IDEXX LABORATORIES INC /DE
Form 10-K
February 19, 2010

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

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009
or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____.
COMMISSION FILE NUMBER: 0-19271
IDEXX LABORATORIES, INC.
(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code: **207-556-0300**
Securities registered pursuant to Section 12(b) of the Act:

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

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

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

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 o No þ

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

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

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

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

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

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

Based on the closing sale price on June 30, 2009 of the registrant s Common Stock as reported by the NASDAQ Global Market, the aggregate market value of the voting stock held by non-affiliates of the registrant was $2,690,802,946. 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 58,061,319 on February 12, 2010.

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 2010 Annual Meeting to be held on May 5, 2010, are incorporated herein by reference.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

PART I

ITEM 1. BUSINESS

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

In the fourth quarter of 2008, we sold our Acarexx® and SURPASS® veterinary pharmaceutical products and a product under development. Upon completion of this transaction we restructured the remaining pharmaceutical division and realigned the remaining pharmaceutical product lines to other business units. We retained certain drug delivery technologies that we will seek to commercialize through agreements with third parties such as pharmaceutical companies. See Note 19 to the consolidated financial statements for the year ended December 31, 2009 included in this Annual Report on Form 10-K.

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

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

DESCRIPTION OF BUSINESS BY SEGMENT

During 2009, we operated primarily through three business segments: diagnostic and information technology products and services for the veterinary market, which we refer to as our Companion Animal Group (CAG), water quality products (Water) and products for production animal health, which we refer to as our Production Animal Segment (PAS). We also operate two smaller operating segments that comprise products for dairy quality (Dairy) and products for the human point-of-care medical diagnostics market (OPTI Medical). In connection with the restructuring of our pharmaceutical division at the end of 2008, we realigned two of our remaining product lines to the Rapid Assay line of business, which is part of our CAG segment, and realigned the remainder of the products, which comprised one product line and two out-licensing arrangements, to the Other category. Financial information about the Dairy and OPTI Medical operating segments and other licensing arrangements are combined and presented in an Other category because they do not meet the quantitative or qualitative thresholds for reportable segments. Segment information presented for the year ended December 31, 2007 has been restated to conform to our presentation of reportable segments for the years ended December 31, 2009 and 2008. See Note 13 to the consolidated financial statements for the year ended December 31, 2009 included in this Annual Report on Form 10-K for financial information about our segments, including geographic information, and about our product and service categories.

COMPANION ANIMAL GROUP

Instruments and Consumables

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

Blood and Urine Chemistry.

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

The Catalyst Dx® analyzer is our latest generation chemistry analyzer, which was launched in the first quarter of 2008. The Catalyst Dx® analyzer provides significantly improved throughput, ease of use and menu relative to the VetTest® analyzer, including the ability to run electrolytes. Key ease-of-use features include the ability to run whole blood by way of an on-board centrifuge, the ability to run pre-packaged clips in addition to single chemistry slides, and an automated metering system. The Catalyst Dx® analyzer also has the ability to run automated dilutions, which is an ease-of-use feature both for certain blood chemistries and the test for urine protein:creatinine ratio. The Catalyst Dx® analyzer allows a veterinarian to run multiple patient samples simultaneously; to run different sample types including whole blood, plasma, serum and urine; to perform 27 different chemistry and electrolyte parameter tests; and to automatically calculate other parameters and ratios important to blood chemistry analysis.

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

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

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

Hematology. We sell three hematology analyzers: the LaserCyte® Hematology Analyzer, which uses laser-flow cytometry technology to analyze cellular components of blood, including red blood cells, white blood cells and platelets (also called a complete blood count (CBC)); the Coag DxAnalyzer, which permits the detection and diagnosis of blood clotting disorders; and the IDEXX VetAutoread Hematology Analyzer, which also provides a CBC.

Quantitative Immunoassay Testing. In the first quarter of 2008, we launched the SNAPshot Dx® Analyzer, which automates SNAP® testing for veterinarians by significantly improving ease of use, throughput and test menu, relative to the previous generation IDEXX SNAP® Reader. The SNAPshot Dx® analyzer obtains quantitative measurements of total thyroxine (T4), cortisol and bile acids, which assists in the evaluation of thyroid, adrenal and liver function, and offers multiple-patient testing functionality. The SNAPshot Dx® analyzer also reads, interprets and records the results of certain IDEXX rapid assay SNAP® tests, including our SNAP®4Dx® Test, feline SNAP® FIV/FeLV Combo Test and canine SNAP® cPL Test.

