increased $71.2 million, or 24%, to $367.5 million from $296.3 million for the same period of the prior year. Incremental sales from businesses acquired since January 1, 2006, consisting primarily of veterinary reference laboratories and intellectual property and distribution rights of a veterinary diagnostics business, contributed 6% to CAG revenue growth. The favorable impact of currency exchange rates contributed 2% to the increase in CAG revenue. The following table presents revenue by product and service category for CAG:

	For the Six Months Ended June 30,						
Net Revenue *(dollars in thousands)*	**2007**	**2006**	**Dollar Change**	**Percentage Change**	**Percentage Change from Currency (1)**	**Percentage Change from Acquisitions (2)**	**Percentage Change Net of Acquisitions and Currency Effect**
Instruments and consumables	$138,446	$117,031	$21,415	18.3%	2.6%	—	15.7%
Rapid assay products	67,825	58,631	9,194	15.7%	0.5%	2.9%	12.3%
Laboratory and consulting services	126,436	91,394	35,042	38.3%	3.0%	19.1%	16.2%
Practice information management systems and digital radiography	24,222	20,477	3,745	18.3%	0.5%	—	17.8%
Pharmaceutical products	10,529	8,733	1,796	20.6%	—	—	20.6%
Net CAG revenue	$367,458	$296,266	$71,192	24.0%	2.0%	6.5%	15.5%

(1) Represents the percentage change in revenue attributed to the effect of changes in currency rates from the six months ended June 30, 2006 to the six months ended June 30, 2007.

(2) Represents the percentage change in revenue attributed to incremental revenues during the six months ended June 30, 2007 compared to the six months ended June 30, 2006 from businesses acquired since January 1, 2006.

The following revenue analysis reflects the results of operations net of the impact of currency exchange rates on sales outside the U.S. and net of incremental sales from businesses acquired since January 1, 2006.

The increase in sales of instruments and consumables was due mainly to higher unit sales volume of consumables and, to a lesser extent, higher unit sales volume of instruments and higher average unit sales prices for slides that are sold for use in VetTest® chemistry analyzers. Higher consumables sales volumes were attributable primarily to higher worldwide practice-level sales of slides and, to a lesser extent, to increased practice-level sales of tubes used with our hematology analyzers, with all consumables categories benefiting from the continued growth of our installed base of instruments. Sales volumes of consumables also benefited from temporary additional diagnostic testing volume related to the recall of certain pet foods in mid-March 2007 in the U.S. and Canada, as discussed above. Higher instrument sales volume resulted mainly from sales of LaserCyte® Hematology Analyzers. The impact from changes in distributors' inventory levels increased reported instruments and consumables revenue growth by 1%.

The increase in practice-level sales of rapid assay products was due primarily to higher average unit sales prices and, to a lesser extent, higher sales volumes of canine combination test products. Higher average unit sales prices were due, in part, to higher relative sales of canine combination test products, such as the SNAP®4Dx® which was launched in the U.S. in September 2006, and less promotional discounting in connection with our SNAP up the Savings™ customer program. The impact from changes in distributors' inventory levels reduced reported rapid assay revenue growth by 4%.

The increase in sales of laboratory and consulting services resulted primarily from higher testing volume and, to a lesser extent, the impact of price increases. Sales volume benefited from temporary additional diagnostic testing volume resulting from the March 2007 pet food recall, as discussed above, and from new test offerings.

The increase in sales of practice information management systems and digital radiography resulted primarily from an increase in the number of digital radiography systems sold, including sales of the IDEXX-DR™ 1417 Digital Radiography System, which became commercially available during the third quarter of 2006, and higher sales of Cornerstone® practice information management systems and services. To a lesser extent, revenue growth was also due to the impact of price increases for support services for our practice information management systems and increased service revenue in support of the growing installed base of digital radiography systems.

The increase in sales of pharmaceutical products resulted primarily from higher sales volume and price increases, in each case related largely to PZI VET®, our insulin product for the treatment of diabetic cats.

Water. Revenue for Water increased $4.4 million, or 16%, to $31.5 million from $27.2 million for the same period of the prior year. The increase resulted primarily from higher worldwide sales volume, partly offset by lower average unit sales prices attributable to both higher relative sales in geographies where products are sold at lower unit prices and greater price competition in certain geographies. The favorable impact of currency exchange rates contributed 3% to the increase in Water revenue.

Production Animal Segment. Revenue for PAS increased $7.1 million, or 25%, to $35.5 million from $28.4 million for the same period of the prior year. The increase resulted primarily from higher livestock diagnostics sales volume, including sales attributable to Institut Pourquier, a France-based manufacturer of production animal diagnostic products that we acquired in March 2007. Sales of Pourquier products contributed 10% to PAS revenue growth. The favorable impact of higher sales volume was partly offset by lower average unit sales prices for TSE testing products due to greater price competition. The favorable impact of currency exchange rates contributed 6% to the increase in PAS revenue.

Other. Revenue for Other operating units increased $6.0 million, or 78%, to $13.7 million from $7.7 million for the same period of the prior year due primarily to incremental revenue attributable to OPTI Medical, which was acquired in January 2007.

Gross Profit

Total Company. Gross profit increased $37.7 million, or 20%, to $222.8 million from $185.1 million for the same period of the prior year. As a percentage of total revenue, gross profit decreased to 50% from 51%. The write-down of pharmaceutical inventory and the related prepaid royalty impairment charge, discussed above, resulted in an unfavorable impact of 2.3% of total company revenue.

Share-based compensation expense of $0.3 million was included in cost of revenue for the six months ended June 30, 2007, compared to $0.8 million for the same period of the prior year. Beginning in 2007, we allocate share-based compensation expense to the operating segments, as discussed above. The total company share-based compensation expense is categorized as “unallocated amounts” for the six months ended June 30, 2006.

The following table presents gross profit and gross profit percentage by operating segment:

	For the Six Months Ended June 30,					
Gross Profit *(dollars in thousands)*	**2007**	**Percent of Revenue**	**2006**	**Percent of Revenue**	**Dollar Change**	**Percentage Change**
CAG	$ 175,379	47.7%	$ 146,736	49.5%	$ 28,643	19.5%
Water	20,041	63.6%	17,827	65.7%	2,214	12.4%
PAS	22,265	62.7%	18,153	63.9%	4,112	22.7%
Other	4,845	35.3%	3,144	40.8%	1,701	54.1%
Unallocated amounts	270	N/A	(799)	N/A	1,069	133.8%
Total Company	$ 222,800	49.7%	$ 185,061	51.5%	$ 37,739	20.3%

Companion Animal Group. Gross profit for CAG increased $28.6 million, or 20%, to $175.4 million from $146.7 million for the same period of the prior year due to increased sales volume across the CAG product lines, partly offset by a decrease in the gross profit percentage to 48% from 50% for the same period of the prior year. The write-down of pharmaceutical inventory and the related prepaid royalty impairment charge, discussed above, resulted in an unfavorable impact of 2.8% of CAG revenue. To a lesser extent, the gross profit percentage also decreased due to greater relative sales of lower margin products and services such as laboratory and consulting services. These decreases were partly offset by higher average unit sales prices and a lower cost of slides that are sold for use in VetTest® chemistry analyzers.

Water. Gross profit for Water increased $2.2 million, or 12%, to $20.0 million from $17.8 million for the same period of the prior year due to higher sales volume, partly offset by a decrease in the gross profit percentage to 64% from 66%. The decrease in the gross profit percentage was mainly due to higher manufacturing costs and lower average unit sales prices, partly offset by the favorable impact of foreign currency rates on sales denominated in those currencies, net of foreign exchange hedge contract losses.

Production Animal Segment. Gross profit for PAS increased $4.1 million, or 23%, to $22.3 million from $18.2 million for the same period of the prior year due to increased sales volume, partly offset by a decrease in the gross profit percentage to 63% from 64%. The gross profit percentage was unfavorably impacted by lower average unit sales prices; the effect of purchase accounting for inventory acquired in connection with the Pourquier business acquisition, which had an unfavorable impact of 1.7% of PAS revenue; and a relatively lower gross profit rate realized on sales by Pourquier. These decreases were partly offset by greater relative sales of higher margin products, exclusive of the impact of the Pourquier business, and the favorable impact of foreign currency rates on sales denominated in those currencies, net of foreign exchange hedge contract losses. Finished goods inventory acquired in connection with a business acquisition is assigned a fair value that exceeds replacement cost, resulting in a low gross margin on the sale of those finished goods by the acquirer. The gross profit earned on sales by Pourquier, as a percentage of revenue, is lower than our historical PAS gross profit rate due to greater price competition in the primary markets served by Pourquier and higher production costs.

Other. Gross profit for Other operating units increased $1.7 million, or 54%, to $4.8 million from $3.1 million for the same period of the prior year due primarily to incremental revenue attributable to OPTI Medical, partly offset by a decrease in the gross profit percentage to 35% from 41%. The decrease in the gross profit percentage is also primarily attributable to the impact of OPTI Medical, which was acquired in January 2007, including the unfavorable impact of purchase accounting for inventory. Finished goods inventory acquired in connection with a business acquisition is assigned a fair value that exceeds replacement cost, resulting in a low gross margin on the sale of those finished goods by the acquirer. Lower average unit sales prices for Dairy products also contributed to the decrease in the gross profit percentage. These decreases were partly offset by the favorable impact of foreign currency rates on sales denominated in those currencies, net of foreign exchange hedge contract losses.

