IDEXX LABORATORIES INC /DE
Form 10-K
February 17, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
(Mark One)
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____.
COMMISSION FILE NUMBER: 0-19271
IDEXX LABORATORIES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE 01-0393723

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

ONE IDEXX DRIVE 04092

(ZIP Code)

DRIVE,
WESTBROOK,
MAINE

(Address
of
principal
executive
offices)

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

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

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

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

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

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

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 No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

Based on the closing sale price on June 30, 2014 of the registrant's Common Stock, the last business day of the registrant's most recently completed second fiscal quarter, as reported by the NASDAQ Global Select Market, the aggregate market value of the voting stock held by non-affiliates of the registrant was $6,663,805,564. For these purposes, the registrant considers its directors and executive officers to be its only affiliates.

The number of shares outstanding of the registrant's Common Stock was 47,125,601 on February 6, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

Part III—Specifically identified portions of the Company's definitive Proxy Statement to be filed in connection with the Company's 2015 annual meeting of stockholders (the "2015 Annual Meeting"), to be held on May 6, 2015, are incorporated herein by reference.

IDEXX LABORATORIES, INC.

Annual Report on Form 10-K

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BASIS OF PRESENTATION

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

The following terms used in this Annual Report on Form 10-K are our trademarks: 4Dx®, Catalyst Dx®, Catalyst One™, Coag Dx™, Colilert®, Colisure®, Cornerstone®, DVMAX®, Enterolert®, Feline Triple®, Filta-Max®, Filta-Max xpress®, IDEXX I-Vision CR®, IDEXX I-Vision DR®, IDEXX I-Vision Mobile™, IDEXX ImageBank™ , IDEXX-PACS™, IDEXX VetLab®, IDEXX VPM™, LaserCyte®, LaserCyte Dx™, Navigator™, OPTI®, OPTI LION™, PetChek®, PetDetect®, Pet Health Network®, Practice Profile™, ProCyte Dx®, Pseudalert®, Quanti-Tray®, SimPlate®, SmartService™, SNAP®, SNAPduo®, SNAP Pro®, SNAP cPL™ , SNAP fPL™, SNAPshot Dx®, VetAutoread™, VetConnect®, VetLab UA™, VetLINK®, VetLyte®, VetStat®, VetTest® and VetVault®.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K for the year ended December 31, 2014 contains statements which, to the extent they are not statements of historical fact, constitute “forward-looking statements.” Such forward-looking statements about our business and expectations within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), include statements relating to future revenue growth rates, earnings and other measures of financial performance; the effect of economic downturns on our business performance; demand for our products; realizability of assets; future cash flow and uses of cash; future repurchases of common stock; future levels of indebtedness and capital spending; interest expense; warranty expense; share-based compensation expense; and competition. Forward-looking statements can be identified by the use of words such as “expects,” “may,” “anticipates,” “intends,” “would,” “will,” “plans,” “believes,” “estimates,” “should,” and similar words and expressions. These forward-looki statements are intended to provide our current expectations or forecasts of future events, are based on current estimates, projections, beliefs, and assumptions, and are not guarantees of future performance. Actual events or results may differ materially from those described in the forward-looking statements. These forward-looking statements involve a number of risks and uncertainties as more fully described under the heading “Part I, Item 1A. Risk Factors” in this Annual Report on Form 10-K. Any forward-looking statements represent our estimates only as of the day this Annual Report on Form 10-K was first filed with the Securities and Exchange Commission (“SEC”) and should not be relied upon as representing our estimates as of any subsequent date. From time to time, oral or written forward-looking statements may also be included in other materials released to the public and they are subject to the risks and uncertainties described or cross-referenced in this section. While we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, even if our estimates or expectations change.

PART I

ITEM 1. BUSINESS

We are a Delaware corporation incorporated in 1983. We develop, manufacture and distribute products and provide services primarily for the companion animal veterinary, livestock and poultry, water testing and dairy markets. We also sell a line of portable electrolytes and blood gas analyzers for the human point-of-care medical diagnostics market. Our primary products and services are:

- Point-of-care veterinary diagnostic products, comprising instruments, consumables and rapid assays;
- Veterinary reference laboratory diagnostic and consulting services;
- Practice management systems and services and digital imaging systems used by veterinarians;
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Biological materials testing, laboratory animal diagnostic instruments and services used by the biomedical research community;

- Diagnostic, health-monitoring and food safety testing products for livestock, poultry and dairy;
- Products that test water for certain microbiological contaminants;
- Point-of-care electrolytes and blood gas analyzers used in the human point-of-care medical diagnostics market.

DESCRIPTION OF BUSINESS BY SEGMENT

Prior to January 1, 2013, we operated primarily through three business segments: diagnostic and information technology-based products and services for the veterinary market, which we continue to refer to as the Companion Animal Group ("CAG"); water quality products ("Water"); and diagnostic products for livestock and poultry health, which we referred to as Livestock and Poultry Diagnostics. We also operated two smaller operating segments that comprised products for milk quality and safety ("Dairy") and products for the human point-of-care medical diagnostics market ("OPTI Medical"). Financial information about our Dairy and OPTI Medical operating segments was combined and presented with our remaining pharmaceutical product line and our out-licensing arrangements in an "Other" category because they did not meet the quantitative or qualitative thresholds for reportable segments.

In 2013, we combined the management of our Livestock and Poultry Diagnostics, and Dairy lines of business to more effectively realize the market synergies between the product lines and to achieve operational efficiencies. We refer to this segment as Livestock, Poultry and Dairy ("LPD"). Our OPTI Medical operating segment remains combined and presented with our remaining pharmaceutical product line and our out-licensing arrangements in an "Other" category because they do not meet the quantitative or qualitative thresholds for reportable segments. The segment income (loss) from operations discussed within this report for the year ended December 31, 2012 has been retrospectively revised to reflect this change in the composition of our reportable segments. See Note 14 to the consolidated financial statements for the year ended December 31, 2014 included in this Annual Report on Form 10-K for financial information about our segments, including our product and service categories and our geographic areas.

The performance of our business is particularly subject to various risks that are associated with doing business internationally. For the year ended December 31, 2014, sales of products and services to customers outside the U.S. accounted for approximately 43% of our overall revenue. These foreign sales accounted for approximately 36%, 52% and 90% of revenue in our CAG, Water and LPD segments, respectively. See "Part 1, Item 1A. Risk Factors." and Note 14 to the consolidated financial statements for the year ended December 31, 2014 included in this Annual Report on Form 10-K for more information on revenue from customers outside of the U.S.

COMPANION ANIMAL GROUP

CAG provides to veterinarians diagnostic capabilities and information management solutions that enhance the health and well-being of pets. The breadth and complementary nature of our products and services comprise a unique competitive advantage that we refer to as the IDEXX Diagnostic Advantage, providing veterinarians with the tools and services to offer advanced veterinary medical care. The IDEXX Diagnostic Advantage improves staff efficiencies and also enables the veterinarian to communicate the value of this medical care to the pet owner, which ultimately leads to growing practice revenues.

CAG Diagnostics

We provide diagnostic capabilities that meet veterinarians' diverse needs through a variety of modalities, including in-clinic diagnostic solutions and outside reference laboratory services. Regardless of modality utilized, veterinarians are provided with clinically relevant data which is integrated within our information management technologies. The result is a comprehensive view of patient diagnostic information that is easily accessible by both the veterinarian and pet owner.

Integrated Diagnostic Information Management

VetConnect PLUS is a cloud-based technology that enables veterinarians to access and analyze patients' data from all of IDEXX's diagnostic modalities. These integrated diagnostic results provide the veterinarian with a visualization of patient-specific testing results, allowing the veterinarian to easily see and trend diagnostic results, enabling greater medical insight and enhanced decision making. In addition, VetConnect PLUS provides instant mobile or browser-based access to results, which can be printed or emailed to pet owners and other veterinarians. In this way, VetConnect PLUS can aid veterinarians and practice staff in engaging the pet owner in the patient's care, which can support greater compliance with medical recommendations or preventive care protocols. VetConnect PLUS is currently available in North America, Australia, New Zealand, Israel and in numerous countries throughout Europe.

In-Clinic Diagnostic Solutions

Our in-clinic diagnostic solutions are comprised of our IDEXX VetLab suite of in-clinic chemistry, hematology, immunoassay, urinalysis and coagulation analyzers, associated proprietary consumable products that provide real-time reference lab quality diagnostic results and a broad range of single-use, handheld IDEXX SNAP rapid assay test kits that provide quick, accurate and convenient point-of-care diagnostic test results for a variety of companion animal diseases and health conditions.

The IDEXX VetLab suite includes several instrument systems, as well as associated proprietary consumable products, all of which are described below. Additionally, we offer extended maintenance agreements in connection with the sale of our instruments.

Blood and Urine Chemistry. We sell three chemistry analyzers, the Catalyst Dx Chemistry Analyzer, the Catalyst One Chemistry Analyzer and the VetTest Chemistry Analyzer, that are used by veterinarians to measure levels of certain enzymes and other substances in blood or urine for monitoring health status and assisting in diagnosing physiologic conditions. These three instruments use consumables manufactured for IDEXX by Ortho-Clinical Diagnostics, Inc. ("Ortho") based on Ortho's dry slide technology. In addition, the Catalyst Dx and the Catalyst One analyzers also use dry slide electrolyte consumables manufactured by OPTI Medical Systems, Inc. ("OPTI Medical Systems"), one of our wholly-owned subsidiaries, and other slides also manufactured by IDEXX. Blood tests commonly run on these analyzers include glucose, alkaline phosphatase, ALT (alanine aminotransferase), albumin, calcium, creatinine, blood urea nitrogen, total protein and many others. Tests are sold individually and in prepackaged panels. All three analyzers also run a urine test called urine protein:creatinine ratio, which assists in the early detection of renal disease.

The Catalyst Dx and Catalyst One analyzers provide significantly improved throughput, ease of use and test menu relative to the VetTest analyzer (our original chemistry analyzer), including the ability to run electrolytes, phenobarbital and fructosamine. Key ease-of-use features include the ability to run a whole blood sample using an on-board centrifuge, the ability to run pre-packaged, multi-slide clips in addition to single chemistry slides and an automated metering system. These analyzers also enable automated dilutions, which is an ease-of-use feature both for certain blood chemistries and the test for urine protein:creatinine ratio. The Catalyst Dx analyzer allows a veterinarian to run multiple patient samples simultaneously and both the Catalyst Dx and Catalyst One run different sample types including whole blood, plasma, serum and urine. In addition, the Catalyst Dx and Catalyst One analyzers run a test to measure phenobarbital levels in blood, allowing veterinarians to adjust anticonvulsant medication more quickly and efficiently. Our fructosamine test helps veterinarians to manage canine and feline diabetes mellitus, helping to assess insulin treatments and adjust insulin dosages. We launched a total thyroxine ("T_4") test for use with the Catalyst One analyzer in February 2015 and will be introducing a similar test for use with the Catalyst Dx during the first half of 2015. T_4 testing is essential to assessing thyroid function and is an accepted standard for baseline testing for both sick pets and preventive care in senior pets.

The Catalyst One analyzer, launched in November 2014, is engineered to deliver the same laboratory-quality results and real-time work flow as the Catalyst Dx analyzer, offering an attractive in-house chemistry option when a single sample drawer is sufficient for a clinic's work-flow requirements. The Catalyst One analyzer currently offers an expanding menu of 30 tests, including tests for thyroid disease, kidney disease, diabetes and therapeutic drug monitoring. Additionally, the instrument is the industry's first to combine chemistry, electrolytes and T_4 in a single blood sample run.

We also sell two other chemistry analyzers, the VetLyte Electrolyte Analyzer and the VetStat Electrolyte and Blood Gas Analyzer. The VetStat analyzer runs single-use disposable cassettes that are manufactured by OPTI Medical Systems.

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

Hematology. We sell four hematology analyzers that assess the cellular components of blood, including red blood cells, white blood cells and platelets (also called a complete blood count). These analyzers include the ProCyte Dx Hematology Analyzer, the first and only in-house analyzer to combine laser-flow cytometry, optical fluorescence and laminar-flow impedance in its analysis; the original LaserCyte Hematology Analyzer and next generation LaserCyte Dx Hematology Analyzer, launched in 2013, which both use laser-flow cytometry technology in their analysis; and the IDEXX VetAutoread Hematology Analyzer, our original hematology analyzer. In addition, the ProCyte Dx Hematology Analyzer, the LaserCyte Dx Hematology Analyzer and the LaserCyte Hematology Analyzer each have the ability to analyze the components of certain body fluids. We also sell the Coag Dx Analyzer, which permits the detection and diagnosis of blood clotting disorders.

The ProCyte Dx analyzer is our premier hematology analyzer, which we launched in 2010. The ProCyte Dx analyzer provides significantly improved throughput and accuracy and more complete medical information relative to the LaserCyte, LaserCyte Dx and VetAutoread hematology analyzers. The ProCyte Dx analyzer provides up to 26 different blood parameters, including the ability to detect band neutrophils and nucleated red blood cells, for a more complete picture of a patient's health. The ProCyte Dx is validated for ten companion animal species (canine, feline, equine, bovine, ferret, rabbit, gerbil, pig, guinea pig and mini pig) with research and development efforts focused on validating results for additional species. In 2012, we began to place ProCyte Dx analyzers containing a more advanced and research-focused user interface with customers in the bioresearch market.

Immunoassay Testing Instruments. During the first quarter of 2014, we launched the SNAP Pro Mobile Device, which automatically activates a SNAP test, properly times the run and captures an image of the result. This device improves medical care by allowing veterinarians to share the test results on the SNAP Pro Mobile screen, or via VetConnect PLUS. In addition, the SNAP Pro Mobile Device improves staff efficiency and ensures that all SNAP test runs are

captured and entered into the patient record for customer billing.

With multiple-patient testing functionality, the SNAPshot Dx Analyzer provides quantitative measurements of total T_4, cortisol and bile acids to assist in the evaluation of thyroid, adrenal and liver function, respectively. The SNAPshot Dx Analyzer also reads, interprets and records the results of many IDEXX rapid assay SNAP tests, including our canine SNAP 4Dx Plus test, feline SNAP FIV/FeLV Combo test, canine SNAP cPL test, feline SNAP fPL test, SNAP Feline Triple test, canine SNAP Heartworm RT test and SNAP Feline proBNP test.

Urinalysis. The IDEXX VetLab UA Analyzer provides rapid, automated capture of semi-quantitative chemical urinalysis and is validated specifically for veterinary use.

IDEXX VetLab Station. The IDEXX VetLab Station ("IVLS") connects and integrates the diagnostic information from all the IDEXX VetLab analyzers and thus provides reference laboratory information management system capability. IVLS securely connects to the Internet, and in this way enables IDEXX to perform, through its SmartService Solutions wireless services, remote instrument service and software updates to IVLS and certain connected instruments. IVLS also sends all results created on connected instruments instantly to VetConnect PLUS. We sell IVLS as an integral component of the Catalyst Dx, Catalyst One, LaserCyte Dx and ProCyte Dx analyzers, SNAP Pro Mobile Device and also as a standalone hardware platform. The IVLS includes a touch screen user interface to simplify laboratory work flow, connect with a practice management system and send information to run the individual analyzers. IVLS also generates one integrated patient report incorporating all of the lab work generated by the IDEXX VetLab suite, stores, retrieves and analyzes historical patient diagnostics data, including SNAP test results, and sends and receives information from practice management systems, including the IDEXX Cornerstone system, as well as a wide variety of third-party systems.

The SNAP rapid assays are single-use, handheld test kits that can work without the use of instrumentation, although many kits may also be read and recorded automatically by the SNAPshot Dx Analyzer or activated and captured automatically by the SNAP Pro Mobile Device as discussed above. The principal SNAP rapid assay tests are as follows:

Single-Use Canine Tests:

- SNAP 4Dx Plus, launched during the second quarter of 2012, which tests for the six vector-borne diseases; Lyme disease, Ehrlichia canis, Ehrlichia ewingii, Anaplasma phagocytophilum and Anaplasma platys, and canine heartworm;
- SNAP 3Dx, which tests for Lyme disease, Ehrlichia canis and canine heartworm;
- SNAP Heartworm RT, which tests for canine heartworm;
- SNAP Parvo, which tests for parvovirus, a virus causing life-threatening damage to the immune system and intestinal tract;
- SNAP cPL, which tests for canine pancreatitis; and
- SNAP Giardia, which is a fecal test for soluble Giardia antigens, a common cause of waterborne infection.

