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

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

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2010

OR

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

COMMISSION FILE NUMBER: 0-19271

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

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

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. The number of shares outstanding of the registrant's Common Stock, $0.10 par value, was 57,705,856 on July 19, 2010.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

IDEXX LABORATORIES, INC. AND SUBSIDIARIES

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

	June 30, 2010	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 117,975	$ 106,728
Accounts receivable, net of reserves of $2,253 in 2010 and $2,331 in 2009	127,138	115,107
Inventories, net	122,032	110,425
Deferred income tax assets	23,433	25,188
Other current assets	19,974	18,890
Total current assets	410,552	376,338
Long-Term Assets:		
Property and equipment, net	196,714	199,946
Goodwill	143,252	148,705
Intangible assets, net	57,873	63,907
Other long-term assets, net	25,344	19,631
Total long-term assets	423,183	432,189
TOTAL ASSETS	$ 833,735	$ 808,527
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 23,190	$ 19,133
Accrued liabilities	99,629	104,959
Line of credit	133,862	118,790
Current portion of long-term debt	838	813
Current portion of deferred revenue	13,681	12,610
Total current liabilities	271,200	256,305
Long-Term Liabilities:		
Deferred income tax liabilities	17,940	18,283
Long-term debt, net of current portion	3,856	4,281
Long-term deferred revenue, net of current portion	4,740	3,813
Other long-term liabilities	11,722	11,266
Total long-term liabilities	38,258	37,643
Total liabilities	309,458	293,948
Commitments and Contingencies (Note 12)		
Stockholders' Equity:		
Common stock, $0.10 par value: Authorized: 120,000 shares; Issued: 97,294 and 96,334 shares in 2010 and 2009, respectively	9,729	9,633
Additional paid-in capital	613,416	580,797

Deferred stock units: Outstanding: 128 and 117 units in 2010 and 2009, respectively	4,798	4,301
Retained earnings	894,475	824,256
Accumulated other comprehensive income	2,924	10,341
Treasury stock, at cost: 39,680 and 38,118 shares in 2010 and 2009, respectively	(1,001,081)	(914,759)
Total IDEXX Laboratories, Inc. stockholders' equity	524,261	514,569
Noncontrolling interest	16	10
Total stockholders' equity	524,277	514,579
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 833,735	$ 808,527

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

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IDEXX LABORATORIES, INC. AND SUBSIDIARIES

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

	For the Three Months Ended June 30, 2010	For the Three Months Ended June 30, 2009	For the Six Months Ended June 30, 2010	For the Six Months Ended June 30, 2009
Revenue:				
Product revenue	$ 179,813	$ 176,066	$ 356,574	$ 331,961
Service revenue	101,669	89,657	193,433	170,217
Total revenue	281,482	265,723	550,007	502,178
Cost of Revenue:				
Cost of product revenue	72,063	71,304	140,697	130,571
Cost of service revenue	60,135	55,979	117,665	108,734
Total cost of revenue	132,198	127,283	258,362	239,305
Gross profit	149,284	138,440	291,645	262,873
Expenses:				
Sales and marketing	44,167	41,876	88,583	82,861
General and administrative	33,076	30,794	65,884	59,862
Research and development	17,206	16,594	33,915	32,533
Income from operations	54,835	49,176	103,263	87,617
Interest expense	(689)	(459)	(1,054)	(1,099)
Interest income	138	56	191	300
Income before provision for income taxes	54,284	48,773	102,400	86,818
Provision for income taxes	17,087	15,106	32,175	27,080
Net income	37,197	33,667	70,225	59,738
Less: Net income attributable to noncontrolling interest	4	-	6	-
Net income attributable to IDEXX Laboratories, Inc. stockholders	$ 37,193	$ 33,667	$ 70,219	$ 59,738
Earnings per Share:				
Basic	$ 0.64	$ 0.57	$ 1.21	$ 1.01
Diluted	$ 0.62	$ 0.55	$ 1.17	$ 0.98
Weighted Average Shares Outstanding:				
Basic	57,747	58,911	57,890	59,041
Diluted	59,646	60,697	59,875	60,688