Operating Expenses and Operating Income

Total Company. Total operating expenses increased $38.4 million to $159.5 million from $121.1 million for the same period of the prior year. As a percentage of revenue, operating expenses increased to 36% from 34%.

Share-based compensation expense of $3.7 million was included in operating expenses for the six months ended June 30, 2007, compared to $4.7 million for the same period of the prior year. Beginning in 2007, we allocate share-based compensation expense to the operating segments, as discussed above. The total company share-based compensation expense is categorized as “unallocated amounts” for the six months ended June 30, 2006.

Operating income decreased $0.7 million to $63.3 million from $64.0 million for the same period of the prior year. As a percentage of revenue, operating income decreased to 14% from 18%.

The following tables present operating expenses and operating income by operating segment:

	For the Six Months Ended June 30,					
Operating Expenses *(dollars in thousands)*	**2007**	**Percent of Revenue**	**2006**	**Percent of Revenue**	**Dollar Change**	**Percentage Change**
CAG	$ 128,615	35.0%	$ 94,631	31.9%	$ 33,984	35.9%
Water	7,243	23.0%	6,188	22.8%	1,055	17.1%
PAS	14,540	41.0%	10,782	38.0%	3,758	34.9%
Other	5,359	39.0%	2,103	27.3%	3,256	154.8%
Unallocated amounts	3,699	N/A	7,356	N/A	(3,657)	(49.7%)
Total Company	$ 159,456	35.6%	$ 121,060	33.7%	$ 38,396	31.7%

Operating Income *(dollars in thousands)*	**2007**	**Percent of Revenue**	**2006**	**Percent of Revenue**	**Dollar Change**	**Percentage Change**
CAG	$ 46,764	12.7%	$ 52,105	17.6%	$ (5,341)	(10.3%)
Water	12,798	40.6%	11,639	42.9%	1,159	10.0%
PAS	7,725	21.8%	7,371	26.0%	354	4.8%
Other	(514)	(3.7%)	1,041	13.5%	(1,555)	(149.4%)
Unallocated amounts	(3,429)	N/A	(8,155)	N/A	4,726	58.0%
Total Company	$ 63,344	14.1%	$ 64,001	17.8%	$ (657)	(1.0%)

Companion Animal Group. Operating expenses for CAG increased $34.0 million, or 36%, to $128.6 million from $94.6 million for the same period of the prior year and, as a percentage of revenue, increased to 35% from 32%. Share-based compensation expense of $2.9 million, or 1% of revenue, is included in CAG operating expenses for the six months ended June 30, 2007. The increase in operating expenses consisted of a 31% ($14.8 million) increase in sales and marketing expense, a 51% ($14.6 million) increase in general and administrative expense, and a 25% ($4.6 million) increase in research and development expense. The increase in sales and marketing expense resulted primarily from higher personnel-related costs due, in part, to expanded worldwide sales, marketing and customer service headcount and higher sales commissions as a result of revenue performance. To a lesser extent, the unfavorable impact of exchange rates on foreign currency denominated expenses and the inclusion of share-based compensation expense also contributed to the increase in sales and marketing expense. The increase in general and administrative expense resulted largely from higher spending on facilities, information technology and other general support functions and from higher personnel-related costs due, in part, to expanded headcount. To a lesser extent, the inclusion of share-based compensation expense; incremental expenses associated with businesses acquired since January 1, 2006, comprised mainly of administrative expenses of a recurring nature to support the acquired businesses and amortization expense for intangible assets acquired; and the unfavorable impact of exchange rates on foreign currency denominated expenses also contributed to the increase in general and administrative expense. The increase in research and development expense resulted from increased product development spending related primarily to IDEXX VetLab® instrumentation and, to a lesser extent, rapid assay products and practice information management systems.

Water. Operating expenses for Water increased $1.1 million, or 17%, to $7.2 million from $6.2 million for the same period of the prior year and, as a percentage of revenue, were approximately constant at 23%. Share-based compensation expense of $0.2 million, or 1% of revenue, is included in Water operating expenses for the six months ended June 30, 2007. The increase in operating expenses consisted of a 24% ($0.6 million) increase in sales and marketing expense, a 9% ($0.2 million) increase in general and administrative expense, and an 18% ($0.2 million) increase in research and development expense. The increase in sales and marketing expense resulted largely from higher personnel-related costs. The increase in general and administrative expense resulted primarily from higher spending on facilities, information technology and other general support functions and the inclusion of share-based compensation expense. The increase in research and development expense resulted primarily from higher costs associated with new product development, partly offset by a favorable comparison due to prior year spending related to the launch of the IDEXX Filta-Max *xpress*™ system in the second quarter of 2006.

Production Animal Segment. Operating expenses for PAS increased $3.8 million, or 35%, to $14.5 million from $10.8 million for the same period of the prior year and, as a percentage of revenue, increased to 41% from 38%. Share-based compensation expense of $0.3 million, or 1% of revenue, is included in PAS operating expenses for the six months ended June 30, 2007. The increase in operating expenses consisted of a 58% ($1.4 million) increase in research and development expense, a 27% ($1.2 million) increase in general and administrative

expense, and a 30% ($1.2 million) increase in sales and marketing expense. The increase in research and development expense resulted primarily from higher development activities and associated higher personnel-related costs, including incremental development activities attributable to the Pourquier business acquired in March 2007, and, to a lesser extent, the inclusion of share-based compensation expense. The increase in general and administrative expense resulted primarily from incremental expenses associated with the Pourquier business, comprised mainly of administrative expenses of a recurring nature to support the acquired business and amortization expense for intangible assets, and higher spending on facilities, information technology and other general support functions. These increases were partly offset by a favorable comparison due to the write-off, in the second quarter of 2006, of certain fixed assets located in our facility in China. The increase in sales and marketing expense resulted primarily from higher personnel-related costs, incremental activities associated with the Pourquier business, and, to a lesser extent, the unfavorable impact of exchange rates on foreign currency denominated expenses.

Other. Operating expenses for Other operating units increased $3.3 million to $5.4 million from $2.1 million for the same period of the prior year due primarily to incremental expenses attributable to OPTI Medical, which was acquired in January 2007. These costs are composed of operating expenses of a recurring nature to support the OPTI Medical business and amortization expense for intangible assets acquired.

Unallocated Amounts. Operating expenses that are not allocated to our operating segments decreased $3.7 million to $3.7 million from $7.4 million. As described above, share-based compensation expense was not allocated to our operating segments in 2006. Therefore, total company share-based compensation expense included in operating expenses for the six months ended June 30, 2006 of $4.7 million is categorized as “unallocated amounts.” Beginning in 2007, we allocate a portion of share-based compensation expense to the operating segments. The unallocated share-based compensation expense for the six months ended June 30, 2007 is $0.2 million. Corporate research and development expense is also included in “unallocated amounts” for both periods and grew mainly due to personnel additions in 2006 and 2007 to support increased long-term product development activities.

Interest Income and Interest Expense

Interest income was $1.3 million for the six months ended June 30, 2007 compared to $1.6 million for the six months ended June 30, 2006. The decrease in interest income was primarily due to lower invested cash balances, partly offset by higher effective interest rates.

Interest expense was $2.1 million for the six months ended June 30, 2007 compared to $0.2 million for the six months ended June 30, 2006. The increase in interest expense was primarily due to interest expense incurred on borrowings under a revolving credit facility.

Provision for Income Taxes

Our effective tax rate was 31.7% for the six months ended June 30, 2007, compared with 32.8% for the six months ended June 30, 2006. The decrease was due, in part, to federal tax incentives recognized during the six months ended June 30, 2007 that were not available for the six months ended June 30, 2006, a settlement with state tax authorities regarding our tax position concerning certain state tax benefits, and a state tax law change that we anticipate will reduce our future effective tax rate by one percentage point. This tax law change did not have a significant impact to the current period because the reduction in our current expense was offset by the impact of the initial application of the new rate to our net deferred tax assets. These effective tax rate reductions were partly offset by a discrete benefit recognized during the three months ended June 30, 2006 that did not recur in the current period. The prior year benefit related to the release of a valuation allowance on certain international deferred tax assets as a result of a subsidiary demonstrating consistent sustained profitability.

- **Recent Accounting Pronouncements**

A discussion of recent accounting pronouncements is included in Note 2(p) to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006 and in Note 2 to the condensed consolidated financial statements included in this Form 10-Q.

- **Liquidity and Capital Resources**

Liquidity

We fund the capital needs of our business through cash on hand, funds generated from operations, and amounts available under our credit facilities. At June 30, 2007 and December 31, 2006, we had $49.6 million and $96.7 million, respectively, of cash and cash equivalents and short-term investments and working capital of $68.9 million and $177.5 million, respectively. We believe that current cash and cash equivalents, funds generated from operations, and amounts available under our credit facilities will be sufficient to fund our operations, capital purchase requirements, and strategic growth needs. We further believe that we could obtain additional borrowings at customary interest rates to fund our growth objectives. The extent and timing of acquisitions-related spending and repurchases of our common stock could cause variations in our liquidity and leverage levels.

We consider the operating earnings of non-United States subsidiaries to be indefinitely invested outside the U.S. Changes to this policy could have adverse tax consequences. Subject to this policy, we manage our worldwide cash requirements considering available funds among all of our subsidiaries. Foreign cash balances are generally available without legal restrictions to fund ordinary business operations outside the U.S.

Sources and Uses of Cash

Cash generated by operating activities was $63.1 million for the six months ended June 30, 2007, compared to $44.8 million for the same period in 2006. The total of net income and net non-cash charges was $68.1 million for the six months ended June 30, 2007, compared to $54.9 million for the same period in 2006.