Single-Use Feline Tests:

- SNAP Feline Triple, which tests for feline immunodeficiency virus ("FIV") (which is similar to the human AIDS virus), feline leukemia virus ("FeLV") and feline heartworm;
- SNAP FIV/FeLV Combo Test, which tests for FIV and FeLV;
- SNAP fPL, which tests for feline pancreatitis;
- SNAP Giardia, which is a fecal test for soluble Giardia antigens; and
- SNAP Feline proBNP, which uses a cardiac biomarker (NT proBNP) to test for stretch and stress on the heart.

Sales of canine vector-borne disease tests, including SNAP 4Dx Plus, SNAP 3Dx and SNAP Heartworm RT, are greater in the first half of our fiscal year due to seasonality of disease testing in the veterinary practice.

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Outside Reference Laboratory Diagnostic and Consulting Services

We offer commercial reference laboratory diagnostic and consulting services to veterinarians worldwide, including customers in the U.S., Europe, Canada, Australia, Japan, South Africa and South Korea. We have large reference laboratories in Memphis, Tennessee and Leipzig, Germany that are strategically located near large courier hubs. Customers use our services by submitting samples by courier or overnight delivery to one of our facilities. Most test results have same-day or next-day turnaround times. Our reference laboratories offer a large selection of tests and diagnostic panels to detect a number of disease states and other conditions in animals, including all tests that can be run in-clinic at the veterinary practice with our instruments or rapid assays. This menu of tests also includes a number of specialized and proprietary tests that we have developed that allow practitioners to diagnose increasingly relevant diseases and conditions in dogs and cats, including parasites, heart disease, allergies, pancreatitis, diabetes and infectious diseases. Canine vector-borne disease testing volumes are greater in the first half of our fiscal year due to seasonality of disease testing in the veterinary practice.

In January 2015, we announced an upcoming kidney test SDMA, which utilizes a new renal biomarker to detect the onset of canine and feline kidney disease months or years earlier than traditional methods. We anticipate offering SDMA as part of a standard chemistry panel in North America during the summer of 2015. In the spring of 2015, we plan to introduce Hookworm and Roundworm antigen tests to all fecal panels that already include the Whipworm antigen test. These new intestinal parasite panels detect the presence of intestinal worms left undiagnosed by current methods, finding them earlier in the infection cycle and therefore enabling earlier disease diagnosis and treatment intervention.

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

In 2012, we acquired the research and diagnostic laboratory (“RADIL”) business of the College of Veterinary Medicine from the University of Missouri. RADIL provides health monitoring and diagnostic testing services to bioresearch customers in North America, Europe and Asia.

Customer Information Management and Digital Imaging Systems

Customer Information Management. We develop, market and sell practice management systems, including hardware, software and services that run key functions of veterinary clinics, including managing patient electronic health records, scheduling (including for boarding and grooming), client communication, billing and inventory management.

Our principal practice management systems are Cornerstone, DVMAX Veterinary Practice Management Software and IDEXX Animana. We also support several other practice management systems installed with our customers, including IDEXX Better Choice, IDEXX VPM, IDEXX VetLINK and BeeFree. Our practice management services include Cornerstone Coaching, Practice Profile, VetVault Backup Solution, Payment Solutions and PetDetect Pet Identification System.

In addition, we offer services designed to strengthen the relationship between the veterinarian and the pet owner. We commercially launched Pet Health Network Pro in March 2013, which is a subscription-based service that permits veterinarians to provide online communication and education to pet owners before, during and after each patient visit, thus strengthening the loyalty between a practice and its clients. Further, veterinarians can share VetConnect PLUS testing results directly with pet owners via Pet Health Network Pro. We also offer Pet Health Network 3D, an educational subscription-based service that replaces cumbersome plastic anatomy models with engaging, three-dimension anatomical animations on a desktop or mobile device. Using this service in the exam room improves client communication and facilitates adherence to veterinarian recommendations. In September 2014, we acquired Petly Plans, a cloud-based software solution for veterinary practices to customize, manage and monitor a range of monthly payment preventive care plans for their pet owner clients. Petly Plans complements the Pet Health Network suite of client marketing services by making it easier for practices to increase access to the best care and offer plans that spread the cost of that care – including examinations, vaccines and diagnostics – over the course of a year rather than payment in full upon each visit. Certain of our services are compatible with non-IDEXX practice management systems.

Digital Imaging Systems. Our digital imaging systems capture radiographic images in digital form, replacing traditional x-ray film and the film development process, which generally requires the use of hazardous chemicals and darkrooms. We market and sell three digital imaging systems, our latest generation IDEXX EliteVision Digital Imaging System, the IDEXX I-Vision CR and the IDEXX I-Vision DR system. The newly launched IDEXX EliteVision Digital Imaging System is a wireless system which uses advanced plate technology to capture clear, high-quality images in a short capture time. The IDEXX EliteVision Digital Imaging system is promoted for use as a portable unit in ambulatory veterinary practices, such as equine practices.

Our digital imaging systems employ picture archiving and communication system ("PACS") software, IDEXX-PACS, allowing for the viewing, manipulation, management, storage and retrieval of the digital images generated by the digital capture plate. This software also permits images from our digital imaging systems to be integrated into patients' medical records in the Cornerstone system, as well as transferred to other practice management systems. IDEXX I-Vision Mobile is an application that allows veterinarians with the I-Vision DR and IDEXX I-Vision CR systems, as well as our legacy digital radiography systems, to request, view and send images using an iPad® or an Android™ mobile tablet. This application integrates with our IDEXX-PACS software. In November 2013, we launched the IDEXX ImageBank storage system, a cloud-based image storage solution which provides secure storage for an unlimited number of diagnostic images and is accessible anywhere through VetConnect PLUS.

WATER

We provide innovative testing solutions for easy, rapid and accurate detection and quantification of various microbiological parameters in water, helping to ensure water safety for billions of people around the world.

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

Our Enterolert products detect the presence of enterococci in drinking, waste and recreational waters. Enterococci, bacteria normally found in human and animal waste, are organisms broadly used as microbial indicators for potential fecal contamination in water. Our Pseudalert products detect the presence of Pseudomonas aeruginosa in pool, spa and bottled water. Pseudomonas aeruginosa is a pathogen that can cause "hot-tub rash," "swimmer's ear" and potentially fatal infections in individuals with weakened immune systems. Our Filta-Max and Filta-Max xpress products are used in

the detection of Cryptosporidium and Giardia in water. Cryptosporidium and Giardia are parasites that can cause potentially fatal gastrointestinal illness if ingested. We also distribute certain water testing kits manufactured by Thermo Fisher Scientific, Inc. that complement our Cryptosporidium and Giardia testing products.

Our Quanti-Tray products, when used in conjunction with our Colilert, Colilert-18, Colisure, Enterolert, Pseudalert or Heterotrophic Plate Count (HPC) products, provide users quantitative measurements of microbial contamination rather than a presence/absence indication. Our SimPlate for HPC product detects the total number of the most common bacteria in a water sample.

We also sell consumables, parts and accessories to be used with many of our water testing products.

LIVESTOCK, POULTRY and dairy

We sell diagnostic tests and related instrumentation that are used to manage the health status of livestock and poultry, to improve bovine reproductive efficiency, and to ensure the quality and safety of milk and food. Our livestock and poultry diagnostic products are purchased by government and private laboratories that provide testing services to cattle, swine and poultry veterinarians, producers and processors. Our principal livestock and poultry diagnostic products include tests for Bovine Viral Diarrhea Virus ("BVDV") and Porcine Reproductive and Respiratory Syndrome ("PRRS"). BVDV is a common and contagious viral infection that suppresses the immune system, making the animal susceptible to a host of other infections, impacting beef and dairy production yields as a result. PRRS is a contagious virus causing reproductive problems and respiratory diseases in swine. In the fourth quarter of 2012, we launched pregnancy tests for detecting pregnancy in bovine, which provides a means to optimize reproductive efficiency.

Our principal dairy products use our SNAP test format and are used by dairy producers and processors worldwide to detect antibiotic drug residue in milk. Our primary product line is SNAP Beta-Lactam ST, which detects penicillin, amoxicillin, ampicillin, ceftiofur and cephapirin residues, followed by SNAPduo Beta-Tetra ST, which detects certain tetracycline antibiotic residues in addition to those detected by the SNAP Beta Lactam test kits. We also sell SNAP tests for the detection of certain other contaminants in milk, such as Aflatoxin M1.

In the third quarter of 2013, we acquired a Brazilian distributor of certain of our Livestock, Poultry and Dairy products. As part of this acquisition, we acquired the right to distribute product lines of food safety products which provide microbial monitoring and drug residue tests for bovine, poultry and swine producers, meat exporters and pharmaceutical companies.

OTHER

OPTI Medical Systems

Through OPTI Medical Systems, we sell point-of-care analyzers and related consumables for use in human medical hospitals and clinics to measure electrolytes, blood gases, acid-base balance, glucose, lactate, blood urea nitrogen and ionized calcium, and to calculate other parameters such as base excess and anion gap. These OPTI analyzers are used primarily in emergency rooms, operating rooms, cardiac monitoring areas and other locations where time-critical diagnostic testing is performed within the hospital setting. Our latest generation OPTI CCA-TS2 Blood Gas and Electrolyte Analyzer, which launched in April 2013, contains many new features relative to previous generation blood gas analyzers including customized work flows, faster time to result, improved communication and a multi-level electronic control. Similar to our earlier generation OPTI CCA and OPTI Touch Electrolyte Analyzers, the OPTI

CCA-TS2 runs whole blood, plasma and serum samples on single-use disposable cassettes that contain various configurations of analytes. The OPTI R Analyzer runs reusable cassettes in various analyte configurations, and the OPTI LION Stat Electrolyte Analyzer runs single-use electrolyte cassettes.

In addition, OPTI Medical Systems manufactures our VetStat analyzer, an instrument and consumable system that is a member of the IDEXX VetLab suite for the veterinary market, and provides the electrolyte module and dry slide reagents that make up the electrolyte testing functionality of the Catalyst analyzers for our CAG segment.

Other Activities

In the fourth quarter of 2008, we sold our Acarexx® and SURPASS® veterinary pharmaceutical products and a feline insulin product under development. Upon completion of this transaction we restructured the remaining pharmaceutical division and realigned two of our pharmaceutical product lines to the Rapid Assay line of business, which is part of CAG, and realigned the remainder of the products, comprised of one product line and two out-licensing arrangements, to the Other segment. We retained certain drug delivery technologies that we continue to seek to commercialize through agreements with third parties, such as pharmaceutical companies, that are also included in the Other segment.

We earned a milestone payment of $3.5 million in 2012 in connection with the achievement of certain sales milestones by the acquirer of our feline insulin product following commercialization of that product. See Note 21 to the consolidated financial statements for the year ended December 31, 2014, included in this Annual Report on Form 10-K, for additional information regarding the restructuring of our pharmaceutical business. Since realignment to the Rapid Assay line of business, we have discontinued the production and sale of the two remaining pharmaceutical product lines. Neither of these product lines is or was a significant contributor to revenue in the Rapid Assay line of business.

MARKETING AND DISTRIBUTION

We market, sell and service our products worldwide through our marketing, customer service, sales and technical service groups, as well as through independent distributors and other resellers. We maintain sales offices outside the U.S. in all major regions, including Africa, Asia Pacific, Canada, Europe and Latin America.

Generally, we select the appropriate distribution channel for our products based on the type of product, technical service requirements, number and concentration of customers, regulatory requirements and other factors. Effective January 1, 2015, we market our companion animal diagnostic products to veterinarians directly in the U.S. Prior to January 1, 2015, we marketed our companion animal diagnostic products to veterinarians both directly and through independent veterinary distributors in the U.S., with most instruments sold directly by IDEXX sales personnel and rapid assay test kits and instrument consumables supplied primarily by distributors. Outside the U.S., we sell our companion animal diagnostic products through our direct sales force and, in certain countries, through distributors and other resellers. We sell our veterinary reference laboratory diagnostic and consulting services worldwide generally through our direct sales force. We market our digital radiography products primarily through our direct sales force in the U.S. and Canada. We market our software products primarily through our direct sales force in the U.S., Canada, Europe and Australia. We market our Water and LPD products primarily through our direct sales force in the U.S. and Canada. Outside the U.S. and Canada, we market these products through selected independent distributors and, in certain countries, through our direct sales force. We sell our OPTI electrolyte and blood gas analyzers both directly and through independent human medical product distributors in the U.S. and we sell most of the related consumables through the distribution channel. Outside the U.S., we sell our OPTI products primarily through distributors and other resellers.

Historically, our largest customers have been the U.S. distributors of our products in the CAG segment. Our two largest CAG distributors were Henry Schein Animal Health Supply, LLC (“Henry Schein”) and MWI Veterinary Supply, Inc. (“MWI”). Henry Schein accounted for 8% of our 2014 revenue and 9% of our 2013 and 2012 revenue, and 2% and 7% of our net accounts receivable at December 31, 2014 and 2013, respectively. MWI accounted for 8% of our 2014, 2013 and 2012 revenue and 8% and 11% of our net accounts receivable at December 31, 2014 and 2013, respectively. Effective January 1, 2015, most U.S. distributors are no longer our customers as a result of our transition to an all-direct sales strategy in the U.S.

RESEARCH AND DEVELOPMENT

Our business includes the development and introduction of new products and services and may involve entry into new business areas. We maintain active research and development programs in each of our business areas. Our research and development expenses, which consist of salaries, employee benefits, materials and external consulting and development costs, were $98.3 million, $88.0 million and $82.0 million for the years ended December 31, 2014, 2013 and 2012, respectively, or 6.6%, 6.4% and 6.3% of our consolidated revenue for the years ended December 31, 2014, 2013 and 2012, respectively.

PATENTS AND LICENSES

We actively seek to obtain patent protection in the U.S. and other countries for inventions covering our products and technologies. We also license patents and technologies from third parties. Patents and licenses of patents and technologies from third parties are considered important to the Company based on a variety of factors, including providing protection for the Company's inventions and other proprietary intellectual property, affording protection from competitors in certain markets, enabling the use of more effective and efficient technologies in the development and production of our products and offerings, strengthening the Company's reputation and standing among customers, employees and key suppliers, and acting as a deterrent against counterfeiters, imitators and other copiers of technologies.

Important patents and licenses include:

- Patents concerning the SNAP immunoassay platform that expire in 2015;
- Exclusive licenses from the University of Texas and Tulane University to patents that expire in 2017 and 2019, respectively, relating to reagents and methods for the detection of Lyme disease utilized in certain of our SNAP products and a reference laboratory diagnostic test;
- An exclusive license from Cornell University to patents covering methods for detecting BVDV that expire beginning in 2017;
- Patents relating to reagents and methods for the detection of Anaplasma phagocytophilum utilized in certain of our SNAP products that expire beginning in 2017;
- Patents relating to reagents and methods for the detection of Ehrlichia canis utilized in certain of our SNAP products that expire beginning in 2019;
- A patent concerning LaserCyte consumables that expires in 2020;
- Patents concerning Catalyst consumables that expire beginning in 2023; and
- Patents concerning Catalyst instruments that expire in 2026.

While we consider these proprietary technology rights to be important to the Company, a range of factors help to mitigate the future effects of patent and license expiration on our results of operations and financial position. These factors include our brand strength and reputation in the marketplace; the breadth, quality and integration of our product offerings; our existing customer relationships and our customer support; our sales force; the applicable regulatory approval status for certain products; our continued investments in innovative product improvements that often result in new technologies and/or additional patents; our significant know-how, scale and investments related to manufacturing processes of associated product offerings and certain supply arrangements for consumables that are compatible with our instruments. Although the Company had and will have several patents expire during 2014 and 2015, the expiration of these patents, individually or in the aggregate, is not expected to have a material effect on the Company's financial position or future operations. In addition, we already face notable competition in certain areas as other companies have been successful in bringing competitive products to market, despite the protections afforded by these proprietary technology rights.

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

PRODUCTION AND SUPPLY

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

Instruments and consumables. Significant products supplied by sole and single source providers include VetTest analyzers and consumables, Catalyst Dx and Catalyst One consumables (other than electrolyte consumables and the fructosamine and T_4 slides), LaserCyte and LaserCyte Dx consumables, VetAutoread, VetLyte and ProCyte Dx analyzers and consumables and components of our SNAP Pro Mobile Device.

VetTest and Catalyst chemistry slides are supplied by Ortho under supply agreements that are currently set to expire at the end of 2028. We are required to purchase all of our requirements for our current menu of VetTest and Catalyst chemistry slides from Ortho to the extent Ortho is able to supply those requirements. The agreements provide for pricing based on purchase volumes and a fixed annual inflationary adjustment. The agreements also prohibit Ortho from promoting and selling these chemistry slides in the veterinary market other than to IDEXX.