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

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

Rapid Assays

We provide a broad range of single-use, handheld test kits under the SNAP® name that allow quick, accurate and convenient diagnostic test results for a variety of companion animal diseases and health conditions. These kits work without the use of instrumentation, although certain kits may also be read automatically by the SNAPshot Dx® analyzer.

Principal single-use canine tests include:

- SNAP® 3Dx®, which tests for Lyme disease, *Ehrlichia canis* and heartworm;
- SNAP® 4Dx®, which adds a test for *Anaplasma phagocytophilum* to what is tested by SNAP® 3Dx®;
- SNAP® Heartworm RT, which tests only for canine heartworm;
- SNAP® Parvo, which tests for parvovirus;

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SNAP® cPL, which tests for canine pancreatitis; and
SNAP® *Giardia*, which is a fecal test for soluble *Giardia* antigens

Principal single-use feline tests include:

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

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

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

Veterinary Laboratory Diagnostic and Consulting Services

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

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

Practice Information Systems and Digital Radiography

Practice Information Systems and Services. We develop, market and sell practice information systems, including hardware and software, that run key functions of veterinary clinics, including managing patient electronic health records, scheduling (including boarding and grooming), billing and inventory management. Our principal system is the Cornerstone® system. We also support several legacy systems installed with our customers, including IDEXX Better Choice®, IDEXX VPM and IDEXX VetLINK®. Additionally, we provide software and hardware support to our practice information system customers, and related supplies and services to veterinary practice information system users in general, and we derive a significant portion of our revenues for this product line from ongoing service contracts.

Digital Radiography Systems and Services. Our digital radiography systems capture radiograph images in digital form, replacing traditional x-ray film. Use of digital radiography systems eliminates the need for the film and processor, hazardous chemicals, and darkroom required for the production of film images, and provides for image manipulation and enhancement through contrast management. We market and sell three digital radiography systems: the IDEXX-DR 1417 and the IDEXX-CR 1417 systems for use in the small animal (e.g., dog and cat) veterinary hospital, and the IDEXX EquiView® DR system for use as a portable unit in ambulatory veterinary practices, such as equine practices. Our digital radiography systems use IDEXX-PACS and IDEXX EquiView PACS picture archiving and communication system (PACS) software for the viewing, manipulation, management, storage and retrieval of the digital images generated by the digital capture plate. The PACS software also permits images from our digital radiography systems to be integrated into patients medical records in the Cornerstone® system, as well as transferred to other practice information management systems.

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WATER

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

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

Our Enterolert® product detects enterococci in drinking and recreational waters. Our Quanti-Tray® products, when used in conjunction with our Colilert®, Colilert®-18, Colisure® or Enterolert® products, provide users quantitative measurements of microbial contamination, rather than a presence/absence indication. The Colilert®, Colilert®-18, Colisure®, Quanti-Tray® and Enterolert® products have been approved by the EPA and by regulatory agencies in certain other countries.

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

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

PRODUCTION ANIMAL SEGMENT

We sell diagnostic tests and related instrumentation that are used to detect a wide range of diseases and to monitor health status in production animals. Our production animal products are purchased primarily by government laboratories and by cattle, swine and poultry producers. Our largest product is a post-mortem test for bovine spongiform encephalopathy (BSE or mad cow disease). Effective January 1, 2009, the age at which healthy cattle to be slaughtered are required to be tested for BSE in the European Union was increased from 30 months to 48 months, which has been estimated to reduce the population of cattle tested by approximately 30%. We may lose sales of post-mortem tests for BSE in the future as a result of this regulatory change.

OTHER

Dairy

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

OPTI Medical Systems

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

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Other Activities

In connection with the restructuring of our pharmaceutical product line at the end of 2008, we realigned two of our remaining product lines to the Rapid Assay line of business, which is part of our CAG segment, and realigned the remainder of the products, which comprises one product line and two out-licensing arrangements, from the pharmaceutical division to the Other category. The financial impacts of the product line and out-licensing arrangements have been shown in the Other category for 2009 and 2008. The segment information for the year ended December 31, 2007 has been restated to conform to our presentation of reportable segments for the year ended December 31, 2009 and 2008.