We have historically experienced proportionally lower or net negative cash flows from operating activities during the first quarter and net positive cash flows from operating activities for the remainder of the year and for the annual period. Several factors contribute to the seasonal fluctuations in cash flows generated by operating activities, including the following:

- We have agreements with certain suppliers that require us to make minimum annual inventory purchases, in some cases in order to retain exclusive distribution rights, and we have other agreements with suppliers that provide for lower pricing based on annual purchase volumes. We may place a higher volume of purchase orders for inventory during the fourth quarter, and receive that inventory in the fourth or first quarters, in order to meet our minimum commitments or realize volume pricing discounts. The specific facts and circumstances that we consider in determining the timing and level of inventory purchases throughout the year related to these agreements may yield inconsistent cash flows from operations, most typically in the first and fourth quarters.

- We have management and non-management employee incentive programs that provide for the payment of annual bonuses in the first quarter following the year for which the bonuses were earned.

- In the U.S., final income tax payments for each fiscal year are due on March 15th of the following year, along with our first quarter payment for the next fiscal year. Our method of depositing estimated taxes delays a portion of the payment relating to the preceding year until this final payment date and, as a result, tax payments are higher in the first quarter of each year.

During the six months ended June 30, 2007, cash decreased by $5.0 million due to changes in operating assets and liabilities, compared to a decrease in the same period in 2006 of $10.1 million, resulting in a year-to-year change of $5.2 million. The decrease in cash used by changes in operating assets and liabilities, compared to 2006, was primarily attributable to $17.4 million of incremental cash generated by changes in inventory, partly offset by a reduction of $4.2 million of cash provided by increases in accounts payable and accrued expenses; an increase of $6.0 million of cash used by increases in accounts receivable; and $2.7 million of incremental cash used for changes in other assets. The incremental cash generated by inventory compared to the same period of 2006 was due, in part, to the receipt in the first quarter of 2006 of VetTest® slide inventory receipts from our supplier that were deferred from the fourth quarter of 2005, which resulted in an unusually large increase in VetTest® slide inventory during the six months ended June 30, 2006. Additionally, during the first half of 2007, certain inventory levels that grew during the later part of 2006 subsequently decreased due to consumption and sales. These inventory levels had increased during the second half of 2006 in preparation for a supplier's production facility transition and to ensure adequate supply of certain instrument components and accessories that were being discontinued by the manufacturers. The decrease in cash provided by accounts payable and accrued expenses was due, in part, to the comparatively smaller incremental investment in inventory during the six months ended June 30, 2007 compared to the same period in 2006, as discussed above, relatively higher taxes paid during the period, and the generation of less income taxes payable as a result of lower taxable income in the six months ended June 30, 2007 compared to the same period in 2006. The increase in cash used by accounts receivable was due to higher sales during the six months ended June 30, 2007.

Cash used by investing activities was $77.3 million for the six months ended June 30, 2007, compared to cash generated of $4.1 million for the same period in 2006. The increase in cash used by investing activities for 2007, compared to 2006, was largely due to incremental cash used of $77.3 million for business acquisitions, which are described below, and incremental purchases of property and equipment of $12.4 million. These incremental decreases in cash were partly offset by lower expenditures on land and buildings of $11.5 million, primarily due to the 2006 purchase of our Westbrook, Maine facility.

We paid $84.4 million to acquire businesses during the six months ended June 30, 2007 and assumed liabilities of $17.7 million, including $7.8 million of deferred tax liabilities associated with purchase accounting. We also paid purchase price payments of $1.1 million related to businesses acquired in prior years. In January 2007, we acquired substantially all of the assets and liabilities of the Critical Care Division of Osmetech plc. The acquired business is based in the United States and develops, designs, manufactures, and distributes point-of-care electrolyte and blood gas analyzers and related consumable products for the human medical and veterinary diagnostics markets. In March 2007, we acquired all of the equity of Vita-Tech Canada Inc., Institut Pourquier SAS, and a veterinary reference laboratory based in North Carolina in separate transactions. Vita-Tech is the largest provider of reference laboratory testing services to veterinarians in Canada and has operations in Toronto and Montreal, Canada. Institut Pourquier is based in Montpellier, France and develops, designs, manufactures, and distributes production animal diagnostic products. In April 2007, we acquired certain assets of a veterinary reference laboratory based in Switzerland.

We paid $26.2 million to purchase fixed assets and $0.5 million to acquire rental instruments sold under recourse during the six months ended June 30, 2007. Our total capital expenditure plan for 2007 is approximately $70 — $75 million, which includes approximately $18 million towards the renovation and expansion of our headquarters facility in Westbrook, Maine.

In January 2007, we entered into an unsecured short-term revolving credit facility with a bank in the principal amount of $125.0 million that would have matured on June 30, 2007. On March 30, 2007, we refinanced this short-term facility by entering into an unsecured revolving credit facility with four multinational banks that matures on March 30, 2012 (the “Credit Facility”). The Credit Facility may be used for general corporate purposes, including repurchases of our common stock and business acquisitions. The applicable interest rates generally range from 0.375% to 0.875% above the London interbank rate or the Canadian Dollar-denominated bankers’ acceptance rate, dependent on our leverage ratio. Under the Credit Facility, we pay quarterly commitment fees of 0.08% to 0.20%, dependent on our leverage ratio, on any unused commitment. The Credit Facility contains financial and other affirmative and negative covenants, as well as customary events of default, that would allow any amounts outstanding under the Credit Facility to be accelerated, or restrict our ability to borrow thereunder, in the event of noncompliance. The financial covenant requires our ratio of debt to earnings before interest, taxes, depreciation and amortization, as defined by the agreement, not to exceed 3-to-1. At June 30, 2007, we had $83.7 million outstanding under the Credit Facility.

The board of directors has authorized the repurchase of up to 18,000,000 shares of our common stock in the open market or in negotiated transactions. From the inception of the program in August 1999 to June 30, 2007, we repurchased 16,345,000 shares. We believe that the repurchase of our common stock is a favorable investment and we also repurchase to offset the dilutive effect of our employee share-based compensation programs. Repurchases of our common stock may vary depending upon the level of other investing activities and the share price. See Note 12 to the condensed consolidated financial statements included in this Form 10-Q for additional information about our share repurchases.

Other Commitments, Contingencies and Guarantees

Significant commitments, contingencies and guarantees at June 30, 2007 are consistent with those discussed in our Annual Report on Form 10-K for the year ended December 31, 2006 in the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations— Liquidity and Capital Resources,” and in Note 11 to the consolidated financial statements, except as described below.

In connection with the acquisitions of certain businesses and intangible assets, we have commitments outstanding at June 30, 2007 to make additional purchase price payments of up to $3.7 million, of which $1.3 million is contingent on the achievement by certain acquired businesses and sellers of specified milestones. In addition to these purchase price payments of $3.7 million, we also have agreed to make payments of up to $0.8 million to sellers of certain acquired businesses that are conditional upon those sellers providing future services to IDEXX for specified periods of time. These contingent payments will be recognized as compensation and consulting expense over the remaining service periods when management deems payment to be probable.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our financial market risk consists primarily of foreign currency exchange rate risk. We operate subsidiaries in 18 foreign countries and transact business in local currencies. We attempt to hedge the majority of our cash flow on intercompany sales to minimize foreign currency exposure.

The primary purpose of our foreign currency hedging activities is to protect against the volatility associated with foreign currency transactions. We also utilize some natural hedges to mitigate our transaction and commitment exposures. 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 prepaid expenses or accruals, as appropriate, until the contract matures, which is the period when the related obligation is settled. We primarily utilize forward exchange contracts with durations of less than 18 months.

Our subsidiaries enter into foreign currency exchange contracts to minimize the impact of foreign currency fluctuations associated with their anticipated intercompany inventory purchases. 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. Our hedging strategy is consistent with prior periods and there has been no significant change to our foreign currency exchange rate risk associated with our cash flows attributable to intercompany sales since December 31, 2006. We enter into currency exchange contracts for amounts that are less than the full value of forecasted intercompany sales and for amounts that are equivalent to, or less than, other specific, significant transactions, thus no significant ineffectiveness has resulted or been recorded through the statements of income.

Our hedging strategy related to intercompany inventory purchases provides that we employ the full amount of our hedges for the succeeding year at the conclusion of our budgeting process for that year, which is complete by the end of the preceding year. Quarterly, we enter into contracts to hedge incremental portions of anticipated foreign currency transactions for the following year. Accordingly, our risk with respect to foreign currency exchange rate fluctuations may vary throughout each annual cycle. At June 30, 2007, we had $1.8 million in net unrealized losses on foreign exchange contracts designated as hedges recorded in other comprehensive income, which is net of $0.8 million in taxes.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining disclosure controls and procedures, as defined by the SEC in its Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2007, our chief executive officer and chief financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective to achieve their stated purpose.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended June 30, 2007 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

On June 30, 2006, Cyntegra, Inc. filed suit against IDEXX in the U.S. District Court for the Central District of California alleging that IDEXX had violated U.S. federal antitrust laws and California state unfair trade practices laws. The complaint alleged, among other things, that IDEXX was monopolizing the U.S. market for companion animal diagnostic products. In November 2006, Cyntegra filed a motion for preliminary injunction requesting, among other things, that the Court enjoin IDEXX from withdrawing or threatening to withdraw its products from distributors that wish to sell products that compete with IDEXX's products. On February 5, 2007, the Court denied this motion and stated that Cyntegra had failed to show a likelihood of success on the merits. IDEXX has filed a motion for summary judgment seeking judgment in its favor on all of Cyntegra's claims. Oral arguments on the motion are currently scheduled to be held September 20, 2007. Although a favorable outcome for IDEXX cannot be assured, we believe that Cyntegra's claims are without merit and we intend to continue to defend our positions vigorously.