We purchase other analyzers and consumables under supply agreements with terms extending through 2032, which in some cases may be extended at our option. We have minimum purchase obligations under some of these agreements, and our failure to satisfy these obligations may result in loss of some or all of our rights under these agreements. See “Part I, Item 1A. Risk Factors.”

Other components. We purchase certain other products, raw materials and components from sole and single source suppliers. These products include certain digital radiography systems and certain components used in our SNAP rapid assay and dairy devices, livestock and poultry testing kits and water testing products.

Certain components incorporated into our SNAP products and certain livestock and poultry testing kits are supplied by Moss, Inc. (“Moss”) under a supply agreement that either party may terminate with 24 months prior written notice. Pursuant to the terms of the supply agreement, Moss has escrowed its manufacturing information relating to the components, which may be released to us upon certain triggering events that would render Moss incapable of supplying the components to us. If such a triggering event occurs, we will make royalty payments to Moss for the use of such information until Moss is able to again begin manufacturing.

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

BACKLOG

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

COMPETITION

We compete with many companies ranging from large human pharmaceutical and medical diagnostics companies to small businesses focused on animal health. Our companion animal veterinary diagnostic products and services compete with both reference laboratory service and in-clinic product providers. Our competitors vary in our different markets. In some markets, academic institutions, governmental agencies and other public and private research organizations conduct research activities and may commercialize products or services which could compete with our products, on their own or through joint ventures. Several of our direct and potential competitors have substantially greater capital, manufacturing, marketing, and research and development resources than we do.

Competitive factors in our different business areas are detailed below:

· Companion animal diagnostic offerings. We compete primarily on the basis of ease of use and speed of our products, diagnostic accuracy, product quality, breadth of our product line and services, technology, information management capability, availability of medical consultation, effectiveness of our sales and distribution channels, quality of our technical and customer service and our pricing relative to the value of our products and services in comparison with competitive products and services. Our major competitors in most geographic locations in North America are Antech Diagnostics, a unit of VCA Inc., Abaxis, Inc., Heska Corporation and Zoetis Inc. We also compete in international markets with Fujifilm Holdings Corporation, Arkray, Inc. and BioNote, Inc.

- Water, livestock and poultry and dairy testing products. We compete primarily on the basis of the ease of use, speed, accuracy, product quality and other performance characteristics of our products and services (including unique tests), the breadth of our product line and services, the effectiveness of our sales and distribution channels, the quality of our technical and customer service, our ability to receive regulatory approvals from governing agencies and our pricing relative to the value of our products in comparison with competitive products and services. Our competitors include highly focused smaller companies and multi-billion dollar companies with small livestock and poultry diagnostics and water testing solution franchises.
- Customer information management and digital imaging systems. We compete primarily on the basis of functionality, connectivity to equipment and other systems, performance characteristics, effectiveness of our implementation, training process and customer service, information handling capabilities, advances in technologies and our pricing relative to the value of our products and services. We sell these products primarily in North America where our largest competitor is Henry Schein.
- Electrolyte and blood gas analyzers for the human point-of-care medical diagnostics market. We compete primarily on the basis of the ease of use, menu, convenience, international distribution and service, instrument reliability, and our pricing relative to the value of our products. We compete primarily with large human medical diagnostics companies such as Radiometer A/S, Siemens Medical Solutions Diagnostics, Instrumentation Laboratory Company, Abbott Diagnostics, a division of Abbott Laboratories and Roche Diagnostics Corporation.

GOVERNMENT REGULATION

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

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

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

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

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

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

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

In addition to the foregoing, our business is generally subject to various U.S. and foreign regulatory authorities, including the U.S. Federal Trade Commission (the "FTC") and other anti-competition authorities, and any acquisitions of new products and technologies may subject us to additional areas of government regulation. These may involve food safety, medical device, water-quality and other regulations of the FDA, the EPA, the USDA, the FTC and other federal agencies, as well as state, local and foreign governments. See "Part I, Item 1A. Risk Factors."

EMPLOYEES

As of February 6, 2015, we had approximately 6,400 employees.

AVAILABLE INFORMATION

Our principal executive offices are located at One IDEXX Drive, Westbrook, Maine 04092, our telephone number is 207-556-0300, and our Internet address is www.idexx.com. References to our website are inactive textual references only and the content of our website should not be deemed incorporated by reference into this Annual Report on Form 10-K for any purpose.

We make available free of charge at www.idexx.com our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we file such information with, or furnish it to, the SEC. In addition, copies of our reports filed electronically with the SEC may be accessed at www.sec.gov. The public may also read and copy any materials filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

Our Corporate Governance Guidelines and our Code of Ethics are also available on our website at www.idexx.com.

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 factors discussed elsewhere in this report.

Our Business Lines are Highly Competitive and Our Failure to Successfully Execute Certain Strategies Could Have a Material Negative Impact on Our Growth and Profitability

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

- Developing, manufacturing and marketing innovative new or improved and cost competitive in-clinic laboratory analyzers that drive sales of IDEXX VetLab instruments, grow our installed base of instruments and increase demand for related consumable products, services and accessories;

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

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

- Providing our veterinary customers with the medical and business tools, information and resources that enable them to grow their practices through increased pet visits and enhanced practice of real-time care;

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

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

- Continuing to expand and develop our companion animal diagnostic sales, marketing, customer support and logistics organizations in the U.S. in support of, among other things, our all-direct sales strategy for our rapid assay kits and instrument consumables ("kits and consumables") in the U.S.;

- Attracting, developing and retaining key leadership and talent necessary to support all elements of our strategy;

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

- Identifying, completing and integrating acquisitions that enhance our existing businesses or create new business or geographic areas for us; and

- Developing and implementing new technology and licensing strategies.

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

Our Dependence on Suppliers Could Limit Our Ability to Sell Certain Products or Negatively Affect Our Operating Results

We rely on third-party suppliers to provide components in our products, manufacture products that we do not manufacture ourselves and perform services that we do not provide ourselves, including package-delivery services. Because these suppliers are independent third parties with their own financial objectives, actions taken by them could have a materially negative effect on our results of operations. The risks of relying on suppliers include our inability to enter into contracts with third-party suppliers on reasonable terms, inconsistent or inadequate quality control, relocation of supplier facilities, supplier work stoppages and suppliers' failure to comply with their contractual obligations. Problems with suppliers could materially negatively impact our ability to supply the market, substantially decrease sales, lead to higher costs or damage our reputation with our customers.

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

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

Many of our rapid assay, livestock and poultry diagnostic, water and dairy products are biologic products, which are products that include materials from living organisms, such as antibodies, cells and sera. Manufacturing biologic products is highly complex due to the inherent variability of biological input materials and to the difficulty of controlling the interactions of these materials with other components of the products, samples and the environment.

There can be no assurance that we will be able to maintain adequate sources of biological materials or that we will be able to consistently manufacture biologic products that satisfy applicable product release criteria. Further, products that meet release criteria at the time of manufacture may fall out of specification while in customer inventory, which could require us to incur expenses associated with recalling products and providing customers with new products, and could damage customer relations. Our inability to produce or obtain necessary biological materials or to successfully manufacture biologic products that incorporate such materials could result in our inability to supply the market with these products and have an adverse effect on our results of operations.

Our Business Sells Many Products through Distributors, which Present Risks that Could Negatively Affect Our Operating Results

We sell many of our products outside of the U.S. through distributors. As a result, we are dependent on these distributors to sell our products and assist us in promoting and creating a demand for our products outside the U.S. Our distributors often offer products from several different companies, and certain of our distributors may carry our competitors' products and promote our competitors' products over our own products. We have limited ability, if any, to cause our distributors to devote adequate resources to promoting, marketing, selling and supporting our products. We cannot assure you that we will be successful in maintaining and strengthening our relationships with our distributors or establishing relationships with new distributors who have the ability to market, sell and support our products effectively. We may rely on one or more key distributors for a product or a region, and the loss of these distributors could reduce our revenue. Distributors may face financial difficulties, including bankruptcy, which could harm our collection of accounts receivable and financial results. In addition, violations of anti-corruption or similar laws by our distributors could have a material impact on our business, and any termination of a distributor relationship may result in increased competition in the applicable jurisdiction. Failing to manage the risks associated with our use of distributors outside of the U.S. may reduce sales, increase expenses and weaken our competitive position, which could have a negative effect on our operating results.

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

We face intense competition within the markets in which we sell our products and services and we expect that future competition may become even more intense. Competition could negatively affect our sales and profitability in a number of ways. New competitors may enter our markets and new or existing competitors may introduce new and competitive products and services, which could be superior to our products and services. Some of our competitors and potential competitors may choose to differentiate themselves by offering products and services similar to ours at lower sales prices, which could have an adverse effect on our results of operations through loss of market share or a decision to lower our own sales prices to remain competitive. In addition, our ability to attract and retain customers depends on the effectiveness of our customer marketing and incentive programs and multiple competitors could bundle product and service offerings through co-marketing or other arrangements, which could enhance their ability to compete with our broad product and service offering. With our transition to an all-direct sales strategy for our kits and consumables in the U.S. effective January 1, 2015, we did not renew our distribution agreements with our former key U.S. distribution partners after their expiration at the end of 2014, including exclusive distribution agreements with some of the largest U.S. distributors of companion animal veterinary products. We historically sold significant amounts of our kits and consumables through our former U.S. distribution partners, and two of our previously exclusive U.S. distribution partners joined a third former U.S. distribution partner by beginning to carry competitive instruments, consumables and rapid assay products in the fourth quarter of 2014. The promotion and sale of our competitors' products by our former U.S. distribution partners may adversely affect the retention of our customers for our kits and consumables and the sales and distribution of our products, which could have an adverse effect on our results of operations. Some of our competitors and potential competitors, including large diagnostic and pharmaceutical companies, also have substantially greater financial resources than us, and greater experience in manufacturing,

marketing, research and development and obtaining regulatory approvals than we do.

Various Government Regulations Could Limit or Delay Our Ability to Market and Sell Our Products or Otherwise Negatively Impact Our Business

In the U.S., the manufacture and sale of many of our products are regulated by agencies such as the USDA, the FDA or the EPA. Our infectious disease diagnostic tests for animal health applications, including most rapid assay canine and feline SNAP tests and livestock and poultry diagnostic tests, must be approved by the USDA prior to sale in the U.S. Our dairy testing products require approval by the FDA prior to sale in the U.S. Our water testing products must be approved by the EPA before they can be used by customers in the U.S. as a part of a water quality monitoring program required by the EPA. The manufacture and sale of our OPTI line of human point-of-care electrolytes and blood gas analyzers require approval by the FDA before they may be sold commercially in the U.S. The manufacture and sale of our products are subject to similar and sometimes more stringent laws in many foreign countries. In addition, delays in obtaining regulatory approvals for new products or product upgrades could have a negative impact on our growth and profitability.

We are also subject to a variety of federal, state, local and international laws and regulations that govern, among other things, the importation and exportation of products and our business practices in the U.S. and abroad, such as anti-corruption and anti-competition laws. These legal and regulatory requirements differ among jurisdictions around the world and are rapidly changing and increasingly complex. The costs associated with compliance with these legal and regulatory requirements are significant and likely to increase in the future. In addition, any failure to comply with these legal and regulatory requirements could result in fines, penalties and sanctions; suspensions or discontinuations of our ability to manufacture, market or sell our products; and damage to our reputation.

Increase in Corporate Hospital Ownership and Prevalence of Buying Consortiums Could Negatively Affect Our Business

An increasing percentage of veterinary hospitals in the U.S. are owned by corporations that are in the business of acquiring veterinary hospitals and/or opening new veterinary hospitals nationally or regionally. Major corporate hospital owners in the U.S. include Banfield Pet Hospital, National Veterinary Associates and VCA Antech, Inc. A similar trend exists in other countries, such as in the U.K. and Nordic countries and may in the future also develop in other international markets. Furthermore, an increasing percentage of individually-owned veterinary hospitals in the U.S. are participating in buying consortiums. Corporate owners of veterinary hospitals and buying consortiums often seek 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 of operations. While we have strong supplier relationships with several corporate hospital groups and buying consortiums, decisions by larger corporate owners and buying consortiums to shift their purchasing of products and services away from us and to a competitor would have a negative impact on our results of operations. In addition, certain corporate owners, most notably VCA Antech, Inc., our primary competitor in the U.S. and Canadian markets for veterinary reference laboratory diagnostic services, also operate reference laboratories that serve both their hospitals and unaffiliated hospitals. Any hospitals acquired by these companies generally shift all or a large portion of their testing to the reference laboratories operated by these companies. Furthermore, because these companies compete with us in the reference laboratory services marketplace, hospitals acquired by these companies may cease to be customers or potential customers of our other companion animal products and services, which would cause our sales of these products and services to decline.

Our Success Is Heavily Dependent Upon Proprietary Technologies

We rely on a combination of patent, trade secret, trademark and copyright laws to protect our proprietary rights. We also license patents and technologies from third parties to enable the use of third-party technologies in the development and production of our products and offerings. If we do not have adequate protection of our proprietary rights or are unable to license third-party patents and technologies on reasonable terms, our business may be affected by competitors who utilize substantially equivalent technologies that compete with us.

We cannot ensure that we will obtain issued patents, that any patents issued or licensed to us will remain valid, or that any patents owned or licensed by us will provide protection against competitors with similar technologies. Even if our patents cover products sold by our competitors, the time and expense of litigating to enforce our patent rights could be substantial, and could have an 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 prohibited 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 result could have an adverse effect on our results of operations.

Changes in Testing Patterns Could Negatively Affect Our Operating Results

The market for our companion animal, livestock and poultry diagnostic tests and our dairy and water testing products could be negatively impacted by a number of factors impacting testing practices. The introduction or broad market acceptance of vaccines or preventatives for the diseases and conditions for which we sell diagnostic tests and services could result in a decline in testing. Changes in accepted medical protocols regarding the diagnosis of certain diseases and conditions could have a similar effect. Eradication or substantial declines in the prevalence of certain diseases also could lead to a decline in diagnostic testing for such diseases. Our livestock and poultry products business in particular is subject to fluctuations resulting from changes in disease prevalence. For example, the demand for our bovine spongiform encephalopathy ("BSE") testing products has been negatively impacted as a result of regulatory changes in the European Union, including the European Union's Standing Committee on the Food Chain and Animal Health agreement to allow European Union member states the option to eliminate BSE testing of healthy cattle at slaughter effective March 2013. In addition, changes in government regulations or in the availability of government funds available for monitoring programs could negatively affect sales of our products that are driven by compliance testing, such as our livestock and poultry, dairy and water products. Declines in testing for any of the reasons described, along with lost opportunities associated with a reduction in veterinary visits, could have an adverse effect on our results of operations.

Our Operations and Reputation May Be Impaired if We, Our Products or Our Services Do Not Comply with Regulations and Policies Regarding Privacy and Protection of User Data

We offer products and services that store and use practice and client information, including practice management systems for veterinary practices (e.g., Cornerstone), online client communication tools and services (e.g., Pet Health Network Pro), and cloud-based technology through VetConnect PLUS that enables veterinarians to access and analyze patients' diagnostic data from IDEXX in-clinic analyzers, our Rapid Assays and Reference Laboratories in one place. Some of these products and services rely on third-party providers for cloud storage. We also engage in e-commerce through various IDEXX websites and collect contact and other personal or identifying information from our customers and visitors to our websites.

Federal, state and international laws and regulations govern the collection, use, retention, sharing and security of personal information, including data that we receive from our employees, customers and visitors to our websites and data collected by our customers and others when using our products and services. The costs associated with compliance with these legal and regulatory requirements are significant and likely to increase in the future. In addition, we have and post on our website our own privacy policy concerning the collection, use and disclosure of user data. Any failure, or perceived failure, by us or our products and services to protect employee or customer data (including as a result of a breach by or of a third-party provider) or to comply with any privacy-related laws, government regulations or directives or industry self-regulatory principles or our posted privacy policies could result in damage to our reputation or proceedings or actions against us by governmental entities or otherwise, which could have an adverse effect on our business.

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

Any strengthening of the rate of exchange for the U.S. dollar against non-U.S. currencies, and in particular the Euro, British pound, Canadian dollar, Japanese yen and Australian dollar, adversely affects our results, as it reduces the dollar value of sales that are made in those currencies and reduces the profits on products manufactured or sourced in U.S. dollars and exported to international markets. Approximately 28% of our consolidated revenue for the year ended December 31, 2014 and 26% of our consolidated revenue for each of the years ended December 31, 2013 and 2012 was derived from products manufactured in the U.S. and sold internationally in local currencies. A strengthening U.S. dollar could also negatively impact the ability of customers outside the U.S. to pay for purchases denominated in U.S. dollars.