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

UNALLOCATED AMOUNTS

Items that are not allocated to our operating segments are comprised primarily of corporate research and development expenses that do not align with one of our existing product or service categories, a portion of share-based compensation expense, interest income and expense, and income taxes. We estimate our share-based compensation expense for the year and allocate the estimated expense to the operating segments. This allocation differs from the actual expense and consequently yields a difference between the total allocated share-based compensation expense and the actual expense for the total company resulting in an unallocated amount reported under the caption Unallocated Amounts.

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

MARKETING AND DISTRIBUTION

We market, sell and service our products worldwide through our marketing, sales and technical service groups, as well as through independent distributors and other resellers. We maintain sales offices outside the U.S. in Australia, Canada, China, France, Germany, Italy, Japan, the Netherlands, Spain, Switzerland, Taiwan and the United Kingdom. Sales and marketing expense was $167.7 million, $170.0 million and $151.9 million in 2009, 2008 and 2007, respectively, or 16.3% of sales in 2009, 16.6% of sales in 2008, and 16.5% of sales in 2007.

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

Our largest customers are our U.S. distributors of our products in the CAG segment. One of our CAG distributors, Butler Animal Health Supply, LLC (Butler), accounted for 7% of our 2009 revenue and 8% of our 2008 and 2007 revenue. Butler accounted for 4% of our net accounts receivable at December 31, 2009 and 5% of our net accounts receivable at December 31, 2008 and 2007. In December 2009, Butler combined with the U.S. animal health business of Henry Schein, Inc. (Schein) to form Butler Schein Animal Health. Schein accounted for 3% of our 2009, 2008 and 2007 revenue and 2% of our net accounts receivable at December 31, 2009, 2008 and 2007.

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RESEARCH AND DEVELOPMENT

Our business includes the development and introduction of new products and services and may involve entry into new business areas. We maintain active research and development programs in each of our business areas. Our research and development expenses, which consist of salaries, employee benefits, materials and consulting costs, were $65.1 million, $70.7 million and $67.3 million in 2009, 2008 and 2007, respectively, or 6.3% of sales in 2009, 6.9% of sales in 2008, and 7.3% of sales in 2007.

PATENTS AND LICENSES

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

Important patents and licenses include:

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

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

PRODUCTION AND SUPPLY

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

Significant products supplied by third parties include VetTest® analyzers and consumables, Catalyst Dx® consumables (other than electrolyte consumables), and VetAutoread, VetLyte® and Coag Dx analyzers and consumables.

VetTest® slides and Catalyst Dx® chemistry slides are supplied by Ortho under supply agreements that expire in 2025. We are required to purchase all of our requirements for our current menu of VetTest® slides and Catalyst Dx® chemistry slides from Ortho to the extent Ortho is able to supply those requirements.

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

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We purchase certain other products, raw materials and components from a single supplier. These products include certain digital radiography systems and certain components used in our SNAP® rapid assay and dairy devices, production animal testing kits, water testing products, and blood analyzers, including our LaserCyte® analyzers. We have in the past been successful in ensuring an uninterrupted supply of products purchased from single source suppliers. However, there can be no assurance that uninterrupted supply can be maintained if these agreements terminate for any reason or our suppliers otherwise are unable to satisfy our requirements for products. See Part I, Item 1A. Risk Factors.

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

COMPETITION

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

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

Competitive factors in our different business areas are detailed below:

Veterinary diagnostic, water, production animal and dairy testing products. We compete primarily on the basis of the ease of use, speed, accuracy, quality of the information provided, and other performance characteristics of our products and services (including unique tests), the breadth of our product line and services, the effectiveness of our sales and distribution channels, the quality of our technical and customer service, and our pricing relative to the value of our products in comparison with competitive products and services.

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

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

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

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GOVERNMENT REGULATION

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

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

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

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

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

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

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

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

EMPLOYEES

At December 31, 2009, we had approximately 4,800 full-time and part-time employees.