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.

We May Be Unsuccessful in Maintaining Our Growth Rate

Our ability to maintain our growth rate depends on our successful implementation of various strategies, including:

- Developing, manufacturing and marketing innovative new products with new features, functions and capabilities, including in-house laboratory analyzers such as Catalyst Dx™ and SNAPshot Dx™, rapid assay and other specialized diagnostic tests and services, water testing products, production animal diagnostic products, and companion animal veterinary pharmaceuticals, as well as improving and enhancing existing products;
- Developing and implementing new technology and licensing strategies; and identifying, completing and integrating acquisitions that enhance our existing businesses or create new business areas for us;
- Increasing the value to our customers of our companion animal products and services by enhancing the integration of these products, including the interoperability among the IDEXX VetLab® instrument suite, Cornerstone® practice information management system, the IDEXX-PACS™ software and IDEXX Reference Laboratories;
- Expanding our market by expanding the installed base of our instrumentation through customer acquisition and retention and increasing use of our products by our customers; and
- Strengthening our sales and marketing activities both within the U.S. and in geographies outside of the U.S.

However, we may not be able to successfully implement some or all of these strategies and increase or sustain our rate of growth or profitability.

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"), 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. 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 pharmaceutical and 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 require approval by the FDA before they may be sold commercially. 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 removals of our products from the market, which could have a material adverse effect on our results of operations.

We are subject to an agreement with the FDA under which we are required, among other things, to perform specified lot release and stability testing of our SNAP® beta-lactam dairy testing products and to provide related data to the FDA. If the FDA were to determine that one or more lots of product failed to meet applicable criteria for product performance or stability, the FDA could take various actions, including requiring us to recall products or restricting our ability to sell these products.

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 single sources or a limited number of 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 VetAutoread™ hematology, VetLyte® electrolyte and IDEXX VetLab® UA™ (urinalysis) analyzers and related consumables and accessories; the consumables associated with our VetTest chemistry analyzers; certain digital radiography system components, specifically image capture plates and readers; active ingredients for pharmaceutical products; and certain components of our SNAP® rapid assay devices, water testing products and LaserCyte® hematology analyzers. If we are unable to obtain adequate quantities of these products in the future, we could face cost increases or reductions, or delays or discontinuations in product shipments, which could have a material adverse effect on our results of operations.

Our Minimum Purchase Obligations Under Certain Agreements Could Reduce Our Profitability

We purchase the slides sold for use in our VetTest® chemistry analyzers under an agreement with Ortho-Clinical Diagnostics, Inc. that, as of June 30, 2007, required us to purchase a minimum of $35.4 million of slides through 2010. We also have minimum purchase commitments under the terms of certain other supply agreements that commit us to future payments. If demand for any of the products purchased under these agreements is insufficient to support our minimum purchase obligations for those products, we could incur losses related to those obligations. In addition, because we purchase the products at predetermined prices, our profits on sales of these products could decline if we are unable to maintain current pricing levels for such products.

We May be Required to Discontinue Sales of One of Our Veterinary Pharmaceutical Products

For the six months ended June 30, 2007, 2% of CAG revenue was attributable to sales of our highest-selling pharmaceutical product. This product is sold under the FDA's regulatory discretion and we believe that the FDA would require us to discontinue sales of the product within a short period if and when the FDA approves another product to treat the same condition, whether such new product was our product or that of another commercial supplier. In addition, we have a finite inventory of the raw materials used in the manufacture of this product, and these raw materials are no longer commercially available. We believe that our remaining inventory of raw materials will be adequate to satisfy existing market demand until late 2008 or early 2009. We have, in advanced development and clinical trials, a new product based on different raw materials and we intend to seek FDA approval of this product. FDA approval of this new product would mitigate the commercial risk that we would be required to stop selling our current product due either to FDA approval of another manufacturer's product or to the full depletion of our inventory of raw materials. While we hope to smoothly transition to our new product, we cannot predict when or if the FDA will approve our new product or any product that treats the same condition from another manufacturer. Further, there can be no assurances that the new product would achieve the same revenue and profitability as our existing product.

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

Many of our rapid assay and production animal diagnostic 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 obtain necessary biological materials or to successfully manufacture biologic products that incorporate such materials could have a material adverse effect on our results of operations.

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 develop 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 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 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. Our financial performance, therefore, is subject to an unexpected downturn in product demand and may be unpredictable.

Distributors of veterinary products have entered into business combinations resulting in fewer distribution companies. Consolidation within distribution channels would increase our customer concentration level, which could increase the risks described in the preceding paragraph.

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. We expect that future competition will become even more intense, and that we will have to compete with changing and improving technologies. Competitors may develop products that that are superior to our products, and as a result, we may lose existing customers and market share. Some of our competitors and potential competitors, including large pharmaceutical and diagnostic companies, have substantially greater financial resources than us, and greater experience in manufacturing, marketing, research and development, obtaining regulatory approvals and conducting clinical trials than we do.

Changes in Testing Could Negatively Affect Our Operating Results

The market for our companion and production animal diagnostic tests and our dairy and water testing products could be negatively impacted by a number of factors. 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. Eradication or substantial declines in the prevalence of certain diseases also could lead to a decline in diagnostic testing for such diseases. Our production animal products business in particular is subject to fluctuations resulting from changes in disease prevalence. In addition, changes in government regulations could negatively affect sales of our products that are driven by compliance testing, such as our dairy and water products. Declines in testing for any of the reasons described could have a material adverse effect on our results of operations.

On December 29, 2006, the Drinking Water Inspectorate in the U.K. published a proposal to discontinue the regulation that requires testing water supplies for *Cryptosporidia* effective as of December 22, 2007 or, if approved by the regulator, at an earlier date. If this proposal is adopted, we believe that we will lose a substantial portion of our sales of Filta-Max® products in England and Wales, which were $2.9 million in the year ended December 31, 2006.

Consolidation of Veterinary Hospitals in the U.S. 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 include VCA/Antech, Inc. and Banfield, The Pet Hospital, both of which are currently customers of IDEXX. 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. In addition, VCA/Antech is our primary competitor in the U.S. market for reference laboratory services, and hospitals acquired by VCA/Antech will use its laboratory services almost exclusively. Therefore, hospitals acquired by VCA/Antech generally will cease to be customers or potential customers of our reference laboratories business.

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

Upon acquiring the Critical Care Division of Osmetech plc in January 2007, we entered the human point-of-care medical diagnostics market for the first time with the sale of the OPTI® line of electrolyte and blood gas analyzers. The human point-of-care medical diagnostics 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, and more rapid technological innovation. Our inexperience 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 six months ended June 30, 2007, 39% 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 fluctuations in the value of foreign currencies, 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 quotas, 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. In addition, many of the products for which our selling price may be denominated in foreign currencies are manufactured, sourced, or both, in the U.S. and our costs are incurred in U.S. dollars. We utilize non-speculative forward currency exchange contracts to mitigate foreign currency exposure. However, an appreciation of the U.S. dollar relative to the foreign currencies in which we sell these products would reduce our operating margins.

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 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, research and development expenditures, litigation and claim-related expenditures; changes in competitors' product offerings; and other matters. Similarly, our future operating results may vary significantly from quarter to quarter 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 and our income tax filings are regularly under audit by tax authorities. 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, our inability to use these benefits could have a material negative effect on future earnings.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended June 30, 2007, we repurchased common 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)
April 1, 2007 to April 30, 2007	103,942	$ 87.47	103,942	2,205,795
May 1, 2007 to May 31, 2007	245,247	88.57	245,247	1,960,548
June 1, 2007 to June 30, 2007	305,586	88.03	305,400	1,655,148
Total	654,775	$ 88.14	654,589	1,655,148

Our Board of Directors has approved the repurchase of up to 18,000,000 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, July 21, 2000, October 20, 2003, October 12, 2004, October 12, 2005, and February 14, 2007, and does not have a specified expiration date. There were no other repurchase plans outstanding during the three months ended June 30, 2007, and no repurchase plans expired during the period. Repurchases of 654,589 shares were made during the three months ended June 30, 2007 in open market transactions.

During the three months ended June 30, 2007, we received 186 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. In the above table, these shares are included in columns (a) and (b), but excluded from columns (c) and (d).

Item 4. Submission of Matters to a Vote of Security Holders

Our 2007 Annual Meeting of Stockholders was held on May 9, 2007.

Nominees Jonathan W. Ayers and Robert J. Murray were elected to serve as Class III Directors for three-year terms expiring in 2010. The following Class I Directors were not up for reelection and have three-year terms that expire in 2009: William T. End, Barry C. Johnson, PhD and Brian P. McKeon. The following Class II Directors of the Company were not up for reelection in 2006 and have three-year terms that expire in 2008: Thomas Craig, Errol B. De Souza, PhD and Rebecca M. Henderson, PhD.

The results of the voting at the 2007 Annual Meeting of Stockholders (pursuant to a record date of March 16, 2007) were as follows:

(1) Election of Directors: 28,865,605 shares were voted to elect nominee Jonathan W. Ayers as a Class III Director for a three-year term expiring in 2010 and 609,949 shares were voted to withhold authority; and 28,906,355 shares were voted to elect nominee Robert J. Murray as a Class III Director for a three-year term expiring in 2010 and 569,199 share were voted to withhold authority. There were no broker non-votes on this proposal.