A Weak Economy Could Result in Reduced Demand for Our Products and Services or Increased Customer Credit Risk

A substantial percentage of our sales are made worldwide to the companion animal veterinary market. Demand for our companion animal diagnostic products and services is driven in part by the number of patient visits to veterinary hospitals and the practices of veterinarians with respect to the recommendations for diagnostic testing, as well as pet owner compliance with these recommendations. Economic weakness in our significant markets could cause pet owners to forgo or defer visits to veterinary hospitals or affect their willingness to approve certain diagnostic tests, comply with a treatment plan or, even more fundamentally, continue to own a pet. In addition, concerns about the financial resources of pet owners could cause veterinarians to be less likely to recommend certain diagnostic tests, and concerns about the economy may cause veterinarians to defer purchasing capital items such as our instruments and systems. These conditions, if they continue, could result in a decrease in sales of diagnostic products and services, which could have an adverse effect on our results of operations.

Demand for our water products is driven in part by the availability of funds at government laboratories, water utilities and private certified laboratories that utilize our products. Availability of funds also affects demand by government laboratories and cattle, swine and poultry producers that utilize our livestock and poultry diagnostic products, and by users of our human point-of-care diagnostic instruments. Economic weakness in our markets has caused and could continue to cause our customers to reduce their investment in such testing, which could have an adverse effect on our results of operations.

In all of our markets, a weak economy may also cause deterioration in the financial condition of our distributors and customers, which could inhibit their ability to pay us amounts owed for products delivered or services provided in a timely fashion or at all.

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

For the year ended December 31, 2014, approximately 43% of our revenue was attributable to sales of products and services to customers outside the U.S., compared to 42% and 41% for the years ended December 31, 2013 and 2012, respectively. Although we intend to continue to expand our international operations and business, we may not be able to successfully promote, market, sell or distribute our products and services outside the U.S. Various risks associated with foreign operations may impact our international sales, including disruptions in transportation of our products, the differing product and service needs of foreign customers, difficulties in building and managing foreign operations, import/export duties and licensing requirements, natural disasters, unexpected regulatory and economic or political changes in foreign markets, security concerns and local business and cultural factors that differ from our normal standards and practices, including business practices prohibited by the Foreign Corrupt Practices Act and other anti-corruption laws and regulations.

Further, 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. In addition, foreign government regulations may restrict our ability to repatriate funds currently held in foreign jurisdictions, and any repatriation of such funds to the U.S. may result in higher effective tax rates for us. Our results of operations are also susceptible to changes in foreign currency exchange rates. As a result, the mix of domestic and international sales in a particular period could have an adverse impact on our results of operations for that period.

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

We have limited experience in the human point-of-care medical diagnostics market and we operate at a small scale in this market. This market differs in many respects from the veterinary diagnostic market. Significant differences include the impact of third-party reimbursement on diagnostic testing, more extensive regulation, greater product liability risks, larger competitors, a more segmented customer base and more rapid technological innovation. Our limited experience and small scale 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 diagnostic 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 diagnostic market.

Our Operations are Vulnerable to Interruption as a Result of Natural and Man-Made Disasters, System Disruptions and Security Breaches

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

We manufacture many of our significant companion animal products, including our rapid assay devices and certain instruments, many of our water testing products and certain of our livestock, poultry and dairy testing products, at a single facility in Westbrook, Maine. Certain of our companion animal products, as well as our human point-of-care products, are manufactured in Roswell, Georgia. We also manufacture certain of our livestock and poultry testing products in Bern, Switzerland and Montpellier, France. In addition, we maintain major distribution facilities in North America and in the Netherlands and major reference laboratories in Memphis, Tennessee; Leipzig, Germany; Ludwigsburg, Germany; Sacramento, California; Elmhurst, Illinois; North Grafton, Massachusetts; East Brisbane, Australia; Markham, Ontario; Wetherby, U.K; and Tokyo, Japan. Interruption of operations at any of these facilities could have an adverse effect on our results of operations.

We rely on several information systems throughout our company to keep financial records, process customer orders, manage inventory, process shipments to customers and operate other critical functions. Although we employ system backup measures, our current disaster recovery plan may be ineffective or inadequate to address all eventualities. Further, our information systems may be vulnerable to attacks by hackers and other security breaches, including computer viruses. Any such attack or breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. If we were to experience a system disruption, attack or security breach that impacts any of our critical functions, it could result in the loss of sales and customers, financial misstatement and significant incremental costs, which could adversely affect our business. Furthermore, any access to, public disclosure of, or other loss of information as a result of an attack or security breach could result in governmental actions or private claims or proceedings, which could damage our reputation, cause a loss of confidence in our products and services, and adversely affect our business.

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

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

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

Future Operating Results Could Be Negatively Affected by Changes in Tax Rates, the Adoption of New U.S. or International Tax Legislation or Exposure to Additional Tax Liabilities

We are subject to local, state, regional and federal tax laws in the U.S. and many other international jurisdictions. Due to economic and political conditions, the various tax rates applied to the earnings of our activities are subject to significant change. Our future tax expense could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities or changes in tax laws or their interpretation. Also, we have received tax rulings from various governments that have jurisdictional authority over our operations. If we are unable to meet the requirements of such agreements, or if they expire or are renewed on less favorable terms, the result could negatively impact our future earnings. Additionally, the European Commission has opened formal investigations into specific tax rulings granted by several countries to specific taxpayers. While we believe that our rulings are different than those being discussed, the ultimate resolution of such activities cannot be predicted and could also have an adverse impact on future operating results.

Our income tax filings are regularly under audit by various tax authorities, and the final determination of tax audits could be materially different than that which is reflected in historical income tax provisions and accruals. Significant judgment is required in determining our worldwide provision for income taxes. We regularly assess our exposures related to our worldwide provision for income taxes to determine the adequacy of our provision for taxes. Any reduction in these contingent liabilities or additional assessments would increase or decrease income, respectively, in the period such determination is made.

Restrictions in Our Debt Agreements or Our Inability to Obtain Financing on Favorable Terms May Limit Our Activities

Our ability to make scheduled payments and satisfy our other obligations under our unsecured revolving credit facility and senior notes depends on our future operating performance and on economic, financial, competitive and other factors beyond our control. Our business may not generate sufficient cash flows to meet these obligations or generate sufficient levels of earnings to satisfy the applicable affirmative, negative and financial covenants. Our failure to comply with these covenants and the other terms of the credit facility and senior notes could result in an event of default and acceleration of our obligations under these agreements, which may require us to seek additional financing or restructure existing debt on unfavorable terms. In addition, adverse changes in credit markets could increase our cost of borrowing and make it more difficult for us to obtain financing.

Our senior notes include provisions which stipulate a prepayment penalty for which we will be obligated in the event that we elect to repay the notes prior to their stated maturity dates. Should we elect to repay some or all of the outstanding principal balance on our senior notes, the prepayment penalty we incur could adversely affect our results of operations and cash flows.

We fund our operations, capital purchase requirements and strategic growth needs through cash on hand, funds generated from operations and amounts available under our credit facility. If we were unable to obtain financing on favorable terms, we could face restrictions that would limit our ability to execute certain strategies, which could have an adverse effect on our revenue growth and profitability.

ITEM 1B.UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2.PROPERTIES

Our worldwide headquarters is located on a company-owned, 65-acre site in Westbrook, Maine where we occupy a 667,000 square foot building utilized for manufacturing, research and development, marketing, sales and general and administrative support functions. In 2011, we began the construction of an 111,100 square foot administrative building adjacent to our primary facility in Westbrook, Maine, which was completed in August 2013.

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

Additional Properties Owned:

- 34,200 square feet of laboratory space located in the U.S., used for our Reference Laboratory Diagnostic and Consulting Services line of business of CAG
- 23,000 square feet of office and laboratory space located in the U.K., used for our Reference Laboratory Diagnostic and Consulting Services line of business of CAG
- 3,100 square feet of laboratory space located in Canada, used for our Reference Laboratory Diagnostic and Consulting Services line of business of CAG

Additional Properties Leased:

- 501,900 total square feet of laboratory, office and warehousing space located throughout the U.S., Europe, Canada, Australia, Asia and South Africa, primarily used for our Reference Laboratory Diagnostic and Consulting Services line of business of CAG
- 114,400 square feet of industrial space in Tennessee for distribution and warehousing related to various lines of business
- 100,100 square feet of distribution, warehousing and office space in the Netherlands, which serves as our European headquarters
- 84,300 square feet of office, manufacturing and warehousing space in Georgia related to our OPTI Medical line of business
- 69,300 square feet of office space in Wisconsin related to our Customer Information Management line of business of CAG
- 67,000 square feet of office space in Maine for Corporate, Customer Service and Information Technology support services
- 52,800 total square feet of office and manufacturing space in France, Switzerland and Brazil related to our Livestock, Poultry and Dairy line of business

· 7,600 square feet of manufacturing space in the U.K. related to our Water line of business

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

ITEM 3.LEGAL PROCEEDINGS

Due to the nature of our activities, we are at times subject to pending and threatened legal actions that arise out of the ordinary course of business. In the opinion of management, based in part upon advice of legal counsel, the disposition of any such currently pending matters is not expected to have a material effect on our results of operations, financial condition or cash flows. However, the results of legal actions cannot be predicted with certainty. Therefore, it is possible that our results of operations, financial condition or cash flows could be materially adversely affected in any particular period by the unfavorable resolution of one or more legal actions.

ITEM 4.MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information

Our common stock is quoted on the NASDAQ Global Select Market under the symbol IDXX. The following table shows the quarterly range of high and low sale prices per share of our common stock as reported on the NASDAQ Global Select Market for the years 2013 and 2014.

For the Quarter Ended	High	Low
March 31, 2013	$ 100.81	$ 90.19
June 30, 2013	92.60	81.57
September 30, 2013	100.37	87.99
December 31, 2013	113.11	99.13
March 31, 2014	129.27	104.64
June 30, 2014	136.13	115.84
September 30, 2014	140.00	113.49
December 31, 2014	153.89	115.12

Holders of Common Stock

As of February 6, 2015, there were 558 holders of record of our common stock. Because the majority of our common stock is held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Purchases of Equity Securities by the Issuer

During the three months ended December 31, 2014, we repurchased shares of common stock as described below:

1

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 (1) (c)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (d)
October 1, 2014 to October 31, 2014	644,140	$ 119.51	644,140	3,571,483
November 1, 2014 to November 30, 2014	180,507	145.55	178,880	3,392,603
December 1, 2014 to December 31, 2014	313,121	148.30	311,300	3,081,303
Total	1,137,768	(2) $ 131.57	1,134,320	3,081,303

(1) As of December 31, 2014, our Board of Directors had approved the repurchase of up to 57 million shares of our common stock in the open market or in negotiated transactions pursuant to the Company's share repurchase program. The program was approved and announced on August 13, 1999, and the maximum number of shares that may be purchased under the program was subsequently increased on October 4, 1999, November 16, 1999, July 21, 2000, October 20, 2003, October 12, 2004, October 12, 2005, February 14, 2007, February 13, 2008, February 10, 2010, October 12, 2011, May 7, 2013 and again on July 16, 2014. There is no specified expiration date for this repurchase program. There were no other repurchase programs outstanding during the three months ended December 31, 2014, and no repurchase programs expired during the period. Repurchases of 1,134,320 shares were made during the three months ended December 31, 2014 in transactions made pursuant to our repurchase program.

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(2) During the three months ended December 31, 2014, we received 3,448 shares of our common stock that were surrendered by employees in payment for the minimum required withholding taxes due on the vesting of restricted stock units and settlement of deferred stock units. In the above table, these shares are included in columns (a) and (b), but excluded from columns (c) and (d). These shares do not reduce the number of shares that may yet be purchased under the repurchase program.

During the year ended December 31, 2014, we repurchased 4,880,524 shares of our common stock in transactions made pursuant to our repurchase program and received 46,190 shares of common stock that were surrendered by employees in payment for the minimum required withholding taxes due on the vesting of restricted stock units and settlement of deferred stock units. See Note 17 to the consolidated financial statements for the year ended December 31, 2014 included in this Annual Report on Form 10-K for further information.

Dividends

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

Stock Performance

This graph compares our total stockholder returns, the Standard & Poor's ("S&P") MidCap 400 Index, the S&P MidCap 400 Health Care Index and the Total Return Index for the NASDAQ Stock Market (U.S. Companies) prepared by the Center for Research in Security Prices (the "NASDAQ Index"). This graph assumes the investment of $100 on December 31, 2009 in IDEXX's common stock, the S&P MidCap 400 Index, the S&P MidCap 400 Health Care Index and the NASDAQ Index and assumes dividends, if any, are reinvested. Measurement points are the last trading days of the years ended December 2009, 2010, 2011, 2012, 2013 and 2014.

	12/31/2009	12/31/2010	12/30/2011	12/31/2012	12/31/2013	12/31/2014
IDEXX Laboratories, Inc.	$ 100.00	$ 129.50	$ 143.99	$ 173.62	$ 199.01	$ 277.40
S&P MidCap 400 Health Care Index	100.00	123.02	124.31	157.59	229.96	284.43
S&P MidCap 400 Index	100.00	126.64	124.45	146.70	195.84	214.97
NASDAQ Index	100.00	118.02	117.04	137.47	192.62	221.02

ITEM 6.SELECTED FINANCIAL DATA

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

	For the Years Ended December 31, (in thousands, except per share data)				
	2014	2013	2012	2011	2010
INCOME STATEMENT DATA:					
Revenue	$ 1,485,807	$ 1,377,058	$ 1,293,338	$ 1,218,689	$ 1,103,392
Cost of revenue	669,691	620,940	594,190	572,183	524,769
Gross profit	816,116	756,118	699,148	646,506	578,623
Expenses:					
Sales and marketing	283,708	243,492	216,962	204,850	179,626
General and administrative	173,890	157,861	137,609	129,389	126,519
Research and development	98,263	88,003	82,014	76,042	68,597
Income from operations	260,255	266,762	262,563	236,225	203,881
Interest expense, net	(13,700)	(3,501)	(1,946)	(1,803)	(1,752)
Income before provision for income taxes	246,555	263,261	260,617	234,422	202,129
Provision for income taxes	64,604	75,467	82,330	72,668	60,809
Net income	181,951	187,794	178,287	161,754	141,320
Less: Net income (loss) attributable to noncontrolling interest	45	(6)	20	(32)	36
Net income attributable to IDEXX Laboratories, Inc. stockholders	$ 181,906	$ 187,800	$ 178,267	$ 161,786	$ 141,284
Earnings per share:					
Basic	$ 3.63	$ 3.53	$ 3.24	$ 2.85	$ 2.45
Diluted	3.58	3.48	3.17	2.78	2.37
Weighted average shares outstanding:					
Basic	50,047	53,159	54,985	56,790	57,713
Diluted	50,751	53,985	56,155	58,214	59,559
BALANCE SHEET DATA:					
Cash and cash equivalents	$ 322,536	$ 279,058	$ 223,986	$ 183,895	$ 156,915
Working capital	(61,508)	174,353	163,204	87,348	175,479
Total assets	1,384,211	1,230,516	1,103,602	1,030,814	897,144
Total long-term debt1	350,000	150,359	1,394	2,501	3,418

Total stockholders' equity	117,589	518,214	636,257	539,593	574,281

1 In September 2014, we issued and sold through a private placement an aggregate principal amount of $75 million of 3.72% Senior Notes due September 4, 2026 under a Note Purchase Agreement dated as of July 22, 2014 among the Company, New York Life Insurance Company and the accredited institutional purchasers named therein.

In July 2014, we issued and sold through a private placement an aggregate principal amount of $125 million of senior notes consisting of $75 million of 3.76% Series B Senior Notes due July 21, 2024 and $50 million of 3.32% Series A Senior Notes due July 21, 2021 under a Note Purchase and Private Shelf Agreement among the Company, Prudential Investment Management, Inc. and the accredited institutional purchasers named therein.

In December 2013, we issued and sold through a private placement an aggregate amount of $150 million of senior notes consisting of $75 million of 3.94% Series A Senior Notes due December 11, 2023 and $75 million of 4.04% Series B Senior Notes due December 11, 2025 under a Note Purchase Agreement among the Company and the accredited institutional purchasers named therein. See Note 10 to the consolidated financial statements included in this Annual Report on Form 10-K for additional information about these senior notes.

