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

(Mark One)

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

For the quarterly period ended **March 31, 2017**

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: 000-19271

# IDEXX LABORATORIES, INC.

*(Exact name of registrant as specified in its charter)*

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

**207-556-0300**

*(Registrant's telephone number, including area code)*

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer<br>(Do not check if a smaller reporting company) | ☐ | Emerging growth company | ☐ |
| Smaller reporting company | ☐ | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

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 per share, was 88,123,451 on April 25, 2017.

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

**Item 1. Financial Statements.**

### IDEXX LABORATORIES, INC. AND SUBSIDIARIES

### CONDENSED CONSOLIDATED BALANCE SHEETS

*(in thousands, except per share amounts)*
*(Unaudited)*

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 160,408 | $ 154,901 |
| Marketable securities | 239,933 | 236,949 |
| Accounts receivable, net of reserves of $4,909 in 2017 and $4,523 in 2016 | 225,353 | 204,494 |
| Inventories | 172,183 | 158,034 |
| Other current assets | 80,711 | 91,206 |
| Total current assets | 878,588 | 845,584 |
| Long-Term Assets: | | |
| Property and equipment, net | 361,233 | 357,422 |
| Goodwill | 180,601 | 178,228 |
| Intangible assets, net | 45,686 | 46,155 |
| Other long-term assets | 105,983 | 103,315 |
| Total long-term assets | 693,503 | 685,120 |
| **TOTAL ASSETS** | $ 1,572,091 | $ 1,530,704 |
| | | |
| **LIABILITIES AND STOCKHOLDERS' DEFICIT** | | |
| Current Liabilities: | | |
| Accounts payable | $ 62,249 | $ 60,057 |
| Accrued liabilities | 174,763 | 236,131 |
| Line of credit | 671,000 | 611,000 |
| Current portion of deferred revenue | 28,065 | 27,380 |
| Total current liabilities | 936,077 | 934,568 |
| Long-Term Liabilities: | | |
| Deferred income tax liabilities | 39,964 | 39,287 |
| Long-term debt | 594,868 | 593,110 |
| Long-term deferred revenue, net of current portion | 33,074 | 33,015 |
| Other long-term liabilities | 42,020 | 38,937 |
| Total long-term liabilities | 709,926 | 704,349 |
| Total liabilities | 1,646,003 | 1,638,917 |
| | | |
| Commitments and Contingencies (Note 13) | | |
| | | |
| Stockholders' Deficit: | | |
| Common stock, $0.10 par value: Authorized: 120,000 shares; Issued: 103,740 shares in 2017 and 103,341 shares in 2016 | 10,374 | 10,334 |
| Additional paid-in capital | 1,030,147 | 1,011,895 |
| Deferred stock units: Outstanding: 225 units in 2017 and 231 units in 2016 | 5,552 | 5,514 |
| Retained earnings | 609,420 | 540,401 |
| Accumulated other comprehensive loss | (38,379) | (43,053) |
| Treasury stock, at cost: 15,807 shares in 2017 and 15,367 shares in 2016 | (1,691,204) | (1,633,443) |
| Total IDEXX Laboratories, Inc. stockholders' deficit | (74,090) | (108,352) |
| Noncontrolling interest | 178 | 139 |
| Total stockholders' deficit | (73,912) | (108,213) |
| **TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT** | $ 1,572,091 | $ 1,530,704 |

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

## IDEXX LABORATORIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

*(in thousands, except per share amounts)*

*(Unaudited)*

| | For the Three Months Ended March 31, 2017 | For the Three Months Ended March 31, 2016 |
|---|---|---|
| Revenue: | | |
| Product revenue | $ 271,965 | $ 249,065 |
| Service revenue | 190,056 | 168,485 |
| Total revenue | 462,021 | 417,550 |
| Cost of Revenue: | | |
| Cost of product revenue | 103,027 | 97,631 |
| Cost of service revenue | 100,803 | 92,382 |
| Total cost of revenue | 203,830 | 190,013 |
| Gross profit | 258,191 | 227,537 |
| Expenses: | | |
| Sales and marketing | 87,244 | 79,829 |
| General and administrative | 52,914 | 49,295 |
| Research and development | 25,790 | 24,620 |
| Income from operations | 92,243 | 73,793 |
| Interest expense | (8,589) | (8,304) |
| Interest income | 1,083 | 820 |
| Income before provision for income taxes | 84,737 | 66,309 |
| Provision for income taxes | 15,679 | 20,284 |
| Net income | 69,058 | 46,025 |
| Less: Net income attributable to noncontrolling interest | 39 | 6 |
| Net income attributable to IDEXX Laboratories, Inc. stockholders | $ 69,019 | $ 46,019 |
| Earnings per Share: | | |
| Basic | $ 0.78 | $ 0.51 |
| Diluted | $ 0.77 | $ 0.51 |
| Weighted Average Shares Outstanding: | | |
| Basic | 88,117 | 89,924 |
| Diluted | 89,994 | 90,838 |