(2) Approval of amendment to our 2003 Stock Incentive Plan. For: 21,716,682; Against: 2,369,864; Abstain: 1,182,530; Broker non-votes: 4,206,479.

(3) Ratification of PricewaterhouseCoopers LLP as Independent Registered Public Accounting Firm for the year ending December 31, 2007. For: 29,420,982; Against: 15,925; Abstain: 38,648; Broker non-votes: 0.

Item 6. Exhibits

(a) Exhibits

10.1 2003 Stock Incentive Plan, as amended.

31.1 Certification by Chief Executive Officer.

31.2 Certification by Corporate Vice President, Chief Financial Officer and Treasurer.

32.1 Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification by Corporate Vice President, Chief Financial Officer and Treasurer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

IDEXX LABORATORIES, INC.

/s/ Merilee Raines

Date: July 31, 2007

Merilee Raines
Corporate Vice President, Chief Financial Officer and
Treasurer (Principal Financial Officer)

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Exhibit Index

Exhibit No.	Description
10.1	2003 Stock Incentive Plan, as amended.
31.1	Certification by Chief Executive Officer.
31.2	Certification by Corporate Vice President, Chief Financial Officer and Treasurer.
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Corporate Vice President, Chief Financial Officer and Treasurer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 10.1

IDEXX LABORATORIES, INC.

2003 STOCK INCENTIVE PLAN

SECTION 1. PURPOSE. The purposes of the 2003 Stock Incentive Plan (the "Plan") are to encourage selected employees and Directors of IDEXX Laboratories, Inc., a Delaware corporation (the "Company"), and its Affiliates to acquire a vested interest in the growth and performance of the Company, to generate an increased incentive to contribute to the Company's future success and prosperity, thus enhancing the value of the Company for the benefit of stockholders, and to enhance the ability of the Company and its Affiliates to attract and retain individuals of exceptional talent upon whom, in large measure, the sustained progress, growth and profitability of the Company depends.

SECTION 2. DEFINITIONS. As used in the Plan, the following terms shall have the meanings set forth below:

(a) "Affiliate" shall mean (i) any Person that directly, or through one or more intermediaries, controls, or is controlled by, or is under common control with, the Company or (ii) any entity in which the Company has a significant equity interest, as determined by the Board.

(b) "Award" shall mean any Option, Stock Appreciation Right, Restricted Stock Award, dividend equivalent, Other Stock Unit Award or any other right, interest or option relating to Shares or other property granted pursuant to the provisions of the Plan.

(c) "Award Agreement" shall mean any agreement, contract or other instrument or document evidencing any Award granted by the Board hereunder, in such form (written, electronic or otherwise) as the Board shall determine, which may, but need not, be executed or acknowledged by both the Company and the Participant.

(d) "Board" shall mean the Board of Directors of the Company.

(e) "Change in Control" shall mean the occurrence of any of the following events:

(i) an acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (an "Entity") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either (A) the then outstanding Shares (the "Outstanding Company Common Stock") or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); excluding, however, the following: (1) any acquisition directly from the Company, other than an acquisition by virtue of the exercise of a conversion privilege unless the security being so converted was itself acquired directly from the Company, (2) any acquisition by the Company, (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (4) any acquisition by any corporation pursuant to a transaction that complies with clauses (A), (B) and (C) of Section 2(e)(iii);

(ii) a change in the composition of the Board on the Plan's effective date such that the individuals who, as of the effective date, constitute the Board (such Board shall be hereinafter referred to as the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that for purposes of this definition, any individual who becomes a member of the Board subsequent to the effective date, whose election, or nomination for election, by the Company's stockholders was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; and provided further, however, that any such individual whose initial assumption of office occurs as a result of or in connection with either an actual or threatened solicitation with respect to the election of directors (as such terms are used in Rule 14a-12(c) of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of an Entity other than the Board shall not be so considered as a member of the Incumbent Board;

(iii) the consummation of a merger, reorganization or consolidation or sale or other disposition of all or substantially all of the assets of the Company (each, a "Corporate Transaction"), excluding however, any Corporate Transaction pursuant to which (A) all or substantially all of the individuals and entities who are the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Corporate Transaction will beneficially own, directly or indirectly, more than 60% of, respectively, the outstanding shares of common stock, and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Corporate Transaction (including, without limitation, a corporation or other Person that as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries (a "Parent Company")) in substantially the same proportions as their ownership, immediately prior to such Corporate Transaction, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (B) no Entity (other than the Company, any employee benefit plan (or related trust) of the Company, such corporation resulting from such Corporate Transaction or, if reference was made to equity ownership of any Parent Company for purposes of determining whether clause (A) above is satisfied in connection with the applicable Corporate Transaction, such Parent Company) will beneficially own, directly or indirectly, 30% or more of, respectively, the outstanding shares of common stock of the corporation resulting from such Corporate Transaction or the combined voting power of the outstanding voting securities of such corporation entitled to vote generally in the election of directors unless such ownership resulted solely from ownership of securities of the Company prior to the Corporate Transaction, and (C) individuals who were members of the Incumbent Board will immediately after the consummation of the Corporate Transaction constitute at least half of the members of the board of directors of the corporation resulting from such Corporate Transaction (or, if reference was made to equity ownership of any Parent Company for purposes of determining whether clause (A) above is satisfied in connection with the applicable Corporate Transaction, of the Parent Company); or

(iv) the approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

(f) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.

(g) "Compensation Committee" shall mean the Compensation Committee of the Board, or any successor to such committee, composed of no fewer than two directors, each of whom is a non-employee Director within the meaning of Rule 16b-3(b)(3) of the Exchange Act, an "outside director" within the meaning of Section 162(m) of the Code, or any successor provision thereto, and independent under the rules of the NASDAQ Global Market.

(h) "Company" shall mean IDEXX Laboratories, Inc., a Delaware corporation.

(i) "Covered Employee" shall mean a "covered employee" within the meaning of Section 162(m)(3) of the Code, or any successor provision thereto.

(j) "Director" shall mean a member of the Board who is not an Employee.

(k) "Employee" shall mean any employee of the Company or any Affiliate.

(l) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(m) "Fair Market Value" shall mean, with respect to any property other than Shares, the market value of such property determined by such methods or procedures as shall be established from time to time by the Board. Unless otherwise determined by the Board, the Fair Market Value of Shares as of any date shall be the last reported sales price for the Shares as reported on the NASDAQ Global Market (or on any national securities exchange on the Shares are then listed) for that date or, if no such price is reported for that date, the last reported sales price on the next preceding date for which such price was reported.

(n) “Incentive Stock Option” shall mean an Option granted under Section 6 that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

(o) “Nonstatutory Stock Option” shall mean an Option granted under Section 6 that is not intended to be an Incentive Stock Option.

(p) ”Option” shall mean any right granted to a Participant under the Plan allowing such Participant to purchase Shares at such price or prices and during such period or periods as the Board shall determine.

(q) “Other Stock Unit Award” shall mean any right granted to a Participant by the Board pursuant to Section 9.

(r) “Participant” shall mean an Employee or Director who is selected by the Board to receive an Award under the Plan.

(s) “Person” shall mean any individual, corporation, partnership, association, limited liability company, joint-stock company, trust, unincorporated organization or government or political subdivision thereof.

(t) “Prior Plans” shall mean the Company’s 1991 Stock Option Plan, 1998 Stock Incentive Plan and the 2000 Director Option Plan.

(u) “Restricted Stock” shall mean any Share issued with the restriction that the holder may not sell, transfer, pledge or assign such Share and with such other restrictions as the Board, in its sole discretion, may impose (including, without limitation, any restriction on the right to vote such Share, and the right to receive any cash dividends), which restrictions may lapse separately or in combination at such time or times, in installments or otherwise, as the Board may deem appropriate.

(v) “Restricted Stock Award” shall mean an award of Restricted Stock under Section 8.

(w) “Shares” shall mean the shares of common stock of the Company, par value $.10 per share.

(x) ”Stock Appreciation Right” shall mean any right granted to a Participant pursuant to Section 7 to receive, upon exercise by the Participant, the excess of (i) the Fair Market Value of one Share on the date of exercise over (ii) the grant price of the right on the date of grant, as specified by the Board in its sole discretion, which, except in the case of Substitute Awards or in connection with an adjustment provided in Section 4(c), shall not be less than the Fair Market Value of one Share on such date of grant of the right. Any payment by the Company in respect of such right may be made in cash, Shares, other property, or any combination thereof, as the Board, in its sole discretion, shall determine.

(y) “Subsidiary” shall mean any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, at the time of the granting of the Award, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

(z) “Substitute Awards” shall mean Awards granted or Shares issued by the Company in assumption of, or in substitution or exchange for, awards previously granted, or the right or obligation to make future awards, by a company acquired by the Company or with which the Company combines.

SECTION 3. ADMINISTRATION.

(a) The Plan will be administered by the Board. The Board shall have authority to grant Awards and to adopt, amend and repeal such administrative rules, guidelines and practices relating to the Plan as it shall deem advisable. The Board may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it shall deem expedient to carry the Plan into effect and it shall be the sole and final judge of such expediency. All decisions by the Board shall be made in the Board's sole discretion and shall be final and binding on all persons having or claiming any interest in the Plan or in any Award. No director or person acting pursuant to the authority delegated by the Board shall be liable for any action or determination relating to or under the Plan made in good faith.