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

Description of Segments. Prior to January 1, 2013, we operated primarily through three business segments: diagnostic and information technology-based products and services for the veterinary market, which we continue to refer to as the Companion Animal Group ("CAG"); water quality products ("Water"); and diagnostic products for livestock and poultry health, which we referred to as Livestock and Poultry Diagnostics. We also operated two smaller operating segments that comprised products for milk quality and safety ("Dairy") and products for the human point-of-care medical diagnostics market ("OPTI Medical"). Financial information about our Dairy and OPTI Medical operating segments was combined and presented with our remaining pharmaceutical product line and our out-licensing arrangements in an "Other" category because they did not meet the quantitative or qualitative thresholds for reportable segments.

In 2013, we combined the management of our Livestock and Poultry Diagnostics, and Dairy lines of business to more effectively realize the market synergies between the product lines and to achieve operational efficiencies. We refer to this segment as Livestock, Poultry and Dairy ("LPD"). Our OPTI Medical operating segment remains combined and presented with our remaining pharmaceutical product line and our out-licensing arrangements in an "Other" category because they do not meet the quantitative or qualitative thresholds for reportable segments. The segment income (loss) from operations discussed within this report for the year ended December 31, 2012 has been retrospectively revised to reflect this change in the composition of our reportable segments. See Note 14 to the consolidated financial statements for the year ended December 31, 2014 included in this Annual Report on Form 10-K for financial information about our segments, including our product and service categories, and our geographic areas.

Items that are not allocated to our operating segments are as follows: a portion of corporate support function and personnel-related expenses; certain manufacturing costs; corporate research and development expenses that do not align with one of our existing business or service categories; the difference between estimated and actual share-based compensation expense; certain foreign currency exchange gains and losses; and variances from standard cost for products sold resulting from changes in certain currency exchange rates. In our segment disclosure, these amounts are shown under the caption "Unallocated Amounts."

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

Companion Animal Group

Our strategy is to provide veterinarians with both the highest quality diagnostic information to support more advanced medical care and information management solutions that help demonstrate the value of diagnostics to pet owners and enable efficient practice management. By doing so, we are able to build a mutually successful partnership with our veterinarian customers based on healthy pets, loyal customers and expanding practice revenues.

CAG Diagnostics. We refer to the extensiveness and integration of our diagnostic and information management offerings as the IDEXX Diagnostic Advantage. We provide diagnostic capabilities that meet veterinarian's diverse needs through a variety of modalities including in-clinic diagnostic solutions and outside reference laboratories. Veterinarians that utilize our full line of diagnostic modalities obtain a single view of a patient's diagnostic results, which allows them to spot trends and achieve greater medical insight.

The breadth and complementary nature of our diagnostic solutions also provides us scale in sales and distribution. During 2013, we reorganized our companion animal diagnostic sales organization in North America, transitioning our specialty sales force that represented either in-clinic or outside reference laboratory diagnostics to account representatives who represent all CAG diagnostic modalities. In addition to this reorganization, we increased the size of our sales force resulting in smaller geographically sized sales territories. These changes allowed for more frequent customer contact by a consistent sales professional. We have experienced accelerated revenue growth subsequently to implementing this change.

To further increase our customer reach, effective January 1, 2015 we transitioned to an all-direct sales strategy in the U.S. and did not renew our current annual contracts with our U.S. distribution partners. Under this approach, we take orders, ship product, invoice and receive payment for all rapid assay test kits and instrument consumables in the U.S., aligning with our direct model for instruments, reference laboratory services, and other CAG products and services. We believe these changes will continue to strengthen customer loyalty and help support growth of our diagnostic revenues in North America.

Our diagnostic capabilities generate both recurring and non-recurring revenues. Revenues related to capital placements of our in-clinic VetLab suite of instruments and our SNAP Pro Mobile Device are non-recurring in nature, while revenues from the associated proprietary VetLab consumables, SNAP rapid assay test kits, outside reference laboratory and consulting services, and extended maintenance agreements and accessories related to our VetLab instruments are recurring in nature. Instrument sales have significantly lower gross margins than those provided by our recurring revenues, especially in the case of VetLab consumables and rapid assay test kits. Therefore, the mix of nonrecurring and recurring revenues in a particular period will impact our gross margins.

Diagnostic Capital Revenue. Revenues related to the placement of the VetLab suite of instruments are non-recurring in nature, in that the customer will buy an instrument once over its respective product life cycle, but will purchase consumables for that instrument on a recurring basis as they use that instrument for testing purposes. During the early stage of an instrument's life cycle, we derive relatively greater revenues from instrument placements, while consumable sales become relatively more significant in later stages as the installed base of instruments increases and instrument placement revenues begin to decline. In the early stage of an instrument's life cycle, placements are made primarily through sales transactions. As the market for the product matures, an increasing percentage of placements are made in transactions, sometimes referred to as "reagent rentals," in which instruments are placed at customer sites at little or no cost in exchange for a long-term customer commitment to purchase instrument consumables.

Prior to the Catalyst One instrument launch during November 2014, we pre-sold the instrument under a customer marketing program through which customers preordering a Catalyst One were initially provided with the right to use a Catalyst Dx instrument. Under this marketing program, we deferred $7 million of instrument revenue in 2014, which will not be recognized until delivery of the Catalyst One instrument occurs in 2015.

We place our Catalyst chemistry analyzers through sales, leases, rental and other programs. In addition, we continue to place VetTest instruments through sales, lease, rental and other programs, with substantially all of our revenues from that product line currently derived from consumable sales. As of December 31, 2014, these three chemistry analyzers provided for a combined active installed base of approximately 38,000 units. Approximately half of 2014 Catalyst analyzer placements were to customers that are new to IDEXX, including customers who had been using instruments from one of our competitors, sometimes referred to as competitive accounts. Generally, placement of an instrument with a competitive account is more attractive as the entire consumable stream associated with that placement represents incremental revenue, whereas the consumable stream associated with a Catalyst placement at a VetTest customer substitutes a Catalyst consumable stream for a VetTest consumable stream. We have found that the

consumables revenues increase by approximately 25% when a customer upgrades from a VetTest analyzer to a Catalyst analyzer due to the superior capability, flexibility and ease of use of the Catalyst, which leads to additional testing by the customer.

As we continue to experience growth in placements of Catalyst analyzers and in sales of related consumables, we expect this growth to be partly offset by a decline in placements of VetTest analyzers and in sales of related consumables.

The ProCyte Dx analyzer is our latest generation hematology analyzer, which we launched in 2010. In addition we sell the LaserCyte Dx and LaserCyte analyzers and VetAutoread analyzers. As of December 31, 2014, these four hematology analyzers provided for a combined active installed base of approximately 27,000 units. A substantial portion of ProCyte Dx analyzer placements continue to be made at veterinary clinics that elect to upgrade from their LaserCyte analyzer to a ProCyte Dx analyzer. In 2014, slightly less than half of ProCyte placements were made at competitive accounts. We also continue to place a substantial number of LaserCyte Dx and LaserCyte instruments, both new and recertified, as trade-ups from the VetAutoread analyzer and at new and competitive accounts. In 2014, a significant number of LaserCyte instruments that were placed were recertified instruments that had been received in trade in the sale of a ProCyte Dx analyzer. As we continue to experience growth in placements of ProCyte Dx analyzers and in sales of related consumables, we expect this growth to be partly offset by a decline in placements of LaserCyte and VetAutoread analyzers and in sales of related consumables.

We seek to enhance the attractiveness of our SNAP rapid assay tests by providing the SNAP Pro Mobile Device, which activates SNAP tests, properly times the run, captures and saves images of the results and, in conjunction with IVLS, records invoice charges in the patient record. This promotes practice efficiency by eliminating manual entry of test results in patient records and also helps ensure that the services are recorded and accurately invoiced. In addition, SNAP Pro Mobile Device results can be shared with pet owners on the SNAP Pro screen or, in conjunction with IVLS, via VetConnect PLUS. We also sell the SNAPshot Dx, which automatically reads certain SNAP test results and, in conjunction with IVLS, records those results in the electronic medical record. We continue to work on enhancing the functionality of our analyzers to read the results of additional tests from our canine and feline family of rapid assay products.

Prior to 2014, the SNAPshot Dx was our primary in-clinic solution which screened for thyroid disease. With the recent launch of the total thyroxine ("T_4") slide for use with the Catalyst One analyzer, we anticipate a decline in placements of the SNAPshot Dx, although we will continue to service the existing install base.

Our long-term success in this area of our business is dependent upon new customer acquisition, customer loyalty and retention and customer utilization of existing and new assays introduced for use on our analyzers. We continuously seek opportunities to enhance the care that veterinary professionals give to their patients and clients through supporting the implementation of real-time care testing work flows, which is performing tests and sharing test results with the client at the time of the patient visit. Our latest generation of chemistry and hematology instruments demonstrates this commitment by offering enhanced ease of use, faster time to results, greater sample throughput, broader test menu and connectivity to various information technology platforms that enhance the value of the diagnostic information generated by the instruments. In addition, we provide marketing tools and consultative services that help drive efficiencies in veterinary practice processes and allow practices to increase the number of clients they see on a daily basis.

With all of our instrument product lines, we seek to differentiate our products from our competitors' products based on time-to-result, ease-of-use, throughput, breadth of diagnostic menu, flexibility of menu selection, accuracy, reliability,

ability to handle compromised samples, analytical capability of software, integration with the IDEXX VetLab Station and VetConnect PLUS, client communications capabilities, education and training, and superior sales and customer service. Our success depends, in part, on our ability to differentiate our products in a way that justifies a premium price.

Recurring Diagnostic Revenue. Revenues from our proprietary VetLab consumable products, our SNAP rapid assay test kits, outside reference laboratory and consulting services, and extended maintenance agreements and accessories related to our VetLab instruments are considered recurring in nature. Recurring diagnostic revenue accounts for approximately 71% of our consolidated revenue and is both highly durable and profitable.

Our in-clinic diagnostic solutions, consisting of our VetLab consumable products and SNAP rapid assay test kits, provide real-time reference lab quality diagnostic results for a variety of companion animal diseases and health conditions. Our outside reference laboratories provide veterinarians with the benefits of a more comprehensive list of diagnostic tests and access to consultations with board-certified veterinary specialists and pathologists, combined with the benefit of same-day or next-day turnaround times.

We derive substantial revenues and margins from the sale of consumables that are used in VetLab instruments and the multi-year consumable revenue stream is significantly more valuable than the placement of the instrument. Our strategy is to increase diagnostic testing within veterinary practices by placing VetLab instruments and increasing instrument utilization of consumables. Utilization can increase due to a greater number of patient samples being run or to an increase in the number of tests being run per patient sample. Our strategy is to increase both drivers. To increase utilization, we seek to educate veterinarians about best medical practices that emphasize the importance of chemistry and hematology testing for a variety of diagnostic purposes, as well as by introducing new testing capabilities that were previously not available to veterinarians. Additionally, we have found that veterinarian adoption of VetConnect PLUS drives utilization by spurring testing across all IDEXX diagnostic modalities. In connection with the purchase of instruments, we also offer protocol-based rebate incentives when customers utilize the broad testing functionality of our analyzers.

Our in-clinic diagnostic solutions also include SNAP rapid assay tests that address important medical needs for particular diseases prevalent in the companion animal population. We seek to differentiate these tests from those of other in-clinic test providers and reference laboratory diagnostic service providers through ease-of-use, superior performance, sensitivity, specificity and by providing our customers with combination tests that test a single sample for up to six diseases at once. We further augment our product development and customer service efforts with sales and marketing programs that enhance medical awareness and understanding regarding certain diseases and the importance of diagnostic testing.

We believe that more than half of all diagnostic testing by U.S. veterinarians is provided by outside reference laboratories such as our IDEXX Reference Laboratories. In several markets outside the U.S., in-clinic testing is less prevalent and an even greater percentage of diagnostic testing is done in reference laboratories. We attempt to differentiate our reference laboratory testing services from those of competitive reference laboratories and competitive in-clinic offerings primarily on the basis of test menu, technology employed, quality, turnaround time, customer service and tools such as VetConnect PLUS that demonstrate the complementary manner in which our laboratory services work with our in-clinic offerings.

Profitability from our reference laboratory diagnostic and consulting services is largely the result of our ability to achieve efficiencies from both volume and operational improvements. When possible, we utilize core reference laboratories to service samples from other countries, expanding our customer reach without an associated expansion in our reference laboratory footprint. Start-up laboratories that we open typically will operate at a loss until testing volumes achieve sufficient scale. Acquired laboratories frequently operate less profitably than our existing laboratories and acquired laboratories may not achieve the profitability of our existing laboratory network for several years until we complete the implementation of operating improvements and efficiencies. Therefore, in the short term, new and acquired reference laboratories generally will have a negative effect on our operating margin. Recurring revenue growth is achieved both through increased sales to existing customers and through the acquisition of new customers. We believe the increased number of customer visits resulting from our all-direct sales strategy in the U.S. will lead to increased reference laboratory opportunities with customers who already use one of our in-clinic diagnostic modalities. In recent years, recurring reference laboratory diagnostic and consulting revenues have also been increased through reference laboratory acquisitions, customer list acquisitions, the opening of new reference

laboratories, including laboratories that are co-located with large practice customers, and as a result of our up-front customer loyalty programs. Under these arrangements, we provide incentives to customers in the form of cash payments or IDEXX Points upon entering multi-year agreements to purchase annual minimum amounts of products or services in the future.

Health Monitoring and Biological Materials Testing. We believe the acquisition of the research and diagnostic laboratory business of the College of Veterinary Medicine from the University of Missouri allows us to leverage our expertise in veterinary diagnostics and expand our integrated offering of reference laboratory diagnostic and consulting services and in-clinic testing solutions in the adjacent bioresearch market.

Customer Information Management and Digital Imaging Systems. Our Cornerstone practice management system provides a superior integrated information solution, backed by exceptional customer support and education, to allow the veterinarian to practice better medicine and achieve the practice's business objectives, including a quality client experience, staff efficiency and practice profitability. We differentiate our practice management systems through enhanced functionality, ease of use and connectivity with in-clinic VetLab instruments and outside reference laboratory test results. Our client communication services create more meaningful pet owner experiences through personalized communication. Pet Health Network Pro online client communication and education service complements the entire IDEXX product offering by educating pet owners and building loyalty through engaging the pet owner before, during and after the visit, thereby building client loyalty and driving more patient visits.

Our digital imaging systems offer a convenient system that provides superior image quality and software capability that enables sharing of these images with clients virtually anywhere and enhanced diagnostic features and customer workflow, backed by the same customer support provided for our other products and services in CAG.

Water

Our strategy in the water testing business is to develop, manufacture, market and sell proprietary products with superior performance, supported by exceptional customer service. Our customers primarily consist of water utilities, government laboratories and private certified laboratories that highly value strong relationships and customer support. Sales of water testing products outside of the U.S. represented 52% of total water product sales in 2014, and we expect that future growth in this business will be significantly dependent on our ability to increase international sales. Growth also will be dependent on our ability to enhance and broaden our product line. Most water microbiological testing is driven by regulation, and, in many countries, a test may not be used for compliance testing unless it has been approved by the applicable regulatory body. As a result, we maintain an active regulatory program that involves applying for regulatory approvals in a number of countries, primarily in Europe. Further, we seek to receive regulatory approvals from governing agencies as a means to differentiate our products from the competition.

Livestock, Poultry and Dairy

We develop, manufacture, market and sell a broad range of tests for various cattle, swine and poultry diseases and conditions, and have active research and development and in-licensing programs in this area. Our strategy is to offer proprietary tests with superior performance characteristics for use in government programs to control or eradicate disease and disease outbreaks and in livestock and poultry producers' disease and reproductive management programs. Disease outbreaks are episodic and unpredictable, and certain diseases that are prevalent at one time may be substantially contained or eradicated at a later time. In response to outbreaks, testing initiatives may lead to exceptional demand for certain products in certain periods. Conversely, successful eradication programs may result in significantly decreased demand for certain products. In addition, increases in government funding may lead to

increased demand for certain products and budgetary constraints may lead to decreased demand for certain products. As result, the performance of this business can fluctuate.

Our strategy in the dairy testing business is to develop, manufacture and sell antibiotic residue and contaminant testing products that satisfy applicable regulatory requirements or dairy processor standards for testing of milk and provide reliable field performance. The manufacture of these testing products leverages the SNAP platform as well as the manufacturing equipment of our rapid assay business, incorporating customized reagents for antibiotic and contaminant detection. To successfully increase sales of dairy testing products, we believe that we need to increase penetration in dairy processors and develop product line enhancements and extensions.