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

IDEXX LABORATORIES, INC. AND SUBSIDIARIES

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

	For the Six Months Ended June 30, 2010	For the Six Months Ended June 30, 2009
Cash Flows from Operating Activities:		
Net income	$ 70,225	$ 59,738
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,632	24,712
Loss on disposal of property and equipment	1,442	2,177
Increase (decrease) in deferred compensation liability	(71)	159
Write-down of marketable securities	-	150
Provision for uncollectible accounts	596	654
Provision for (benefit of) deferred income taxes	(112)	1,239
Share-based compensation expense	6,602	5,941
Tax benefit from exercises of stock options and vesting of restricted stock units	(9,372)	(1,355)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(16,544)	(7,101)
Inventories	(12,977)	(6,876)
Other assets	(1,634)	(2,768)
Accounts payable	4,308	(1,684)
Accrued liabilities	7,432	(3,423)
Deferred revenue	2,558	(682)
Net cash provided by operating activities	75,085	70,881
Cash Flows from Investing Activities:		
Purchases of property and equipment	(17,437)	(21,360)
Proceeds from disposition of pharmaceutical product lines	-	1,377
Proceeds from sale of property and equipment	64	1,076
Acquisitions of intangible assets	(144)	-
Net cash used by investing activities	(17,517)	(18,907)
Cash Flows from Financing Activities:		
Borrowings on revolving credit facilities, net	15,099	3,782
Payment of other notes payable	(400)	(436)
Purchase of treasury stock	(83,724)	(39,725)
Proceeds from exercises of stock options and employee stock purchase plans	16,446	6,888
Tax benefit from exercises of stock options and vesting of restricted stock units	9,372	1,355
Net cash used by financing activities	(43,207)	(28,136)
Net effect of changes in exchange rates on cash	(3,114)	1,038
Net increase in cash and cash equivalents	11,247	24,876
Cash and cash equivalents at beginning of period	106,728	78,868
Cash and cash equivalents at end of period	$ 117,975	$ 103,744

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

IDEXX LABORATORIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

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

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

The accompanying condensed consolidated financial statements reflect, in the opinion of our management, all adjustments necessary for a fair presentation of our financial position and results of operations. All such adjustments are of a recurring nature. The consolidated balance sheet data at December 31, 2009 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. The results of operations for the six months ended June 30, 2010 are not necessarily indicative of the results to be expected for the full year or any future period. These condensed consolidated financial statements should be read in conjunction with this Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, and our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission.

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

NOTE 2. ACCOUNTING POLICIES

Significant Accounting Policies

The significant accounting policies used in preparation of these condensed consolidated financial statements for the six months ended June 30, 2010 are consistent with those discussed in Note 3 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2009, except for the adoption of new accounting standards during the six months ended June 30, 2010 as discussed below.

Recent Accounting Pronouncements

On January 1, 2010, we adopted amendments to authoritative literature that modifies the revenue recognition guidance for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable in the arrangement based on relative selling price of the elements. The selling price for each deliverable is based on vendor-specific objective evidence ("VSOE") if available, third-party evidence ("TPE") if VSOE is not available, or best estimate of selling price ("BESP") if neither VSOE nor TPE is available. BESP must be determined in a manner that is consistent with that used to determine the price to sell the specific elements on a standalone basis. The authoritative literature permits prospective or retrospective adoption, and we elected prospective adoption. The adoption of these amendments did not have a significant impact on our financial position, results of operations, or cash flows for the six months ended June 30, 2010, nor do we anticipate a significant impact for the year ended December 31, 2010.

On January 1, 2010, we adopted amendments to authoritative literature that modifies the revenue recognition guidance for the sale of tangible products that contain software that is more than incidental to the functionality of the product as a whole. More specifically, the revised accounting guidance indicates that when a product has tangible and software components that function together to deliver the essential functionality of the product as a whole, that product should be excluded from the scope of software revenue accounting guidance, as opposed to the previous accounting guidance where such an instrument would be subject to the rules detailed in the software revenue guidance. The authoritative literature permits prospective or retrospective adoption, and we elected prospective adoption. Certain sales of our instruments are subject to these amendments. However, the adoption of these amendments did not have a significant impact on our financial position, results of operations, or cash flows for the six months ended June 30, 2010, nor do we anticipate a significant impact for the year ended December 31, 2010.

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

Revenue Recognition

We recognize revenue when four criteria are met: (i) persuasive evidence that an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the sales price is fixed or determinable; and (iv) collectability is reasonably assured. Revenue-generating transactions generally fall into one of the following categories of revenue recognition:

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

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

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

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

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

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

- Shipping costs reimbursed by the customer are included in revenue.

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

When arrangements outside of the scope of software revenue recognition guidance include multiple elements, we allocate revenue to each element based on the relative selling price and recognize revenue when the elements have standalone value and the four criteria for revenue recognition have been met for each element. We establish the selling price of each element based on VSOE if available, TPE if VSOE is not available, or BESP if neither VSOE nor TPE is available. We generally determine selling price based on amounts charged separately for the delivered and undelivered elements to similar customers in standalone sales of the specific elements. When arrangements outside of the scope of software revenue recognition guidance include an EMA, we recognize revenue related to the EMA at the stated contractual price on a straight-line basis over the life of the agreement.