ITEM 1A. RISK FACTORS

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

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

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

- Developing, manufacturing and marketing innovative new in-clinic laboratory analyzers that drive sales of IDEXX VetLab® instruments, grow our installed base of instruments, and create a recurring revenue stream from consumable products;
- 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;
- Achieving the benefits of economies of scale in our worldwide network of laboratories;
- Increasing the value to our customers of our companion animal products and services by enhancing the integration of these products and managing the diagnostic information derived from our products;
- Growing our market share by strengthening our sales and marketing activities both within the U.S. and in geographies outside of the U.S.; and
- Developing and implementing new technology and licensing strategies; and identifying, completing and integrating acquisitions that enhance our existing businesses or create new business or geographic areas for us.

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

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

We currently purchase many products and materials from sole or single sources. Some of the products that we purchase from these sources are proprietary, and, therefore, cannot be readily or easily replaced by alternative sources. These products include our VetAutoread hematology, VetLyte® electrolyte, IDEXX VetLab® UA urinalysis, VetTest® chemistry, and Coag Dx blood coagulation analyzers and related consumables and accessories; image capture plates used in our digital radiography systems; and certain components and raw materials used in our SNAP® rapid assay devices, water testing products, dairy testing products and LaserCyte® hematology analyzers. To mitigate risks associated with sole and single source suppliers we generally enter into long-term contracts that ensure an uninterrupted supply of products at predictable prices. However, there can be no assurance that suppliers will not experience disruptions in their ability to supply products under our contracts, or that suppliers will always fulfill their obligations

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under these contracts. In addition, under some of these agreements 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 agreements or require us to compensate the supplier. Also, in some cases we purchase sole and single source products or components under short-term contracts or purchase orders. In these cases we are more susceptible to unanticipated cost increases or changes in other terms of supply and to the risk that a supplier will not fulfill our requirements for products. If we are unable to obtain adequate quantities of these products in the future, we may be unable to supply the market, which would have a material adverse effect on our results of operations.

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

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

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

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

Disruption in Financial and Currency Markets Could Have a Negative Effect on Our Business

Over the past 18 months, financial markets in the U.S., Europe, Australia and Asia have experienced extreme disruption, including, among other things, volatility in exchange rates and security prices, diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others. These economic developments affect businesses such as ours in a number of ways. The current tightening of credit in financial markets may adversely affect the ability of customers to obtain financing for significant purchases and operations and could result in a decrease in orders for our products and services. The inability of pet owners to obtain consumer credit could lead to a decline in pet visits to the veterinarian, which could result in a decrease in diagnostic testing. Likewise, a decrease in diagnostic testing could negatively impact the financial condition of the veterinary practices that are our customers, which may inhibit their ability to pay us amounts owed for products delivered or services provided. In addition, although current economic conditions have not impacted our ability to access credit markets and finance our operations, further deterioration in financial markets could adversely affect our access to capital. We are unable to predict the likely duration and severity of the current disruption in financial markets and adverse economic conditions in the U.S. and other countries.

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

Strengthening of the rate of exchange for the U.S. dollar against the Euro, the British Pound, the Canadian Dollar, the Japanese Yen and the Australian Dollar adversely affects our results, as it reduces the dollar value of sales that are made in those currencies and reduces the margins on products manufactured in the U.S. and exported to international markets. For the year ended December 31, 2009, approximately 24% of IDEXX sales were derived from products

manufactured in the U.S. and sold internationally in local currencies.

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

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

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

We anticipate that we will receive a subpoena from the FTC requesting that we provide the FTC with documents and information relevant to this investigation and we intend to cooperate fully with the FTC in its investigation. We cannot predict how long any investigation might be ongoing.

We believe that our marketing and sales practices for companion animal veterinary products and services do not violate Section 5 of the FTC Act or any other antitrust law. However, it is possible that the FTC could reach a different conclusion at the end of its investigation and elect to commence an enforcement action in an administrative law court within the FTC. If the FTC were to commence an enforcement action we would expect to defend ourselves vigorously. Were the FTC to prevail in the action and through all subsequent appeals, we believe that any remedies likely to be sought by the FTC under Section 5 would not have a material adverse effect on our business.