We also distribute food safety products, including Randox Food Diagnostics, a wide range of cost effective ELISAs, sensitive and reproducible diagnostic assays, for the detection of multiple compounds in one test based on a multi-analyte quantitative screening drug residue analyzer called the Evidence Investigator. Our technology for food safety screening reduces the number of samples sent to confirmation laboratories, lowering costs on expensive confirmation tests. We believe distributing food safety products provides us opportunities at a later stage in the food value chain.

In 2014, approximately 90% of our sales in this business were from markets outside of the U.S., most notably Europe and China. The performance of the business is particularly subject to the various risks that are associated with doing business internationally. See “Part I, Item 1A. Risk Factors.”

Other

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

Our strategy in the OPTI Medical Systems business for the veterinary market is to utilize this unit’s know-how, intellectual property and manufacturing capability to continue to expand the menu and instrument capability of the VetStat and Catalyst Dx platforms for veterinary applications while reducing our cost of consumables by leveraging experience and economies of scale.

In 2014, approximately 83% of our sales in the OPTI Medical Systems business were from markets outside of the U.S., most notably Asia and Europe. The performance of the business is particularly subject to the various risks that are associated with doing business internationally. See “Part I, Item 1A. Risk Factors.”

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an ongoing basis. We base our estimates on historical experience and on various assumptions that we believe to be reasonable under the circumstances, the results of which

form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Note 2 to the consolidated financial statements included in this Annual Report on Form 10-K describes the significant accounting policies used in preparation of these consolidated financial statements.

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

Revenue Recognition

We recognize revenue when four criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the sales price is fixed or determinable; and (iv) collectability is reasonably assured. See Note 2(i) to the consolidated financial statements for the year ended December 31, 2014 included in this Annual Report on Form 10-K for additional information about our revenue recognition policy and criteria for recognizing revenue.

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

We allocate revenue to each element based on the relative selling price and recognize revenue when the elements have standalone value and the four criteria for revenue recognition, as discussed above, have been met for each element. If available, we establish the selling price of each element based on vendor-specific objective evidence ("VSOE"), which represents the price charged for a deliverable when it is sold separately. We use third-party evidence ("TPE") if VSOE is not available, or best estimate of selling price if neither VSOE nor TPE is available. When these arrangements include a separately-priced EMA, we recognize revenue related to the EMA at the stated contractual price on a straight-line basis over the life of the agreement to the extent the separately stated price is substantive. If there is no stated contractual price for an EMA, or the separately stated price is not substantive, we allocate revenue to each element based on the relative selling price and recognize revenue when the elements have standalone value and the four criteria for revenue recognition, as discussed above, have been met for each element.

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

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

approximates the discount typically provided in standalone sales, that discount is not considered incremental.

Customer Programs. We record reductions to revenue related to customer marketing and incentive programs, which include end-user rebates and other volume-based incentives. Incentives may be provided in the form of IDEXX Points, credits or cash and are earned by end users upon achieving defined volume purchases or utilization levels or upon entering an agreement to purchase products or services in future periods. The summary of revenue reductions presented below reflects all revenue reductions recorded for the year for each particular program. These amounts are presented on a net basis when applicable, which accounts for any differences between estimates and actual incentives earned for the relevant customer marketing or incentive program. These differences have been insignificant in all quarterly or annual periods. Our most significant customer programs are categorized as follows:

Customer Loyalty Programs. Our customer loyalty programs offer customers the opportunity to earn incentives on a variety of IDEXX products and services as those products and services are purchased and utilized. Revenue reductions related to customer loyalty programs are recorded based on the actual issuance of incentives, incentives earned but not yet issued and estimates of incentives to be earned in the future.

Up-Front Customer Loyalty Programs. Our up-front loyalty programs provide incentives to customers in the form of cash payments or IDEXX Points upon entering multi-year agreements to purchase annual minimum amounts of future products or services. If a customer breaches its agreement, it is required to refund a prorated portion of the up-front cash or IDEXX Points, among other things. These incentives are considered to be customer acquisition costs and are capitalized and recognized as a reduction to revenue over the term of the customer agreement. If these up-front incentives are subsequently utilized to purchase IDEXX VetLab instruments, digital imaging systems or Cornerstone practice management systems, product revenue and cost is deferred and recognized over the term of the customer agreement as products and services are provided to the customer. We monitor customer purchases over the term of their agreement to assess the realizability of our capitalized customer acquisition costs. For the years ended December 31, 2014, 2013 and 2012, impairments of customer acquisition costs were immaterial.

IDEXX Instrument Marketing Programs. Our instrument marketing programs require the customer to enroll at the time of instrument purchase and offer customers the opportunity to earn incentives in future periods based on the volume of the products they purchase and utilize over the term of the program. These arrangements are considered MEAs in accordance with our revenue recognition policy stated above. Revenue reductions related to instrument marketing programs are recorded based on an estimate of customer purchase and utilization levels and the incentive the customer will earn over the term of the program. Our estimates are based on historical experience and the specific terms and conditions of the marketing program and require us to apply judgment to approximate future product purchases and utilization. Differences between our estimates and actual incentives earned are accounted for as a change in estimate. These differences were not material for the years ended December 31, 2014, 2013 and 2012. At December 31, 2014, a 5% change in our estimate of future customer utilization would increase or reduce revenue by approximately $0.4 million.

Reagent Rental Programs. Our reagent rental programs provide our customers the right to use our instruments in consideration for multi-year agreements to purchase annual minimum amounts of consumables. No instrument revenue is recognized at the time of instrument installation. We recognize a portion of the revenue allocated to the instrument concurrent with the future sale of consumables. We determine the amount of revenue allocated from the consumable to the instrument based on relative selling prices and determine the rate of instrument revenue recognition in proportion to the customer’s minimum volume commitment. The cost of the instrument is charged to cost of product revenue on a straight-line basis over the term of the minimum purchase agreement.

IDEXX Points may be applied against the purchase price of IDEXX products and services purchased in the future or applied to trade receivables due to us. IDEXX Points that have not yet been used by customers are classified as a liability until use or expiration occurs. We estimate the amount of IDEXX Points expected to expire, or breakage,

based on historical expirations and we recognize the estimated benefit of breakage in proportion to actual redemptions of IDEXX Points by customers. On November 30 of each year, unused IDEXX Points earned before January 1 of the prior year generally expire and any variance from the breakage estimate is accounted for as a change in estimate. This variance was not material for the years ended December 31, 2014, 2013 and 2012.

Future market conditions and changes in product offerings may cause us to change marketing strategies to increase or decrease customer incentive offerings, possibly resulting in incremental reductions of revenue in future periods as compared to reductions in the current or prior periods. Additionally, certain customer programs require us to estimate, based on historical experience, and apply judgment to approximate the number of customers who will actually redeem the incentive. In determining estimated revenue reductions we utilize data supplied from distributors and collected directly from end users, which includes the volume of qualifying products purchased and the number of qualifying tests run as reported to us by end users via IDEXX SmartService. Differences between estimated and actual customer participation in programs may impact the amount and timing of revenue recognition.

Following is a summary of revenue reductions, net recorded in connection with our customer programs for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	For the Years Ended December 31,		
	2014	2013	2012
Revenue Reductions Recorded, Net			
Customer Loyalty Programs, net (1)	$ 14,800	$ 16,193	$ 17,332
Up-Front Customer Loyalty Programs	13,089	9,937	8,704
IDEXX Instrument Marketing Programs, net (1)	24,158	17,885	15,686
Other Customer Programs, net (1)	2,796	2,733	578
Total revenue reductions, net	$ 54,843	$ 46,748	$ 42,300

(1) Revenue reduction is provided on a net basis, which accounts for any differences between estimates and actual incentives earned.

Accrued customer programs are included within accrued liabilities and other long-term liabilities, depending on the anticipated settlement date, in the consolidated balance sheets included in this Annual Report on Form 10-K. Following is a summary of changes in the accrual for estimated revenue reductions attributable to customer programs and the ending accrued customer programs balance for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	For the Years Ended December 31,		
	2014	2013	2012
Accrued Customer Programs:			
Balance, beginning of the year	$ 39,345	$ 36,625	$ 37,767
Revenue reductions for Customer Loyalty Programs, net (1)	14,800	16,193	17,332
Up-Front Customer Loyalty Program Awards issued as IDEXX Points	20,315	8,019	8,215
Revenue reductions for IDEXX Instrument Marketing Programs, net (1)	24,158	17,885	15,686
Revenue reductions for Other Customer Programs, net (1)	2,796	2,733	578
IDEXX Points redeemed and credits issued	(52,035)	(40,783)	(41,832)
Breakage	(421)	(1,044)	(1,135)
Exchange impact on balances denominated in foreign currency	(805)	(283)	14
Balance, end of year	$ 48,153	$ 39,345	$ 36,625

(1) Revenue reduction is provided on a net basis, which accounts for any differences between estimates and actual incentives earned.

Inventory Valuation

We write down the carrying value of inventory for estimated obsolescence by an amount equal to the difference between the cost of inventory and the estimated market value when warranted based on assumptions of future demand, market conditions, remaining shelf life or product functionality. If actual market conditions or results of estimated functionality are less favorable than those we estimated, additional inventory write-downs may be required, which would have a negative effect on results of operations.

Valuation of Goodwill and Other Intangible Assets

A significant portion of the purchase price for acquired businesses is generally assigned to intangible assets. Intangible assets other than goodwill are initially valued at fair value. If a quoted price in an active market for the identical asset is not readily available at the measurement date, 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 material, we utilize independent valuation experts to advise and assist us in determining the fair values of the identified intangible assets acquired in connection with a business acquisition 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 value of acquired net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. We assess contingent consideration to determine if it is part of the

business combination or if it should be accounted for separately from the business combination in the postcombination period. Contingent consideration is recognized at its fair value on the acquisition date. A liability resulting from contingent consideration is remeasured to fair value at each reporting date until the contingency is resolved. Changes in fair value of contingent consideration are recognized in earnings.

We assess goodwill for impairment annually, at the reporting unit level, in the fourth quarter and whenever events or circumstances indicate impairment may exist. An impairment charge is recorded for the amount, if any, by which the carrying amount of goodwill exceeds its implied fair value. Our reporting units are the individual product and service categories that comprise our CAG operating segment, our Water and LPD operating segments and goodwill remaining from the restructuring of our pharmaceutical business in the fourth quarter of 2008, referred to herein as the Technology reporting unit. A substantial portion of the goodwill remaining from the pharmaceutical business, included in our “Other Segment”, is associated with products that have been, or that we expect to be, licensed to third parties. Realization of this goodwill is dependent upon the success of those third parties in developing and commercializing products, which will result in our receipt of royalties and other payments.

In evaluating goodwill for impairment, we have the option to first assess the qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. If, after assessing the totality of events or circumstances, we determine that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we would then perform step one of the two-step impairment test; otherwise, no further impairment test would be required. In contrast, we can opt to bypass the qualitative assessment for any reporting unit in any period and proceed directly to step one of the two-step impairment test. Doing so does not preclude us from performing the qualitative assessment in any subsequent period.

As part of our goodwill testing process, we evaluate factors specific to a reporting unit as well as industry and macroeconomic factors that are reasonably likely to have a material impact on the fair value of a reporting unit. Examples of the factors considered in assessing the fair value of a reporting unit include: the results of the most recent impairment test, the competitive environment, anticipated changes in product or labor costs, revenue growth trends, the consistency of operating margins and cash flows and current and long-range financial forecasts. The long-range financial forecasts of the reporting units, which are based upon management’s long-term view of our markets, are used by senior management and the Board of Directors to evaluate operating performance.

In the fourth quarter of 2014, we elected to bypass the qualitative approach and instead proceeded directly to step one of the two-step impairment test to assess the fair value of all of our reporting units.

As part of step one of the two-step impairment test, we estimate the fair values of applicable reporting units using an income approach based on discounted forecasted cash flows. We make significant assumptions about the extent and timing of future cash flows, growth rates and discount rates. Model assumptions are based on our projections and best estimates, using appropriate and customary market participant assumptions. In addition, we make certain assumptions in allocating shared assets and liabilities to individual reporting units in determining the carrying value of each reporting unit. As of September 30, 2014, the date that we performed our assessment of goodwill for impairment, the total aggregate fair value of the reporting units approximated the Company's market capitalization. Valuation assumptions reflect our projections and best estimates, based on significant assumptions about the extent and timing of future cash flows, growth rates and discount rates. The results of our goodwill impairment test indicate an excess of estimated fair value over the carrying amount for each of our reporting units by a range of approximately $12.0 million to $2.1 billion and 125% to 1063% of the reporting unit's carrying value.

While we believe that the assumptions used to determine the estimated fair values of each of our reporting units are reasonable, a change in assumptions underlying these estimates could result in a material negative effect on the estimated fair value of the reporting units. Our fair value estimate assumes the achievement of future financial results contemplated in our forecasted cash flows, and there can be no assurance that we will realize that value. We use forecasts to estimate future cash flows and include an estimate of long-term future growth rates based on our most recent views of the long-term outlooks for our reporting units. Actual results may differ from those assumed in our forecasts. The discount rate is based on a weighted average cost of capital derived from industry peers. Changes in market conditions, interest rates, growth rates, tax rates, costs, pricing or the discount rate would affect the estimated fair values of our reporting units and could result in a goodwill impairment charge in a future period. No goodwill impairments were identified during the years ended December 31, 2014, 2013 or 2012.

A prolonged economic downturn in the U.S. or internationally resulting in lower long-term growth rates and reduced long-term profitability may reduce the fair value of our reporting units. Industry specific events or circumstances could have a negative impact on our reporting units and may also reduce the fair value of our reporting units. Should such events occur and it becomes more likely than not that a reporting unit’s fair value has fallen below its carrying value, we will perform an interim goodwill impairment test, in addition to the annual impairment test. Future impairment tests may result in an impairment of goodwill, depending on the outcome of future impairment tests. An impairment of goodwill would be reported as a non-cash charge to earnings.

We assess the realizability of intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. 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 primary asset of the asset group and compare that value to the carrying value of the asset group. The cash flows that are used contain our best estimates, using appropriate and customary assumptions and projections at the time. If the net carrying value of an intangible asset exceeds the related estimated undiscounted future cash flows, an impairment to write the intangible asset to its fair value would be reported as a non-cash charge to earnings. If necessary, we would calculate the fair value of an intangible asset using the present value of the estimated future cash flows to be generated by the intangible asset and applying a risk-adjusted discount rate. No material impairments of intangible assets were identified during the years ended December 31, 2014, 2013 and 2012.

Share-Based Compensation

Our share-based compensation programs provide for grants of stock options, restricted stock units and deferred stock units, along with the issuance of employee stock purchase rights. 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.

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. The risk-free interest rate is based on the U.S. Treasury yield for a duration similar to the expected term at the date of grant. We have never paid any cash dividends on our common stock and we have no intention to pay a dividend at this time; therefore, we assume that no dividends will be paid over the expected terms of option awards. We determine the assumptions to be used in the valuation of option grants as of the date of grant. As such, we use different assumptions during the year if we grant options at different dates. Substantially all of our options granted during the years ended December 31, 2014, 2013 and 2012 were granted in the first quarter of each year. The weighted average of each of the valuation assumptions used to determine the fair value of each option grant during each of the previous three years is as follows:

	For the Years Ended December 31,		
	2014	2013	2012
Expected stock price volatility	28 %	32 %	34 %
Expected term, in years (1)	5.7	4.9	4.6
Risk-free interest rate	1.5 %	1.0 %	0.8 %

(1) Options granted after May 8, 2013 have a contractual term of ten years. Options granted between January 1, 2006 and May 8, 2013 have contractual terms of seven years.

Changes in the subjective input assumptions, particularly for the expected stock price volatility and the expected term of options, can materially affect the fair value estimate. Our expected stock price volatility assumption is based on the historical volatility of our stock over a period similar to the expected term and other relevant factors. Lower estimated volatility reduces the fair value of a stock option, while higher estimated volatility has the opposite effect. The total fair value of stock options granted during the year ended December 31, 2014 was $10.7 million. If the weighted average of the stock price volatility assumption was increased or decreased by 1%, the total fair value of stock options awarded during the year ended December 31, 2014 would have increased or decreased by approximately $0.3 million and the total expense recognized for the year ended December 31, 2014 for options awarded during the same period would have increased or decreased by less than $0.1 million.