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

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

Within our overall IDEXX Points program, our two most significant customer programs are Practice Developer® and SNAP® up the Savings™ (“SUTS”), both of which are offered only to North American customers. Our Practice Developer® program is a Companion Animal Group (“CAG”) awards program that permits customers to earn points by purchasing quarterly minimums in certain product and service categories, including IDEXX Reference Laboratories services, Catalyst Dx® and VetTest® slides, SNAPShot Dx® Analyzer and VetTest® SNAP® Reader reagents, LaserCyte® and VetAutoread™ tubes, and service and maintenance agreements. For the Practice Developer® program, the accrued revenue reduction is calculated each quarter based on sales to end users during the quarter by either us or our distributors and on our estimate of future points to be issued upon sale of applicable product inventories held by distributors at the end of the quarter. SUTS is our volume incentive program for selected SNAP® tests that provides customers with benefits in the form of (1) discounts off invoice at the time of purchase and (2) points under the IDEXX Points program awarded and paid out quarterly throughout the SUTS program year (which ends on August 31) based on total purchase volume of qualified SNAP® products during the given quarter.

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

NOTE 3. SHARE-BASED COMPENSATION

The following is a summary of the fair value of options, restricted stock units, deferred stock units with vesting conditions and employee stock purchase rights awarded, and share-based compensation expense incurred, during the three and six months ended June 30, 2010 and 2009 (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Fair value of share-based compensation awards	$ 354	$ 116	$ 15,355	$ 15,255
Share-based compensation expense	3,168	2,944	6,512	5,806

The total unrecognized compensation expense for unvested awards outstanding at June 30, 2010 was $32.4 million, net of approximately $2.6 million related to estimated forfeitures. The weighted average remaining expense recognition period at June 30, 2010 was approximately 2.1 years.

Options

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

	For the Six Months Ended June 30,	
	2010	2009
Expected stock price volatility	31%	30%
Expected term, in years	4.9	4.8
Risk-free interest rate	2.3%	1.6%
Weighted average fair value of options granted	$ 16.56	$ 9.97

NOTE 4. INVENTORIES

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

	June 30, 2010	December 31, 2009
Raw materials	$ 29,999	$ 28,426
Work-in-process	14,706	17,761
Finished goods	77,327	64,238

	$ 122,032	$ 110,425

NOTE 5. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in goodwill and intangible assets other than goodwill during the six months ended June 30, 2010 resulted primarily from changes in foreign currency exchange rates and, to a lesser extent, continued amortization of our intangible asset base.

NOTE 6. ACCRUED LIABILITIES

Accrued liabilities consisted of the following (in thousands):

	June 30, 2010	December 31, 2009
Accrued expenses	$ 31,548	$ 33,094
Accrued employee compensation and related expenses	40,864	44,497
Accrued taxes	5,082	9,980
Accrued customer programs	22,135	17,388
	$ 99,629	$ 104,959

NOTE 7. WARRANTY RESERVES

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

The following is a summary of changes in accrued warranty reserves during the three and six months ended June 30, 2010 and 2009 (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Balance, beginning of period	$ 2,614	$ 3,106	$ 3,086	$ 2,837
Provision for warranty expense	1,020	1,328	1,941	2,317
Change in estimate	(90)	(425)	(570)	(420)
Settlement of warranty liability	(947)	(910)	(1,860)	(1,635)
Balance, end of period	$ 2,597	$ 3,099	$ 2,597	$ 3,099

NOTE 8. TREASURY STOCK

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

The following is a summary of our treasury stock purchases and other receipts for the three and six months ended June 30, 2010 and 2009 (in thousands, except per share amounts):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009

Shares acquired	422	593	1,562	1,092
Total cost of shares acquired	$ 26,020	$ 24,758	$ 86,322	$ 40,816
Average cost per share	$ 61.66	$ 41.72	$ 55.26	$ 37.37

NOTE 9. INCOME TAXES

The following is a summary of our effective income tax rates for the three and six months ended June 30, 2010 and 2009:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Effective income tax rate	31.5%	31.0%	31.4%	31.2%

The increases in our effective income tax rate for the three and six months ended June 30, 2010 compared to the same periods of the prior year were due primarily to the expiration of federal research and development tax incentives that were available during the three and six months ended June 30, 2009, partly offset by tax benefits related to U.S. manufacturing activities that were fully phased in effective January 1, 2010.