Our Success Is Heavily Dependent Upon Our Proprietary Technologies

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

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

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

Distributor Purchasing Patterns Could Negatively Affect Our Operating Results

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

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

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

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

Changes in Testing Patterns Could Negatively Affect Our Operating Results

The market for our companion and production animal diagnostic tests and our dairy and water testing products could be negatively impacted by a number of factors. The introduction or broad market acceptance of vaccines or preventatives for the diseases and conditions for which we sell diagnostic tests and services could result in a decline in testing. 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 production animal products business in particular is subject to fluctuations resulting from changes in disease prevalence. In addition, changes in government regulations could negatively affect sales of our products that are driven by compliance testing, such as our production animal, dairy and water products. Declines in testing for any of the reasons described could have a material adverse effect on our results of operations. Effective January 1, 2009, the age at which healthy cattle to be slaughtered are required to be tested for BSE in the European Union was increased from 30 months to 48 months, which has been estimated to reduce the population of cattle tested by approximately 30%. As a result, we believe that we are likely to lose a portion of our sales of post-mortem tests for BSE.

Consolidation of Veterinary Hospitals Could Negatively Affect Our Business

An increasing percentage of veterinary hospitals in the U.S. is owned by corporations that are in the business of acquiring veterinary hospitals and/or opening new veterinary hospitals nationally or regionally. Major corporate hospital owners in the U.S. include VCA Antech, Inc., National Veterinary Associates, and Banfield, The Pet Hospital, each of which is currently a customer of IDEXX. A similar trend exists in the U.K. and may in the future also develop in other countries. Corporate owners of veterinary hospitals could attempt to improve profitability by leveraging the buying power they derive from their scale to obtain favorable pricing from suppliers, which could have a negative impact on our results. In addition, certain corporate owners, most notably VCA Antech, our primary competitor in the U.S. and Canadian markets for veterinary laboratory diagnostic services, also operate reference laboratories that serve both their hospitals and unaffiliated hospitals. Any hospitals acquired by these companies

generally use their laboratory services almost exclusively and shift a large portion of their testing from in-clinic testing to their reference laboratories. In addition, because these companies compete with us in the 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.

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

Upon acquiring the Critical Care Division of Osmetech plc in January 2007, we entered the human point-of-care medical diagnostics market for the first time with the sale of the OPTI® line of electrolyte and blood gas analyzers. The human point-of-care medical diagnostics market differs in many respects from the veterinary medical market. Significant differences include the impact of third party reimbursement on diagnostic testing, more extensive regulation, greater product liability risks, larger competitors, a more segmented customer base, and more rapid technological innovation. Our inexperience in the human point-of-care medical diagnostics market could negatively affect our ability to successfully manage the risks and features of this market that differ from the veterinary medical market. There can be no assurance that we will be successful in achieving growth and profitability in the human point-of-care medical diagnostics market comparable to the results we have achieved in the veterinary medical market.

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

For the year ended December 31, 2009, 40% of our revenue was attributable to sales of products and services to customers outside the U.S. Various risks associated with foreign operations may impact our international sales. Possible risks include fluctuations in the value of foreign currencies relative to the U.S. dollar, inability of our customers to obtain U.S. dollars to pay our invoices, disruptions in transportation of our products, the differing product and service needs of foreign customers, difficulties in building and managing foreign operations, import/export duties and licensing requirements, and unexpected regulatory, economic or political changes in foreign markets. Prices that we charge to foreign customers may be different than the prices we charge for the same products in the U.S. due to competitive, market or other factors. As a result, the mix of domestic and international sales in a particular period could have a material impact on our results for that period. In addition, many of the products for which our selling price may be denominated in foreign currencies are manufactured, sourced, or both, in the U.S. and our costs are incurred in U.S. dollars. We utilize non-speculative forward currency exchange contracts and natural hedges to mitigate foreign currency exposure. However, an appreciation of the U.S. dollar relative to the foreign currencies in which we sell these products would reduce our operating margins. Additionally, a strengthening U.S. dollar could negatively impact the ability of customers outside the U.S. to pay for purchases denominated in U.S. dollars.

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

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

We manufacture many of our significant products, including our rapid assay devices, certain instruments, and most Water, Dairy, and Production Animal testing products, at a single facility in Westbrook, Maine. Therefore, interruption of operations at this facility would have a material adverse effect on our results of operations.

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

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