We derive the expected term assumption for stock options based on historical experience and other relevant factors concerning expected behavior with regard to option exercises. The expected term is determined using a consistent method at each grant date. A longer expected term assumption increases the fair value of stock option awards, while a shorter expected term assumption has the opposite effect. If the weighted average of the expected term was increased or decreased by one year, the total fair value of stock options awarded during the year ended December 31, 2014 would have increased or decreased by approximately $1.0 million and the total expense recognized for the year ended December 31, 2014 for options awarded during 2014 would have increased or decreased by $0.2 million.

Share-based compensation expense is recognized on a straight-line basis over the requisite service period, which ranges from one to five years, depending on the award. 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; share-based compensation expense is adjusted annually for actual results. Total share-based compensation expense for the year ended December 31, 2014 was $18.1 million, which is net of a reduction of $3.2 million for actual and estimated forfeitures. Fluctuations in our overall employee turnover rate may result in changes in estimated forfeiture rates and differences between estimated forfeiture rates and actual experience and, therefore could have a significant unanticipated impact on share-based compensation expense.

Modifications of the terms of outstanding awards may result in significant increases or decreases in share-based compensation. There were no material modifications to the terms of outstanding options, restricted stock units or deferred stock units during 2014, 2013 or 2012.

The fair value of stock options, restricted stock units, deferred stock units and employee stock purchase rights issued during the years ended December 31, 2014, 2013 and 2012 totaled $24.0 million, $22.2 million and $18.2 million, respectively. The total unrecognized compensation expense, net of estimated forfeitures, for unvested share-based compensation awards outstanding at December 31, 2014 was $35.9 million, which will be recognized over a weighted average period of approximately 1.6 years.

Income Taxes

The provision for income taxes is determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent 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.

On a quarterly basis, we assess our current and projected earnings by jurisdiction to determine whether or not 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 a particular jurisdiction 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 year ended December 31, 2014, would not result in the recognition of material incremental valuation allowances.

For those jurisdictions where tax carryforwards are likely to expire unused or the projected operating results indicate that realization is not more likely than not, 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. Alternatively, 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, a reduction of the valuation allowance would increase income in the period such determination was made. Likewise, should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, a reduction to the deferred tax asset would be charged to income in the period such determination was made.

Our net taxable 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 liability 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 decrease our net deferred tax liability balance by $0.2 million. This decrease in the net deferred liability 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 majority of the operating earnings of non-U.S. subsidiaries to be indefinitely invested outside the U.S. The cumulative earnings of these subsidiaries were $431.7 million at December 31, 2014, of which approximately $321.5 million was held in cash and cash equivalents as of December 31, 2014. No provision has been made for the payment of U.S. federal and state or international taxes that may result from future remittances of these undistributed earnings of non-U.S. subsidiaries. Should we repatriate these 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. A determination of the related tax liability that would be paid on these undistributed earnings if repatriated is not practicable. For the operating earnings not considered to be indefinitely invested outside the U.S. we have accounted for the tax impact on a current basis.

We record a liability for uncertain tax positions that do not meet the more likely than not standard as prescribed by the authoritative guidance for income tax accounting. We record tax benefits for only those positions that we believe will more likely than not be sustained. For positions that we believe that it is more likely than not that we will prevail, we record a benefit considering the amounts and probabilities that could be realized upon ultimate settlement. If our judgment as to the likely resolution of the uncertainty changes, if the uncertainty is ultimately settled or if the statute of limitation related to the uncertainty expires, the effects of the change would be recognized in the period in which the change, resolution or expiration occurs. Our net liability for uncertain tax positions was $6.1 million and $6.6

million as of December 31, 2014 and 2013, respectively, which includes estimated interest expense and penalties.

RESULTS OF OPERATIONS AND TRENDS

Effects of Certain Factors on Results of Operations

Distributor Purchasing and Inventories. The instrument consumables and rapid assay products in our CAG segment were sold in the U.S. and continue to be sold in certain other geographies by third party distributors, who purchase products from us and sell them to veterinary practices, which are the end users. As a result, distributor purchasing dynamics have an impact on our reported sales of these products. Distributor purchasing dynamics may be affected by many factors and in a given period may not be directly related to underlying end-user demand for our products. Consequently, reported results may reflect fluctuations in inventory levels held at distributors and not necessarily reflect changes in 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.

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

Effective January 1, 2015, we fully transitioned to an all-direct sales strategy in the U.S. and did not renew our existing contracts with our former key U.S. distribution partners after their expiration at the end of 2014. Under this approach, we take orders, ship product, invoice and receive payment for all rapid assay test kits and instrument consumables in the U.S., aligning with our direct model for instruments, reference laboratory services, and other CAG products and services.

We incurred transition costs to implement this all-direct sales strategy in the U.S., including approximately $5 million in incremental expense during the year ended December 31, 2014 resulting from the ramp up of sales and operating resources. We also incurred $9.5 million in non-recurring expenses during the year ended December 31, 2014 associated with project management and other one-time costs required to implement this new strategy. Further, we incurred one-time transitional impacts related to the drawdown of distributor inventory in the fourth quarter of 2014, resulting in a reduction in revenue and operating profit of $25 million and $21 million, respectively.

During the three months ended December 31, 2014, we began recognizing revenue on rapid assay kits and instrument consumables upon delivery to end users in the U.S., instead of at distribution. We continue to expect to capture an additional $50 million to $55 million in annual revenue on these direct sales. We estimate that annual operating profit associated with this incremental revenue stream will increase approximately $5 million to $8 million in 2015 and will continue to provide accretive benefits that will scale over time based on our expected future growth rates. Also as a result of the transition to an all-direct sales strategy in the U.S., we anticipate increased working capital demands of approximately $15 million to $20 million, including inventory costs previously held by our distributors and incremental accounts receivable resulting from a potentially longer elapsed time to collect our receivables.

Currency Impact. Approximately 28% of our consolidated revenue for the year ended December 31, 2014 and 26% of our consolidated revenue for each of the years ended December 31, 2013 and 2012 was derived from products manufactured in the U.S. and sold internationally in local currencies. Strengthening of the rate of exchange for the U.S. dollar relative to other currencies has a negative impact on our revenues derived in currencies other than the U.S. dollar and on profits of products manufactured in the U.S. and sold internationally, and a weakening of the U.S. dollar has the opposite effect. Similarly, to the extent that the U.S. dollar is stronger in current or future periods relative to the exchange rates in effect in the corresponding prior periods, our growth rate will be negatively affected. The impact of foreign currency denominated operating expenses and foreign currency denominated supply contracts partly offsets this exposure. Additionally, our designated hedges of intercompany inventory purchases and sales help delay the

impact of certain exchange rate fluctuations on non-U.S. denominated revenues. See Item 7A. “Quantitative and Qualitative Disclosure About Market Risks” included in this Annual Report on Form 10-K for additional information regarding currency impact.

The impact on revenue resulting from changes in foreign currency exchange rates is not a measure defined by accounting principles generally accepted in the United States of America (“U.S. GAAP”), otherwise referred to herein as a non-GAAP financial measure. As exchange rates are an important factor in understanding period-to-period comparisons, we believe the presentation of results normalized for changes in currency in addition to reported results helps improve investors’ ability to understand our operating results and evaluate our performance in comparison to prior periods.

Effective January 1, 2014, we calculate the impact on revenue resulting from changes in foreign currency exchange rates by applying the difference between the weighted average exchange rates during the current year period and the comparable previous year period to foreign currency denominated revenues for the prior year period. Prior to January 1, 2014, we calculated this impact by applying the difference between the weighted average exchange rates during the current year period and the comparable previous year period to foreign currency denominated revenues for the current year period. This change in methodology, which was implemented to achieve operational efficiencies, has not had a material impact on organic revenue growth. See the subsection below titled “Results of Operations” for the definition of and other information regarding organic revenue growth.

During the twelve months ended December 31, 2014, compared to the twelve months ended December 31, 2013, changes in foreign currency exchange rates decreased total company revenue by approximately $8.3 million, due primarily to the strengthening of the U.S. dollar against the Canadian dollar, Australian dollar and Japanese yen, partly offset by a weakening of the U.S. dollar against the British pound.

During the twelve months ended December 31, 2013, compared to the twelve months ended December 31, 2012, changes in foreign currency exchange rates decreased total company revenue by approximately $9.5 million, due primarily to the strengthening of the U.S. dollar against the Japanese yen and the Australian dollar.

Effects of Economic Conditions. Demand for our products and services is vulnerable to changes in the economic environment, including slow economic growth, high unemployment and credit availability. Negative or cautious consumer sentiment can lead to reduced or delayed consumer spending, resulting in a decreased number of patient visits to veterinary clinics. Unfavorable economic conditions can impact sales of instruments, digital radiography and practice management systems, which are larger capital purchases for veterinarians. Additionally, economic turmoil can cause our customers to remain sensitive to the pricing of our products and services. We monitor patient visits and clinic revenue data provided by a subset of our CAG customers. Although limited and susceptible to short-term impacts such as weather, we believe that this data provides a fair and meaningful long-term representation of the trend in patient visit activity in the U.S., providing us insight regarding demand for our products and services. We believe the overall trends in patient visits and capital investments since the beginning of the economic downturn in 2008 have had a slightly negative impact on our CAG segment revenue growth rates. Although the rate of growth has not been steady, we have seen an improvement in growth of patient visits since the beginning of 2012.

Economic conditions can also affect the purchasing decisions of our Water and LPD business customers. In the past, water testing volumes have been susceptible to declines in discretionary testing and in mandated testing as a result of decreases in home and commercial construction. Fiscal difficulties can also reduce government funding for water and livestock testing programs.

We believe that the diversity of our products and services and the geographic diversity of our markets partially mitigate the effects of the economic environment and negative consumer sentiment on our revenue growth rates.

Effects of Patent Expiration. Although the Company had and will have several patents and licenses of patents and technologies from third parties expire during 2014 and 2015, the expiration of these patents or licenses, individually or in the aggregate, is not expected to have a material effect on the Company's financial position or future operations due to a range of factors including our brand strength and reputation in the marketplace; the breadth, quality and integration of our product offerings; our existing customer relationships and our customer support; our sales force; the applicable regulatory approval status for certain products; our continued investments in innovative product improvements that often result in new technologies and/or additional patents; and our significant know-how, scale and investments related to manufacturing processes of associated product offerings.

Twelve Months Ended December 31, 2014 Compared to Twelve Months Ended December 31, 2013

Revenue

The following revenue analysis and discussion focuses on organic revenue growth. Organic revenue growth is a non-GAAP financial measure and represents the percentage change in revenue during the twelve months ended December 31, 2014, as compared to the same period for the prior year, net of the effect of changes in foreign currency exchange rates and acquisitions. Organic revenue growth should be considered in addition to, and not as a replacement for or as a superior measure to, revenues reported in accordance with U.S. GAAP, and may not be comparable to similarly titled measures reported by other companies. Management believes that reporting organic revenue growth provides useful information to investors by facilitating easier comparisons of our revenue performance with prior and future periods and to the performance of our peers. We exclude the effect of changes in foreign currency exchange rates because changes in foreign currency exchange rates are not under management's control, are subject to volatility and can obscure underlying business trends. We exclude the effect of acquisitions because the nature, size and number of acquisitions can vary dramatically from period to period and therefore can also obscure underlying business trends.

The percentage changes in revenue from foreign currency exchange rates and acquisitions are non-GAAP financial measures. See the subsection above titled "Effects of Certain Factors on Results of Operations – Currency Impact" for a description of the calculation of the percentage change in revenue resulting from changes in foreign currency exchange rates. The percentage change in revenue resulting from acquisitions represents incremental revenues attributable to acquisitions that have occurred since the beginning of the prior year period.

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

Net Revenue (dollars in thousands)	For the Year Ended December 31, 2014	For the Year Ended December 31, 2013	Dollar Change	Percentage Change	Percentage Change from Currency	Percentage Change from Acquisitions	Organic Revenue Growth
CAG	$ 1,236,855	$ 1,150,169	$ 86,686	7.5%	(0.8%)	0.3%	8.0%
Water	94,725	87,959	6,766	7.7%	(0.4%)	1.0%	7.1%
LPD	127,388	113,811	13,577	11.9%	(0.7%)	4.0%	8.6%
Other	26,839	25,119	1,720	6.8%	-	-	6.8%
Total	$ 1,485,807	$ 1,377,058	$ 108,749	7.9%	(0.7%)	0.6%	8.0%

We transitioned to an all-direct sales strategy in the U.S. during the fourth quarter of 2014, resulting in a drawdown of distributors' inventory levels which reduced both reported CAG and Total Company revenue growth by 2%.

U.S. and International Revenue. The following table provides further analysis of total company revenue by U.S. markets and non-U.S., or international, markets:

Net Revenue (dollars in thousands)	For the Year Ended December 31, 2014	For the Year Ended December 31, 2013	Dollar Change	Percentage Change	Percentage Change from Currency	Percentage Change from Acquisitions	Organic Revenue Growth
United States	$ 848,925	$ 802,346	$ 46,579	5.8%	-	0.1%	5.7%
International	636,882	574,712	62,170	10.8%	(1.7%)	1.3%	11.2%
Total	$ 1,485,807	$ 1,377,058	$ 108,749	7.9%	(0.7%)	0.6%	8.0%

The increase in both U.S. and international revenues was primarily driven by CAG Diagnostics recurring revenue. The increase in international revenues was driven by strong growth in Europe and Asia-Pacific markets, most significantly from the United Kingdom, Germany, China, Australia and France. We transitioned to an all-direct sales strategy in the U.S. during the fourth quarter of 2014, resulting in a drawdown of distributors' inventory levels which reduced reported U.S. revenue growth by 3%. The impact of changes in distributors' inventory levels did not have a significant impact on reported international revenue growth.

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

Net Revenue (dollars in thousands)	For the Year Ended December 31, 2014	For the Year Ended December 31, 2013	Dollar Change	Percentage Change	Percentage Change from Currency	Percentage Change from Acquisitions	Organic Revenue Growth
CAG Diagnostics recurring revenue:	$ 1,053,410	$ 973,886	$ 79,524	8.2%	(0.7%)	0.3%	8.6%
VetLab consumables	341,397	312,457	28,940	9.3%	(0.6%)	-	9.9%
VetLab service and accessories	53,383	50,675	2,708	5.3%	(0.8%)	-	6.1%
Rapid assay products	165,647	169,547	(3,900)	(2.3%)	(0.4%)	-	(1.9%)
Reference laboratory diagnostic and consulting services	492,983	441,207	51,776	11.7%	(0.9%)	0.5%	12.1%
CAG Diagnostics capital instruments	79,626	83,492	(3,866)	(4.6%)	(1.2%)	-	(3.4%)
Customer information management and digital imaging systems	103,819	92,791	11,028	11.9%	(0.5%)	0.5%	11.9%
Net CAG revenue	$ 1,236,855	$ 1,150,169	$ 86,686	7.5%	(0.8%)	0.3%	8.0%

The increase in CAG Diagnostics recurring revenue was due primarily to increased volumes and higher realized prices in both our reference laboratory diagnostic services and our VetLab consumables. The drawdown of inventory held by distributors, as a result of our transition to an all-direct sales strategy in the U.S. during the fourth quarter of 2014, reduced reported CAG Diagnostics recurring revenue by 3%.

VetLab consumables revenue growth was due primarily to higher unit volumes. The increase in unit volumes resulted primarily from growth of our installed base of Catalyst and ProCyte Dx instruments as a result of new customer acquisitions, as well as an increase in testing from existing customers, including those who upgraded to these instruments. Additionally, VetLab consumables revenue benefited from higher average unit sales prices resulting from price increases. These favorable impacts were partly offset by lower consumables volumes from our VetTest chemistry instrument as customers continue to upgrade from our VetTest instrument to our Catalyst instruments. The drawdown of inventory held by distributors, resulting from our transition to an all-direct sales strategy in the U.S. during the fourth quarter of 2014, reduced reported consumables revenue growth by 5%.

VetLab service and accessories revenue growth was primarily a result of the increase in our installed base of instruments.

The decrease in rapid assay revenue was due primarily to the drawdown of inventory held by distributors as we transitioned to an all-direct sales strategy in the U.S. during the fourth quarter of 2014, which reduced reported rapid assay revenue growth by 7%. This unfavorable factor was partly offset by higher sales of both our canine and feline testing products, resulting from both an increase in U.S. practice-level sales volumes and higher average unit sales prices.

The increase in reference laboratory diagnostic and consulting services revenue was due primarily to the impact of higher volumes throughout our worldwide network of laboratories resulting from increased testing from existing customers, the acquisition of new customers and improved customer retention. Additionally, the increase in revenue was favorably impacted by higher average unit sales prices due to price increases.