NOTE 10. COMPREHENSIVE INCOME

The following is a summary of comprehensive income for the three and six months ended June 30, 2010 and 2009 (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Net income	$ 37,197	$ 33,667	$ 70,225	$ 59,738
Less: Net income attributable to noncontrolling interest	4	-	6	-
Net income attributable to IDEXX Laboratories, Inc. stockholders	37,193	33,667	70,219	59,738
Other comprehensive income (loss) attributable to IDEXX Laboratories, Inc. stockholders:				
Foreign currency translation adjustments	(7,339)	14,063	(12,887)	6,971
Change in fair value of foreign currency contracts classified as hedges, net of tax	4,020	(7,170)	6,295	(8,457)
Change in fair value of interest rate swaps classified as hedges, net of tax	(191)	549	(773)	335
Change in fair market value of investments, net of tax	(109)	305	(52)	242
Comprehensive income attributable to IDEXX Laboratories, Inc. stockholders	$ 33,574	$ 41,414	$ 62,802	$ 58,829

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NOTE 11. EARNINGS PER SHARE

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

The following is a reconciliation of shares outstanding for basic and diluted earnings per share for the three and six months ended June 30, 2010 and 2009 (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Shares Outstanding for Basic Earnings per Share:				
Weighted average shares outstanding	57,619	58,797	57,765	58,930
Weighted average vested deferred stock units outstanding	128	114	125	111
	57,747	58,911	57,890	59,041
Shares Outstanding for Diluted Earnings per Share:				
Shares outstanding for basic earnings per share	57,747	58,911	57,890	59,041
Dilutive effect of options issued	1,764	1,711	1,801	1,569
Dilutive effect of restricted stock units issued	134	67	182	71
Dilutive effect of unvested deferred stock units issued	1	8	2	7
	59,646	60,697	59,875	60,688

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

Certain options to acquire shares and restricted stock units have been excluded from the calculation of shares outstanding for diluted earnings per share because they were anti-dilutive. The following table presents information concerning those anti-dilutive options and restricted stock units for the three and six months ended June 30, 2010 and 2009 (in thousands, except per share amounts):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Weighted average number of shares underlying anti-dilutive options	547	1,442	624	1,526
Weighted average exercise price per underlying share of anti-dilutive options	$ 54.19	$ 44.18	$ 55.11	$ 44.00
Weighted average number of shares underlying anti-dilutive restricted stock units	-	127	-	17

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

	June 30, 2010	June 30, 2009
Closing price per share of our common stock	$ 60.90	$ 46.20
Number of shares underlying options with exercise prices below the closing price	4,378	4,714
Number of shares underlying options with exercise prices equal to or above the closing price	4	571
Total number of shares underlying outstanding options	4,382	5,285

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NOTE 12. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Significant commitments, contingencies and guarantees at June 30, 2010 are consistent with those discussed in Note 12 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2009.

NOTE 13. SEGMENT REPORTING

During the second quarter of 2010, we changed the name of our Production Animal Segment to Livestock and Poultry Diagnostics ("LPD"). The primary reason for this change was to provide a name that more accurately reflects the products and services and customer groups to which this segment caters.

The accounting policies of the segments are consistent with those discussed in Notes 1 and 13 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2009. Intersegment revenues, which are not included in the table below, were not significant for the three and six months ended June 30, 2010 and 2009.

The following is a summary of segment performance for the three and six months ended June 30, 2010 and 2009 (in thousands):

	For the Three Months Ended June 30,					
	CAG	Water	LPD	Other	Unallocated Amounts	Consolidated Total
2010						
Revenue	$ 232,320	$ 19,448	$ 19,160	$ 10,554	$ -	$ 281,482
Income (loss) from operations	$ 44,879	$ 7,917	$ 4,188	$ 202	$ (2,351)	$ 54,835
Interest expense, net						551
Income before provision for income taxes						54,284
Provision for income taxes						17,087
Net income						37,197
Net income attributable to noncontrolling interest						4
Net income attributable to IDEXX Laboratories, Inc. stockholders						$ 37,193
2009						
Revenue	$ 217,289	$ 19,165	$ 19,639	$ 9,630	$ -	$ 265,723
Income (loss) from operations	$ 39,912	$ 8,608	$ 5,108	$ (30)	$ (4,422)	$ 49,176
Interest expense, net						403
Income before provision for income taxes						48,773
Provision for income taxes						15,106
Net income						33,667
Net income attributable to noncontrolling interest						-
Net income attributable to IDEXX Laboratories, Inc. stockholders						$ 33,667

	For the Six Months Ended June 30,					
	CAG	Water	LPD	Other	Unallocated Amounts	Consolidated Total
2010						
Revenue	$ 453,737	$ 37,312	$ 39,101	$ 19,857	$ -	$ 550,007
Income (loss) from operations	$ 84,646	$ 15,040	$ 8,922	$ 462	$ (5,807)	$ 103,263
Interest expense, net						863
Income before provision for income taxes						102,400
Provision for income taxes						32,175
Net income						70,225
Net income attributable to noncontrolling interest						6

Net income attributable to IDEXX Laboratories, Inc. stockholders	$	70,219
&		