(b) To the extent permitted by applicable law, the Board may delegate any or all of its powers under the Plan to one or more committees or subcommittees of the Board (a "Committee"), at least one of which shall be the Compensation Committee. All references in the Plan to the "Board" shall mean the Board or a Committee of the Board or the executive officers referred to in Section 3(c) to the extent that the Board's powers or authority under the Plan have been delegated to such Committee or executive officers.

(c) To the extent permitted by applicable law, the Board may delegate to one or more executive officers of the Company the power to grant Awards to employees or officers of the Company or any of its present or future subsidiary corporations and to exercise such other powers under the Plan as the Board may determine, provided that the Board shall fix the terms of the Awards to be granted by such executive officers (including the exercise price of such Awards, which may include a formula by which the exercise price will be determined) and the maximum number of shares subject to Awards that the executive officers may grant; provided further, however, that no executive officer shall be authorized to grant Awards to any "executive officer" of the Company (as defined by Rule 3b-7 under the Exchange Act) or to any "officer" of the Company (as defined by Rule 16a-1 under the Exchange Act).

SECTION 4. SHARES SUBJECT TO THE PLAN.

(a) Subject to adjustment as provided in Section 4(c), a total of 3,150,000 Shares shall be authorized for issuance under the Plan. Any Shares that are subject to Awards of Options or Stock Appreciation Rights shall be counted against this limit as one (1) Share for every one (1) Share granted. Any Shares that are subject to Awards other than Options or Stock Appreciation Rights shall be counted against this limit as 2.1 Shares for every one (1) Share granted. If any Shares subject to an Award or to an award under the Prior Plans are forfeited or if any Award or award under the Prior Plans based on Shares is settled for cash or expires, the Shares subject to such Award shall, to the extent of such forfeiture, cash settlement or expiration, again be available for Awards under the Plan. Notwithstanding anything to the contrary contained herein, the following Shares shall not be added to the Shares authorized for grant under paragraph (a) of this Section: (i) Shares tendered by the Participant or withheld by the Company in payment of the purchase price of an Option, (ii) Shares tendered by the Participant or withheld by the Company to satisfy any tax withholding obligation with respect to an Award, and (iii) Shares subject to a Stock Appreciation Right that are not issued in connection with the stock settlement of the Stock Appreciation Right on exercise thereof. Substitute Awards shall not reduce the Shares authorized for issuance under the Plan or authorized for grant to a Participant in any calendar year under Section 11(e). In the event that a company acquired by the Company or with which the Company combines has shares available under a pre-existing plan not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards (other than Incentive Stock Options) under the Plan and shall not reduce the Shares authorized for issuance under the Plan; provided that Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not Employees or Directors of the Company or an Affiliate prior to such acquisition or combination. Any Shares that again become available for grant pursuant to this Section shall be added back as (i) one (1) Share if such Shares were subject to Options or Stock Appreciation Rights granted under the Plan or options or stock appreciation rights granted under the Prior Plans, and (ii) as 2.1 Shares if such Shares were subject to Awards other than Options or Stock Appreciation Rights granted under the Plan or the Prior Plans.

(b) Any Shares issued hereunder may consist, in whole or in part, of authorized and unissued shares, treasury shares or shares purchased in the open market or otherwise.

(c) In the event of any merger, reorganization, consolidation, recapitalization, stock dividend, extraordinary cash dividend, stock split, reverse stock split, spin-off or similar transaction or other change in corporate structure affecting the Shares, the Board shall make appropriate and equitable adjustments and other substitutions to the Plan and to Awards, including, without limitation, such adjustments in the aggregate number, class and kind of securities that may be delivered under the Plan, in the aggregate or to any one Participant, in the number, class, kind and option or exercise price of securities subject to outstanding Options, Stock Appreciation Rights or other Awards granted under the Plan, and in the number, class and kind of securities subject to Awards granted under the Plan (including, if the Board deems appropriate, the substitution of similar options to purchase the shares of, or other awards denominated in the shares of, another company) as the Board may determine in its sole discretion; provided, however, that the number of Shares subject to any Award shall always be a whole number.

SECTION 5. ELIGIBILITY. Any Employee or Director shall be eligible to be selected as a Participant; provided, however, that Incentive Stock Options shall only be awarded to Employees of the Company or a Subsidiary of the Company.

SECTION 6. STOCK OPTIONS. Options may be granted hereunder to Participants either alone or in addition to other Awards granted under the Plan. Any Option granted under the Plan shall be evidenced by an Award Agreement in such form as the Board may from time to time approve. Any such Option shall be subject to the following terms and conditions and to such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Board shall deem desirable:

(a) OPTION PRICE. The purchase price per Share purchasable under an Option shall not be less than the Fair Market Value of the Share on the date of the grant, except in the case of Substitute Awards or in connection with an adjustment provided for in Section 4(c).

(b) OPTION PERIOD. The term of each Option shall be fixed by the Board in its sole discretion; provided that no Option shall be exercisable after the expiration of ten years from the date the Option is granted.

(c) EXERCISABILITY. Options shall be exercisable at such time or times as determined by the Board at or subsequent to grant.

(d) METHOD OF EXERCISE. Subject to the other provisions of the Plan, any Option may be exercised by the Participant in whole or in part at such time or times, and the Participant may make payment of the option price in such form or forms, including, without limitation: (i) payment by delivery of cash; (ii) delivery of other consideration (including, where permitted by law and the Board, Awards) having a Fair Market Value on the exercise date equal to the total option price; (iii) to the extent permitted by the Board, in its sole discretion, by delivery of an irrevocable and unconditional undertaking by a creditworthy broker to deliver promptly to the Company sufficient funds to pay the exercise price and any required tax withholding, or delivery by the Participant to the Company of a copy of irrevocable and unconditional instructions to a creditworthy broker to deliver promptly to the Company cash or a check sufficient to pay the exercise price and any required tax withholding; or (iv) by any combination of cash and other consideration as the Board may specify in the applicable Award Agreement.

(e) INCENTIVE STOCK OPTIONS. In accordance with rules and procedures established by the Board, and except as otherwise provided in Section 10 or any other provision of the Plan permitting or providing for acceleration of options, the aggregate Fair Market Value (determined as of the time of grant) of the Shares with respect to which Incentive Stock Options held by any Participant which are exercisable for the first time by such Participant during any calendar year under the Plan (and under any other employee benefit plans of the Company or any Subsidiary) shall not exceed $100,000 or, if different, the maximum limitation in effect at the time of grant under Section 422 of the Code, or any successor provision, and any regulations promulgated thereunder. Incentive Stock Options shall be granted only to Participants who are Employees of the Company or a Subsidiary of the Company. The terms of any Incentive Stock Option granted hereunder shall comply in all respects with the provisions of Section 422 of the Code or any successor provision, and any regulations promulgated thereunder; provided, however that the Company shall have no liability to a Participant or to any other person in the event that an option that is intended to be an Incentive Stock Option is not an Incentive Stock Option. Subject to adjustment as provided in Section 4(c), the aggregate number of Shares with respect to which Incentive Stock Options may be issued under the Plan shall not exceed 3,150,000.

SECTION 7. STOCK APPRECIATION RIGHTS. Stock Appreciation Rights may be granted hereunder to Participants either alone ("freestanding") or in addition to other Awards granted under the Plan and may, but need not, relate to a specific Option granted under Section 6. The provisions of Stock Appreciation Rights need not be the same with respect to each recipient. Any Stock Appreciation Right related to a Nonstatutory Stock Option may be granted at the same time such Option is granted. Any Stock Appreciation Right related to an Incentive Stock Option must be granted at the same time such Option is granted. In the case of any Stock Appreciation Right related to any Option, the Stock Appreciation Right or applicable portion thereof shall terminate and no longer be exercisable upon the termination or exercise of the related Option, except that a Stock Appreciation Right granted with respect to less than the full number of Shares covered by a related Option shall not be reduced until the exercise or termination of the related Option exceeds the number of Shares not covered by the Stock Appreciation Right. Any Option related to any Stock Appreciation Right shall no longer be exercisable to the extent the related Stock Appreciation Right has been exercised. The Board may impose such conditions or restrictions on the exercise of any Stock Appreciation Right, as it shall deem appropriate; provided that a freestanding Stock Appreciation Right shall not have an exercise price less than Fair Market Value on the date of grant or a term of greater than ten years.

SECTION 8. RESTRICTED STOCK.

(a) ISSUANCE. A Restricted Stock Award shall be subject to restrictions imposed by the Board during a period of time specified by the Board (the "Restriction Period"). Restricted Stock Awards may be issued hereunder to Participants, for no cash consideration or for such minimum consideration as may be required by applicable law, either alone or in addition to other Awards granted under the Plan. The provisions of Restricted Stock Awards need not be the same with respect to each recipient.

(b) REGISTRATION. Any Restricted Stock issued hereunder may be evidenced in such manner, as the Board, in its sole discretion, shall deem appropriate, including, without limitation, book entry registration or issuance of a stock certificate or certificates. In the event any stock certificates are issued in respect of Shares of Restricted Stock awarded under the Plan, such certificates shall be registered in the name of the Participant and shall bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Award. Unless otherwise determined by the Board, such certificates shall be deposited by the Participant, together with a stock power endorsed in blank, with the Company or its designee.