The decrease in CAG Diagnostics capital instruments revenue was due primarily to the unfavorable impact of deferred revenue associated with preorders for our Catalyst One analyzer, which we launched during the fourth quarter of 2014 and the impact of lower realized prices. Under our Catalyst One introductory offer, customers are provided with the right to use a Catalyst Dx instrument through the Catalyst One delivery date. As a result, we do not recognize instrument revenue for preorders relating to the Catalyst One introductory offer until the Catalyst One is delivered. These unfavorable impacts were partly offset by higher placements of our Catalyst Dx and ProCyte Dx instruments, primarily in Europe and the Asia-Pacific region, and placements of our SNAP Pro Mobile Device in North America. For the year ended December 31, 2014, the majority of SNAP Pro Mobile Device placements were made under a reagent rental program for which instrument revenue will be recognized with the future sale of consumables.

The increase in customer information management and digital imaging systems revenue was due primarily to a growing Pet Health Network Pro subscriber base, higher support revenue resulting from an increase in our installed base of digital imaging and practice management systems and higher revenue from hardware upgrades as a result of Microsoft ending support for Windows XP.

Water. The increase in Water revenue resulted from higher revenue from our Colilert products and related accessories, due primarily to increased sales volumes worldwide resulting from the acquisition of new customers.

Livestock, Poultry and Dairy. The increase in LPD organic revenue was due primarily to higher sales of certain bovine test products in the Asia-Pacific region, higher volumes in Europe of our milk-based bovine pregnancy test and higher sales of poultry tests in Europe and Latin America. Lower European bovine volumes are expected to reduce revenue by less than $5 million for the year ending December 31, 2015. The acquisition of a Brazilian distributor of our LPD products in the third quarter of 2013 added 4% to reported revenue growth for the year ended December 31, 2014 as compared to the prior year.

Other. The increase in Other revenue was due primarily to higher milestone revenue from our pharmaceutical out-licensing arrangements earned during the year ended December 31, 2014 and higher sales volumes associated with our OPTI Medical consumables and pharmaceutical product line. These favorable impacts were partly offset by lower sales of our OPTI Medical instruments in Latin America.

Gross Profit

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

Gross Profit (dollars in thousands)	For the Year Ended December 31, 2014	Percent of Revenue	For the Year Ended December 31, 2013	Percent of Revenue	Dollar Change	Percentage Change
CAG	$ 665,477	53.8%	$ 616,335	53.6%	$ 49,142	8.0%
Water	62,924	66.4%	58,218	66.2%	4,706	8.1%
LPD	79,239	62.2%	62,534	54.9%	16,705	26.7%
Other	14,236	53.0%	12,650	50.4%	1,586	12.5%
Unallocated amounts (1)	(5,760)	N/A	6,381	N/A	(12,141)	(190.3%)
Total Company	$ 816,116	54.9%	$ 756,118	54.9%	$ 59,998	7.9%

(1) "Unallocated amounts" refers to items not allocated to our operating segments, including a portion of corporate support function and personnel-related expenses, certain manufacturing costs, corporate research and development expenses that do not align with one of our existing business or service categories, the difference between estimated and actual share-based compensation expense and certain foreign currency exchange gains and losses.

Companion Animal Group. Gross profit for CAG increased due to higher sales and a slight increase in the gross profit percentage. The increase in gross profit percentage was due primarily to lower overall VetLab product costs and price increases across our CAG Diagnostics recurring revenue portfolio. These favorable factors were partly offset by impacts related to our transition to an all-direct sales strategy in the U.S. during the fourth quarter of 2014, including an unfavorable product mix resulting from the inventory drawdown of higher margin rapid assay test kits and VetLab consumables from our U.S. distributors and higher freight and distribution costs.

Water. Gross profit for Water increased due primarily to higher sales. The slight increase in the gross profit percentage was due primarily to a more favorable product mix resulting from higher relative sales of our Colilert products which yield higher margins, lower overall manufacturing costs resulting from a decrease in materials costs and higher average unit sales prices due to price increases. These favorable factors were partly offset by the unfavorable impact of currency due primarily to lower relative hedging gains during the year ended December 31, 2014 as compared to the prior year.

Livestock, Poultry and Dairy. Gross profit for LPD increased due to an improvement in the gross profit percentage to 62% from 55% and higher sales. The increase in the gross profit percentage resulted from lower overall manufacturing costs, driven by higher production volumes, a decrease in royalty expense and higher average unit sales prices. The decrease in royalty expense was due primarily to an agreement executed in the first quarter of 2014 with a licensor of patents related to the sale of certain swine tests.

Other. Gross profit for Other increased due to higher sales and an improvement in the gross profit percentage to 53% from 50%. The increase in the gross profit percentage was due primarily to lower overall manufacturing costs in our OPTI Medical business, resulting from a reduction in material costs and higher production volumes, and an increase in milestone revenue related to our pharmaceutical out-licensing arrangements, for which there is no associated costs of revenue. These favorable factors were partly offset by higher cost of service associated with OPTI Medical instruments and a decrease in average unit sales prices on related consumables.

Unallocated Amounts. Gross profit for Unallocated Amounts decreased due primarily to an increase in certain manufacturing costs and changes in certain currency exchange rates.

The manufacturing costs reported in our operating segments include our standard cost for products sold and any variances from standard cost for products purchased or manufactured within the period. We capitalize these variances for inventory on hand at the end of the period to record inventory in accordance with U.S. GAAP. We then record these variances as cost of product revenue as that inventory is sold. The impact to cost of product revenue resulting from this variance capitalization and subsequent recognition is reported within the caption “Unallocated Amounts.” The net unfavorable impact to gross profit as a result of increased manufacturing costs was due to the capitalization of favorable manufacturing variances, primarily within our LPD business, during the year ended December 31, 2014.

In certain geographies where we maintain inventories in currencies other than the U.S. dollar, the product costs reported in our operating segments include our standard cost for products sold, which is stated at the budgeted currency exchange rate from the beginning of the fiscal year. In these geographies, the variances from standard cost for products sold related to changes in currency exchange rates are reported within the caption “Unallocated Amounts.” The U.S. dollar strengthened significantly against the Japanese yen during the year ended December 31, 2013. The strengthening in the value of the U.S. dollar relative to the Japanese yen during the year ended December 31, 2014

was less significant, as compared to the prior year, resulting in a lower favorable variance within Unallocated Amounts relating to the cost of products sold in Japanese yen.

Operating Expenses and Operating Income

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

Operating Expenses (dollars in thousands)	For the Year Ended December 31, 2014	Percent of Revenue	For the Year Ended December 31, 2013	Percent of Revenue	Dollar Change	Percentage Change
CAG	$ 452,368	36.6%	$ 397,690	34.6%	$ 54,678	13.7%
Water	23,662	25.0%	20,897	23.8%	2,765	13.2%
LPD	55,024	43.2%	48,375	42.5%	6,649	13.7%
Other	11,757	43.8%	10,245	40.8%	1,512	14.8%
Unallocated amounts	13,050	N/A	12,149	N/A	901	7.4%
Total Company	$ 555,861	37.4%	$ 489,356	35.5%	$ 66,505	13.6%

Operating Income (dollars in thousands)	For the Year Ended December 31, 2014	Percent of Revenue	For the Year Ended December 31, 2013	Percent of Revenue	Dollar Change	Percentage Change
CAG	$ 213,109	17.2%	$ 218,645	19.0%	$ (5,536)	(2.5%)
Water	39,262	41.4%	37,321	42.4%	1,941	5.2%
LPD	24,215	19.0%	14,159	12.4%	10,056	71.0%
Other	2,479	9.2%	2,405	9.6%	74	3.1%
Unallocated amounts	(18,810)	N/A	(5,768)	N/A	(13,042)	(226.1%)
Total Company	$ 260,255	17.5%	$ 266,762	19.4%	$ (6,507)	(2.4%)

The transition to an all-direct sales strategy in the U.S. within our CAG segment reduced operating profit by $35.3 million during the year ended December 31, 2014. These impacts consisted of a one-time reduction in operating profit related to the drawdown of inventory held by our U.S. distributors, which reduced operating income by $20.8 million, $5.0 million in incremental expenses related to the ramp up of sales and operating resources and approximately $9.5 million of non-recurring expenses during the year ended December 31, 2014. For the year ended December 31, 2014, adjusted operating income, which is total Company operating income adjusted for the aforementioned transition impacts was approximately $295.6 million and 19.6% of revenue, which represents an increase in adjusted operating income of $24.7 million and 9.1%, as compared to the year ended December 31, 2013, which is adjusted for the 2013 bankruptcy of a third-party service provider of approximately $4.1 million. Adjusted operating income is a non-GAAP financial measure and should be considered in addition to, and not as a replacement for or as a superior measure to, operating income reported in accordance with U.S. GAAP. Management believes that reporting adjusted operating income provides useful information to investors by facilitating easier comparisons of our operating income performance with prior and future periods and to the performance of our peers.

See the subsection above titled “Effects of Certain Factors on Results of Operations – Distributor Purchasing and Inventories” for details regarding anticipated transitional costs related to moving to an all-direct sales strategy for VetLab consumables and rapid assay products and services within our CAG segment in the U.S.

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

	For the Year Ended	For the Year Ended

Operating Expenses (dollars in thousands)	December 31, 2014	Percent of Revenue	December 31, 2013	Percent of Revenue	Dollar Change	Percentage Change
Sales and marketing	$ 244,414	19.8%	$ 208,991	18.2%	$ 35,423	16.9%
General and administrative	137,675	11.1%	125,877	10.9%	11,798	9.4%
Research and development	70,279	5.7%	62,822	5.5%	7,457	11.9%
Total operating expenses	$ 452,368	36.6%	$ 397,690	34.6%	$ 54,678	13.7%

The increase in sales and marketing expense resulted from higher personnel-related costs across all major regions, including our North American sales force transformation started in the second half of 2013 and increased commissions resulting from improved sales performance; and non-recurring consulting costs related to the aforementioned implementation of an all-direct sales strategy in the U.S. The increase in general and administrative expense resulted primarily from higher personnel-related costs and, to a lesser extent, depreciation of internal-use software, partly offset by the favorable impact of changes in foreign currency exchange rates. The increase in research and development expense resulted primarily from higher personnel-related costs and increased materials costs, partly offset by lower external consulting and development costs.

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

Operating Expenses (dollars in thousands)	For the Year Ended December 31, 2014	Percent of Revenue	For the Year Ended December 31, 2013	Percent of Revenue	Dollar Change	Percentage Change
Sales and marketing	$ 11,494	12.1%	$ 9,942	11.3%	$ 1,552	15.6%
General and administrative	9,226	9.7%	8,398	9.5%	828	9.9%
Research and development	2,942	3.1%	2,557	2.9%	385	15.1%
Total operating expenses	$ 23,662	25.0%	$ 20,897	23.8%	$ 2,765	13.2%

The increase in sales and marketing expense was due primarily to higher personnel-related costs and incremental spending on promotional activities. Personnel-related costs included commissions related to improved sales performance, and incremental costs associated with the acquisition of our distributor in South Africa in the fourth quarter of 2013. The increase in general and administrative expense resulted primarily from higher personnel-related costs. The increase in research and development expense was due primarily to higher materials costs.

Livestock, Poultry and Dairy. The following table presents LPD operating expenses by functional area:

Operating Expenses (dollars in thousands)	For the Year Ended December 31, 2014	Percent of Revenue	For the Year Ended December 31, 2013	Percent of Revenue	Dollar Change	Percentage Change
Sales and marketing	$ 25,144	19.7%	$ 20,972	18.4%	$ 4,172	19.9%
General and administrative	16,870	13.2%	14,855	13.1%	2,015	13.6%
Research and development	13,010	10.2%	12,548	11.0%	462	3.7%
Total operating expenses	$ 55,024	43.2%	$ 48,375	42.5%	$ 6,649	13.7%

The increase in sales and marketing expense resulted from higher personnel-related costs, including incremental costs associated with the acquisition of a Brazilian distributor in the third quarter of 2013 and commercial team investments worldwide, most significantly in the Asia-Pacific region. The increase in general and administrative expense resulted

from incremental costs associated with the acquisition of the Brazilian distributor, primarily personnel-related costs and higher amortization of the acquired intangible assets. The increase in research and development expense was due primarily to higher personnel-related costs.

Other. Operating expenses for Other increased $1.5 million to $11.8 million for the year ended December 31, 2014, as compared to the prior year due primarily to higher personnel-related costs and an increase in external development and consulting costs in our OPTI Medical line of business.

Unallocated Amounts. Operating expenses that are not allocated to our operating segments increased by $0.9 million to $13.1 million for the year ended December 31, 2014, as compared to the prior year, due primarily to certain foreign exchange losses and an increase in certain personnel-related costs. These unfavorable factors were partly offset by the absence of a $4.1 million loss incurred during the year ended December 31, 2013 resulting from the bankruptcy of a freight payment and audit service provider.

Over the second half of 2014, the U.S. dollar experienced a continued and persistent strengthening relative to all major foreign currencies in which we transact, resulting in realized and unrealized losses on monetary assets, partly offset by gains on liabilities denominated in a currency other than the U.S. dollar.

We estimate certain personnel-related costs and allocate the estimated expenses to the operating segments. This allocation differs from actual expense and consequently yields a difference that is reported under the caption “Unallocated Amounts.”

Interest Income and Interest Expense

Interest income was $1.7 million for the year ended December 31, 2014 as compared to $1.9 million for the prior year. The decrease in interest income resulted from our June 2014 disposition of a debt investment and repayment of the related notes receivable, partly offset by increased interest income earned on higher average cash balances. See Note 3 to the consolidated financial statements included in this Annual Report on Form 10-K for additional information regarding the disposition of this strategic investment.

Interest expense was $15.4 million for the year ended December 31, 2014, as compared to $5.4 million for the prior year. The increase in interest expense was due primarily to senior notes that we issued and sold through three private placements between December 2013 and September 2014 in an aggregate principal amount of $350 million. Fixed interest rates on the senior notes range from 3.32% to 4.04%. See Note 10 to the consolidated financial statements included in this Annual Report on Form 10-K for additional information regarding our senior notes.

Provision for Income Taxes

Our effective income tax rate was 26.2% for the year ended December 31, 2014 and 28.7% for the year ended December 31, 2013. The decrease in our effective income tax rate for the year ended December 31, 2014, as compared to the year ended December 31, 2013, was related to higher relative earnings subject to international tax rates that are lower than domestic tax rates, a non-recurring benefit related to the deferral of intercompany profits that were included in prior year tax provisions in error, which is not material to current or prior interim or annual periods, and the resolution of domestic and international tax audits, which resulted in a net reduction in our provision for uncertain tax positions. These favorable factors were partly offset by a reduction in the benefit from the U.S. research and development (“R&D”) tax credit. During the three months ended March 31, 2013, legislation in the U.S. retroactively allowed the R&D tax credit for all of 2012 and extended the R&D tax credit through the year ending December 31, 2013. As a result, in the year ending December 31, 2013 we recorded the benefit of two years of R&D tax credit as compared to the year ending December 31, 2014 in which we have recorded only the benefit related to that year’s activities.

In 2015, it is reasonably possible that we could recognize up to $0.4 million of income tax benefits that have not been recognized at December 31, 2014. The income tax benefits are primarily due to the lapse in the statutes of limitations for various tax jurisdictions.

Twelve Months Ended December 31, 2013 Compared to Twelve Months Ended December 31, 2012

Revenue

The following revenue analysis and discussion focuses on organic revenue growth. Organic revenue growth is a non-GAAP financial measure and represents the percentage change in revenue during the twelve months ended December 31, 2013, as compared to the same period for the prior year, net of the effect of changes in foreign currency exchange rates and acquisitions. Organic revenue growth should be considered in addition to, and not as a replacement for or as a superior measure to, revenues reported in accordance with U.S. GAAP, and may not be comparable to similarly titled measures reported by other companies. Management believes that reporting organic revenue growth provides useful information to investors by facilitating easier comparisons of our revenue performance with prior and future periods and to the performance of our peers. We exclude the effect of changes in foreign currency exchange rates because changes in foreign currency exchange rates are not under management's control, are subject to volatility and can obscure underlying business trends. We exclude the effect of acquisitions because the nature, size and number of acquisitions can vary dramatically from period to period and therefore can also obscure underlying business trends.

The percentage changes in revenue from foreign currency exchange rates and acquisitions are non-GAAP financial measures. See the subsection above titled "Effects of Certain Factors on Results of Operations – Currency Impact" for a description of the calculation of the percentage change in revenue resulting from changes in foreign currency exchange rates. The percentage change in revenue resulting from acquisitions represents incremental revenues attributable to acquisitions that have occurred since the beginning of the prior year period.