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

## IDEXX LABORATORIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

*(in thousands)*
*(Unaudited)*

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| Net income | $ 69,058 | $ 46,025 |
| Other comprehensive income, net of tax: | | |
| Foreign currency translation adjustments | 8,014 | 6,016 |
| Unrealized (loss) gain on net investment hedge | (1,093) | 2,224 |
| Unrealized (loss) gain on investments, net of tax (benefit) expense of ($26) in 2017 and $70 in 2016 | (39) | 205 |
| Unrealized gain (loss) on derivative instruments: | | |
| Unrealized loss, net of tax benefit of $912 in 2017 and $1,443 in 2016 | (1,534) | (3,266) |
| Less: reclassification adjustment for gains included in net income, net of tax expense of $401 in 2017 and $170 in 2016 | (674) | (429) |
| Unrealized loss on derivative instruments | (2,208) | (3,695) |
| Other comprehensive gain, net of tax | 4,674 | 4,750 |
| Comprehensive income | 73,732 | 50,775 |
| Less: comprehensive income attributable to noncontrolling interest | 39 | 6 |
| Comprehensive income attributable to IDEXX Laboratories, Inc. | $ 73,693 | $ 50,769 |

*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 Three Months Ended March 31, 2017 | 2016 |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Net income | $ 69,058 | $ 46,025 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 20,307 | 18,546 |
| Impairment charge | - | 1,110 |
| Benefit of deferred income taxes | 1,941 | 2,520 |
| Share-based compensation expense | 5,655 | 4,922 |
| Other | 860 | 586 |
| Tax benefit from share-based compensation arrangements (Note 2) | - | (2,063) |
| Changes in assets and liabilities: | | |
| Accounts receivable | (19,429) | (21,504) |
| Inventories | (5,369) | 1,764 |
| Other assets and liabilities | (38,531) | (23,752) |
| Accounts payable | (3,687) | (1,801) |
| Deferred revenue | 469 | 637 |
| Net cash provided by operating activities | 31,274 | 26,990 |
| Cash Flows from Investing Activities: | | |
| Purchases of property and equipment | (23,647) | (21,906) |
| Purchase of marketable securities | (90,492) | (72,079) |
| Proceeds from the sale and maturities of marketable securities | 87,476 | 70,186 |
| Acquisitions of a business, net of cash acquired | (2,349) | - |
| Net cash used by investing activities | (29,012) | (23,799) |
| Cash Flows from Financing Activities: | | |
| Borrowings on revolving credit facilities, net | 60,000 | 49,000 |
| Debt issue costs | - | (57) |
| Repurchases of common stock | (63,910) | (53,480) |
| Proceeds from exercises of stock options and employee stock purchase plans | 12,526 | 5,760 |
| Payment of acquisition-related contingent consideration | - | (2,084) |
| Shares withheld for statutory tax withholding on restricted stock (Note 2) | (7,303) | (3,764) |
| Tax benefit from share-based compensation arrangements (Note 2) | - | 2,063 |
| Net cash provided (used) by financing activities | 1,313 | (2,562) |
| Net effect of changes in exchange rates on cash | 1,932 | 3,330 |
| Net increase in cash and cash equivalents | 5,507 | 3,959 |
| Cash and cash equivalents at beginning of period | 154,901 | 128,994 |
| Cash and cash equivalents at end of period | $ 160,408 | $ 132,953 |

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
*(Unaudited)*

### NOTE 1. BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

In order to aid the reader, we have included certain terms and abbreviations used throughout this Quarterly Report on Form 10-Q below:

| Term/ Abbreviation | Definition |
|---|---|
| **AOCI** | Accumulated other comprehensive income or loss |
| **ASU 2016-09** | ASU 2016-09, "*Compensation – Stock Compensation (Topic 781): Improvements to Employee Share-Based Payment Accounting*" |
| **CAG** | Companion Animal Group, a reporting segment that provides to veterinarians diagnostic capabilities and information management solutions that enhance the health and well-being of pets |
| **Credit Facility** | Our $850 million five-year unsecured revolving credit facility under an amended and restated credit agreement that was executed in December 2015 |
| **EPS** | Earnings per share, if not specifically stated, EPS refers to earnings per share on a diluted basis |
| **EU** | European Union |
| **FASB** | Financial Accounting Standards Board |
| **LPD** | Livestock, Poultry and Dairy, a reporting segment that provides diagnostic products and services for livestock and poultry health and to ensure the quality and safety of milk |
| **OCI** | Other comprehensive income or loss |
| **OPTI Medical** | OPTI Medical Systems, Inc., a wholly-owned subsidiary of IDEXX Laboratories Inc., supplies dry slide electrolyte consumables and instruments for the human point-of-care medical diagnostics market, also referred to as OPTI |
| **Organic revenue growth** | A non-GAAP financial measure and represents the percentage change in revenue, as compared to the same period for the prior year, net of the effect of changes in foreign currency exchange rates, acquisitions and divestitures. Organic revenue growth should be considered in addition to, and not as a replacement for or as a superior measure to, revenues reported in accordance with U.S. GAAP, and may not be comparable to similarly titled measures reported by other companies. Management believes that reporting organic revenue growth provides useful information to investors by facilitating easier comparisons of our revenue performance with prior and future periods and to the performance of our peers. |
| **R&D** | Research and Development |
| **SEC** | U.S. Securities and Exchange Commission |
| **Senior Notes Agreement** | Private placement senior notes having an aggregate principal amount of approximately $600 million, referred to as senior notes |
| **U.S. GAAP** | Accounting principles generally accepted in the United States of America |
| **Water** | Water, a reporting segment that provides water quality products around the world |