(c) FORFEITURE. Except as otherwise determined by the Board at the time of grant or thereafter, upon termination of employment for any reason during the Restriction Period, all Shares of Restricted Stock still subject to restriction shall be forfeited by the Participant (or repurchased by the Company at their issue price) and reacquired by the Company. Unrestricted Shares, evidenced in such manner as the Board shall deem appropriate, shall be issued to the grantee promptly after expiration of the period of forfeiture, as determined or modified by the Board.

SECTION 9. OTHER STOCK UNIT AWARDS.

(a) STOCK AND ADMINISTRATION. Other Awards of Shares and other Awards that are valued in whole or in part by reference to, or are otherwise based on, Shares or other property ("Other Stock Unit Awards") may be granted hereunder to Participants, either alone or in addition to other Awards granted under the Plan. Such Other Stock Unit Awards shall also be available as a form of payment in the settlement of other Awards granted under the Plan or as payment in lieu of compensation to which such recipient otherwise is entitled. Other Stock Unit Awards may be paid in Shares or cash, as the Board shall determine, in its sole discretion. Subject to the provisions of the Plan, the Board shall have sole and complete authority to determine the Employees of the Company and its Affiliates and Directors to whom and the time or times at which such Awards shall be made, the number of Shares to be granted pursuant to such Awards, and all other conditions of the Awards. The provisions of Other Stock Unit Awards need not be the same with respect to each recipient.

(b) TERMS AND CONDITIONS. Subject to the provisions of the Plan and any applicable Award Agreement, Awards and Shares subject to Awards made under this Section 9 may not be sold, assigned, transferred, pledged or otherwise encumbered prior to the date on which the Shares are issued, or, if later, the date on which any applicable restriction, performance or deferral period lapses. Shares (including securities convertible into Shares) subject to Awards granted under this Section 9 may be issued for no cash consideration or for such minimum consideration as may be required by applicable law. Shares (including securities convertible into Shares) purchased pursuant to a purchase right awarded under this Section 9 shall be purchased for such consideration as the Board shall determine in its sole discretion, which, except in the case of Substitute Awards, shall not be less than the Fair Market Value of such Shares or other securities as of the date such purchase right is awarded.

SECTION 10. CHANGE IN CONTROL PROVISIONS.

(a) IMPACT OF EVENT. Subject to Section 10(a)(v) and notwithstanding any other provision of the Plan to the contrary, unless the Board shall determine otherwise at the time of grant with respect to a particular Award, in the event of a Change in Control:

(i) any Options and Stock Appreciation Rights outstanding as of the date such Change in Control is determined to have occurred, and which are not then exercisable and vested, shall become immediately exercisable and vested as to 25% of the number of shares to which such Options and Stock Appreciation Rights would otherwise not then be exercisable, and the number of shares as to which such Options and Stock Appreciation Rights shall become exercisable and vested on each vesting date set forth in the applicable agreement shall be reduced by 25%;

(ii) the restrictions and deferral limitations applicable to any Restricted Stock Award shall immediately lapse as to 25% of the remaining number of shares subject to such Award as to which such restrictions and deferral limitations are then in effect, and the number of shares subject to such Restricted Stock Award as to which such restrictions and deferral limitations terminate on each subsequent vesting date shall be reduced by 25%;

(iii) the restrictions, deferral limitations and other conditions applicable to any Other Stock Unit Awards or any other Awards shall immediately lapse as to 25% of the remaining number of shares subject to Other Stock Unit Awards or other Awards as to which such restrictions, deferral limitations and other conditions are then in effect, and the number of shares subject to such Other Stock Unit Awards or other Awards as to which such restrictions, deferral limitations and other conditions terminate on each subsequent vesting date shall be reduced by 25%; and

(iv) in the event of an involuntary termination of a Participant's employment or directorship by the successor company without Cause (as defined below) during the 24-month period following such Change in Control, then each Award held by such Participant at the time of the Change in Control shall immediately become fully exercisable and vested to the full extent of the original grant and all restrictions and deferral limitation shall lapse. "Cause" shall mean: (A) the failure of the Participant to perform substantially the Participant's duties with the Company (other than any such failure resulting from incapacity due to physical or mental illness), which failure is not cured within 30 days after a written demand for substantial performance is delivered to the Participant by the Participant's manager or the Board which specifically identifies the manner in which such manager or the Board, as applicable, believes that the Participant has not substantially performed the Participant's duties, (B) or the engaging by the Participant in illegal conduct or gross misconduct which is injurious to the Company.

(v) Notwithstanding the foregoing, if in the event of a Corporate Transaction the successor company does not assume or substitute for an Option, Stock Appreciation Right, Share of Restricted Stock or Other Stock Unit Award not granted pursuant to Section 11, then each outstanding Option, Stock Appreciation Right, Share of Restricted Stock or Other Stock Unit Award shall not be accelerated as described in Sections 10(a)(i), (ii) and (iii), but rather shall be accelerated with respect to 100% of such Awards. For the purposes of this Section 10(a)(v), an Option, Stock Appreciation Right, Share of Restricted Stock or Other Stock Unit Award shall be considered assumed or substituted for if following the Corporate Transaction the award confers the right to purchase or receive, for each Share subject to the Option, Stock Appreciation Right, Restricted Stock Award or Other Stock Unit Award immediately prior to the Corporate Transaction, the consideration (whether stock, cash or other

securities or property) received in the Corporate Transaction by holders of Shares for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares); provided, however, that if such consideration received in the Corporate Transaction is not solely common stock of the successor company, the Board may, with the consent of the successor company, provide that the consideration to be received upon the exercise or vesting of an Option, Stock Appreciation Right, Restricted Stock Award or Other Stock Unit Award, for each Share subject thereto, will be solely common stock of the successor company substantially equal in fair market value to the per share consideration received by holders of Shares in the Corporate Transaction. The determination of such substantial equality of value of consideration shall be made by the Board in its sole discretion and its determination shall be conclusive and binding.

(b) CHANGE IN CONTROL CASH-OUT. Notwithstanding any other provision of the Plan, in the event of a Change in Control the Board may, in its discretion, provide that each Option or Stock Appreciation Right shall, upon the occurrence of a Change in Control, be cancelled in exchange for a payment in an amount equal to the amount by which the fair market value per Share immediately prior to the Change in Control exceeds the purchase price per Share under the Option or Stock Appreciation Right (the "spread") multiplied by the number of Shares granted under the Option or Stock Appreciation Right.

SECTION 11. CODE SECTION 162(m) PROVISIONS.

(a) Notwithstanding any other provision of the Plan, if the Compensation Committee determines at the time Restricted Stock or an Other Stock Unit Award is granted to a Participant who is then an officer, that such Participant is, or is likely to be as of the end of the tax year in which the Company would claim a tax deduction in connection with such Award, a Covered Employee, then the Compensation Committee may provide that this Section 11 is applicable to such Award.

(b) If Restricted Stock or an Other Stock Unit Award is subject to this Section 11, then the lapsing of restrictions thereon and the distribution of cash or Shares pursuant thereto, as applicable, shall be subject to the achievement of one or more objective performance goals established by the Compensation Committee, which shall be based on the attainment of specified levels of one or any combination of the following: earnings before interest, taxes, depreciation and amortization (EBITDA), net cash provided by operating activities, free cash flow, earnings per share, earnings per share from continuing operations, operating income, revenues, operating margins, return on operating assets, return on equity, economic value added, stock price appreciation, total stockholder return, cost control, strategic initiatives, market share, before- or after-tax income, or return on invested capital of the Company or the Affiliate or division of the Company for or within which the Participant is primarily employed. Such performance goals also may be based on the achievement of specified levels of Company performance (or performance of an applicable Affiliate or division of the Company) under one or more of the measures described above relative to the performance of other corporations. Such performance goals may be applied by excluding the impact of charges for restructurings, discontinued operations, extraordinary items, and other unusual or non-recurring items, and the cumulative effects of accounting changes, each as defined by generally accepted accounting principles. Such performance goals shall be set by the Compensation Committee within the time period prescribed by, and shall otherwise comply with the requirements of, Section 162(m) of the Code, or any successor provision thereto, and the regulations thereunder.

(c) Notwithstanding any provision of the Plan other than Section 10, with respect to any Restricted Stock or Other Stock Unit Award that is subject to this Section 11, the Compensation Committee may adjust downwards, but not upwards, the amount payable pursuant to such Award, and the Compensation Committee may not waive the achievement of the applicable performance goals except, in its sole discretion, in the case of the death or disability of the Participant

(d) The Compensation Committee shall have the power to impose such other restrictions on Awards subject to this Section 11 as it may deem necessary or appropriate to ensure that such Awards satisfy all requirements for "performance-based compensation" within the meaning of Section 162(m)(4)(C) of the Code, or any successor provision thereto.

(e) Notwithstanding any provision of the Plan other than Section 4(c), no Participant may be granted Awards during any year with respect to more than 600,000 Shares. For purposes of the foregoing limit, the combination of an Option in tandem with a Stock Appreciation Right shall be treated as a single Award. The per Participant limit described in this Section 11(e) shall be construed and applied consistently with Section 162(m) of the Code or any successor provision thereto, and the regulations thereunder ("Section 162(m)").

SECTION 12. AMENDMENTS AND TERMINATION. The Board may amend, alter, suspend, discontinue or terminate the Plan or any portion thereof at any time; provided, however, that no amendment or alteration, shall be made without (a) stockholder approval if such approval is necessary to qualify for or comply with any tax or regulatory requirement for which or with which the Board deems it necessary or desirable to qualify or comply, (b) the consent of the affected Participant, if such action would impair the rights of such Participant under any outstanding Award, or (c) stockholder approval if such amendment or alteration is material, including, without limitation, any amendment or alteration that (i) would reduce the exercise price of outstanding Options or Stock Appreciation Rights or cancel or amend outstanding Options or Stock Appreciation Rights for the purpose of repricing, replacing or regranting such Options or Stock Appreciation Rights with an exercise price that is less than the exercise price of the original Options or Stock Appreciation Rights, or in exchange for cash or another Award, (ii) materially increases the benefits accruing to Participants, (iii) materially increases the number of Shares that may be issued under the Plan, except for any increase permitted under Section 4(a) or 4(c) of the Plan, (iv) materially modifies the requirements for eligibility to participate in the Plan, or (v) expands the types of Awards issuable under the Plan. Notwithstanding anything to the contrary herein, the Board may amend the Plan in such manner as may be necessary so as to have the Plan conform to local rules and regulations in any jurisdiction outside the United States.

The Board may amend the terms of any Award theretofore granted, prospectively or retroactively, including to provide that any Award shall become immediately exercisable in full or in part, free of some or all restrictions or conditions, or otherwise realizable in full or in part, as the case may be; provided, however, that no such amendment shall (a) impair the rights of any Participant without his or her consent, (b) except for adjustments made pursuant to Section 4(c) or in connection with Substitute Awards, reduce the exercise price of outstanding Options or Stock Appreciation Rights or cancel or amend outstanding Options or Stock Appreciation Rights for the purpose of repricing, replacing or regranting such Options or Stock Appreciation Rights with an exercise price that is less than the exercise price of the original Options or Stock Appreciation Rights, or in exchange for cash or another Award, without stockholder approval, or (c) require the exchange of Options or Stock Appreciation Rights for cash Notwithstanding the foregoing, any adjustments made pursuant to Section 4(c) shall not be subject to these restrictions.

SECTION 13. GENERAL PROVISIONS.

(a) Notwithstanding any other provision of the Plan, except under certain circumstances in connection with a Participant's hire or termination or in the event of a Change in Control, no Award issued to an Employee (except in lieu of compensation to which such Employee is otherwise entitled) shall vest less than one year from the date of grant.

(b) Awards shall not be sold, assigned, transferred, pledged or otherwise encumbered by the person to whom they are granted, either voluntarily or by operation of law, except by will or the laws of descent and distribution, and, during the life of the Participant, shall be exercisable only by the Participant; provided, however, that, if so determined by the Board, a Participant may, in the manner established by the Board, designate a beneficiary to exercise the rights of the Participant with respect to any Award upon the death of the Participant; and provided, further, that an Award so assigned or transferred shall be subject to all the terms and conditions of the Plan and the instrument evidencing the Award. Each Award shall be exercisable, during the Participant's lifetime, only by the Participant or, if permissible under applicable law, by the Participant's guardian or legal representative. References to a Participant, to the extent relevant in the context, shall include references to authorized transferees.

(c) No Employee or Participant shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Employees or Participants under the Plan.

(d) The prospective recipient of any Award under the Plan shall not, with respect to such Award, be deemed to have become a Participant, or to have any rights with respect to such Award, until and unless such recipient shall have received an agreement or other instrument (written, electronic or otherwise) evidencing the Award, which may, but need not, be executed or acknowledged by both the Company and the Participant, and delivered a copy thereof to the Company, and otherwise complied with the then applicable terms and conditions.

(e) Nothing in the Plan or any Award granted under the Plan shall be deemed to constitute an employment or service contract or confer or be deemed to confer on any Participant any right to continue in the employ or service of, or to continue any other relationship with, the Company or any Affiliate or limit in any way the right of the Company or any Affiliate to terminate a Participant's employment or service or other relationship at any time, with or without cause.

(f) Except as provided in Section 11, the Board shall be authorized to make adjustments in performance award criteria or in the terms and conditions of other Awards in recognition of unusual or nonrecurring events affecting the Company or its financial statements or changes in applicable laws, regulations or accounting principles. The Board may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it shall deem desirable to carry it into effect. In the event that the Company shall assume outstanding employee benefit awards or the right or obligation to make future such awards in connection with the acquisition of or combination with another corporation or business entity, the Board may, in its discretion, make such adjustments in the terms of Awards under the Plan as it shall deem appropriate.

(g) The Board shall have full power and authority to determine whether, to what extent and under what circumstances any Award shall be canceled or suspended.

(h) All certificates for Shares delivered under the Plan pursuant to any Award shall be subject to such stock-transfer orders and other restrictions as the Board may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Shares are then listed, and any applicable federal or state securities law, and the Board may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(i) No Award granted hereunder shall be construed as an offer to sell securities of the Company, and no such offer shall be outstanding, unless and until the Board in its sole discretion has determined that any such offer, if made, would comply with all applicable requirements of the U.S. federal securities laws and any other laws to which such offer, if made, would be subject.

(j) No Award shall provide for deferral of compensation that does not comply with Section 409A of the Code, unless the Board, at the time of grant, specifically provides that the Award is not intended to comply with Section 409A of the Code. The Company shall have no liability to a Participant, or any other party, if an Award that is intended to be exempt from, or compliant with, Section 409A is not so exempt or compliant or for any action taken by the Board. Subject to the provisions of the Plan and any Award Agreement, the recipient of an Award (including, without limitation, any deferred Award) may, if so determined by the Board, be entitled to receive, currently or on a deferred basis, cash dividends, or cash payments in amounts equivalent to cash dividends on Shares ("dividend equivalents") with respect to the number of Shares covered by the Award, as determined by the Board, in its sole discretion, and the Board may provide that such amounts (if any) shall be deemed to have been reinvested in additional Shares or otherwise reinvested.

(k) Except as otherwise required in any applicable Award Agreement or by the terms of the Plan, recipients of Awards under the Plan shall not be required to make any payment or provide consideration other than the rendering of services.

(l) The Company shall be authorized to withhold from any Award granted or payment due under the Plan the amount of withholding taxes due in connection with an Award or payment hereunder and to take such other action as may be necessary in the opinion of the Company to satisfy all Company obligations for the payment of such taxes. The Board shall be authorized to establish procedures for election by Participants to satisfy such obligation for the payment of such taxes by directing the Company to retain Shares (not exceeding the minimum required tax withholding obligations if such a limitation is necessary to avoid a charge to the Company for financial reporting purposes) otherwise deliverable in connection with the Award.

(m) Nothing contained in the Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to stockholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

(n) The validity, construction and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the laws of the State of Delaware and applicable federal law, without regard to applicable conflicts of laws.

(o) If any provision of the Plan is or becomes or is deemed invalid, illegal or unenforceable in any jurisdiction, or would disqualify the Plan or any Award under any law deemed applicable by the Board, such provision shall be construed or deemed amended to conform to applicable laws or if it cannot be construed or deemed amended without, in the determination of the Board, materially altering the intent of the Plan, it shall be stricken and the remainder of the Plan shall remain in full force and effect.

(q) Awards may be granted to Participants who are foreign nationals or employed outside the United States, or both, on such terms and conditions different from those applicable to Awards to Employees employed in the United States as may, in the judgment of the Board, be necessary or desirable in order to recognize differences in local law or tax policy. The Board also may impose conditions on the exercise or vesting of Awards in order to minimize the Company's obligation with respect to tax equalization for Employees on assignments outside their home country.

SECTION 14. EFFECTIVE DATE OF PLAN. The Plan shall be effective as of May 21, 2003.

SECTION 15. TERM OF PLAN. The Plan shall terminate on the tenth anniversary of the effective date, unless sooner terminated by the Board pursuant to Section 12, but Awards previously granted may extend beyond that date; provided, however, that no Incentive Stock Options may be granted more than ten years after the later of (i) the adoption of the Plan by the Board and (ii) the adoption by the Board of any amendment to the Plan that constitutes the adoption of a new plan for purposes of Section 422 of the Code.

Adopted by the Board of Directors on February 25, 2003, subject to stockholder approval.

Approved by the stockholders on May 21, 2003.

Amended by the Board of Directors on July 16, 2003.

Amended by the Board of Directors on October 12, 2005.

Amended by the Board of Directors on February 14, 2007, subject to stockholder approval.

Approved by the stockholders on May 9, 2007.

Exhibit 31.1

CERTIFICATION

I, Jonathan W. Ayers, certify that:

1) I have reviewed this report on Form 10-Q for the quarter ended June 30, 2007 of IDEXX Laboratories, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2007

/s/Jonathan W. Ayers
Jonathan W. Ayers, Chairman,
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Merilee Raines, certify that:

1) I have reviewed this report on Form 10-Q for the quarter ended June 30, 2007 of IDEXX Laboratories, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2007

/s/Merilee Raines
Merilee Raines
Corporate Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C.
SECTION 1350
AS ADOPTED BY
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the report on Form 10-Q of IDEXX Laboratories, Inc. (the "Company") for the quarter ended June 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certifies, pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Jonathan W. Ayers
Jonathan W. Ayers, Chairman,
President and Chief Executive Officer

July 31, 2007

A signed original of this written statement required by Section 906, has been provided to IDEXX Laboratories, Inc. and will be retained by IDEXX Laboratories, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C.
SECTION 1350
AS ADOPTED BY
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the report on Form 10-Q of IDEXX Laboratories, Inc. (the "Company") for the quarter ended June 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certifies, pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Merilee Raines

July 31, 2007

Merilee Raines
Corporate Vice President and
Chief Financial Officer

A signed original of this written statement required by Section 906, has been provided to IDEXX Laboratories, Inc. and will be retained by IDEXX Laboratories, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.