The accompanying condensed consolidated financial statements of IDEXX Laboratories, Inc. and its subsidiaries 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 this Quarterly Report on Form 10-Q. Unless the context requires otherwise, references in this Quarterly Report on Form 10-Q to "IDEXX," the "Company," "we," "our" or "us" refer to IDEXX Laboratories, Inc. and its subsidiaries.

The accompanying condensed consolidated financial statements include the accounts of IDEXX Laboratories, Inc. and our wholly-owned and majority-owned subsidiaries. We do not have any variable interest entities for which we are the primary beneficiary. All 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 statement of our financial position and results of operations. All such adjustments are of a recurring nature. The consolidated balance sheet data at December 31, 2016, was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. The results of operations for the three months ended March 31, 2017, 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 March 31, 2017, and our Annual Report on Form 10-K for the year ended December 31, 2016, (the "2016 Annual Report") filed with the U.S. Securities and Exchange Commission ("SEC").

For the three months ended March 31, 2017, changes in stockholders' equity included (i) changes in other comprehensive income reflected in the condensed consolidated statements of comprehensive income; (ii) changes in common stock and additional paid-in capital reflected in the condensed consolidated statements of cash flows (including share-based compensation expense, proceeds from exercise of stock options and employee stock purchase plans and repurchases of common stock); (iii) changes in noncontrolling interest; and (iv) changes in net income.

## NOTE 2. ACCOUNTING POLICIES

### Significant Accounting Policies

The significant accounting policies used in preparation of these condensed consolidated financial statements for the three months ended March 31, 2017 are consistent with those discussed in Note 2 to the consolidated financial statements in our 2016 Annual Report, except as noted below.

### New Accounting Pronouncements Adopted

Effective January 1, 2017, we adopted the Financial Accounting Standards Board ("FASB") standard update ASU 2016-09, "*Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*" ("ASU 2016-09") which simplifies several aspects of the accounting for share-based payment transactions, including income tax consequences, recognition of stock compensation award forfeitures, classification of awards as either equity or liabilities, the calculation of diluted shares outstanding and classification on the statement of cash flows.

The following table summarizes the most significant impacts of the new accounting guidance for the three months ended March 31, 2017 and 2016, if applicable:

| **Description of Change:** | **Impact of Change for the Three Months Ended March 31, 2017 and 2016 if applicable:** | **Adoption Method:** |
|---|---|---|
| Tax benefits related to share-based payments at settlement are recorded through the income statement instead of equity | Decrease in income tax expense by approximately $11.2 million for the three months ended March 31, 2017 | Prospective (elected) |
| Calculation of diluted shares outstanding under the treasury method will no longer assume that tax benefits related to share-based payments are used to repurchase common stock | Increase in the weighted average diluted shares outstanding by approximately 450,000 shares for the three months ended March 31, 2017 | Prospective (required) |
| An election can be made to reduce share-based compensation expense for forfeitures as they occur instead of estimating forfeitures that are expected to occur | No change to share-based compensation expense, as we have elected to continue to estimate forfeitures that are expected to occur | N/A |
| Tax benefits related to share-based payments at settlement are classified as operating cash flows instead of financing cash flows | Increase in cash flow from operating activities and decrease in cash flow from financing activities by approximately $11.2 million for the three months ended March 31, 2017 | Prospective (elected) |
| Cash payments to tax authorities for shares withheld to meet employee tax withholding requirements on restricted stock units are classified as financing cash flow instead of operating cash flow | Increase in cash flow from operating activities and decrease in cash flow from financing activities for the three months ended March 31, 2017 and 2016 by approximately $7.3 million and $3.8 million, respectively | Retrospective (required) |

**New Accounting Pronouncements Not Yet Adopted**

In May 2014, the FASB issued Accounting Standard Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will replace most of the existing revenue recognition guidance within U.S. GAAP. The FASB has also issued several updates to ASU 2014-09. The core principle of ASU 2014-09 is that an entity should recognize revenue for the transfer of goods or services to customers in an amount that it expects to be entitled to receive for those goods or services. In doing so, companies will be required to make certain judgments and estimates, including identifying contract performance obligations, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price among separate performance obligations. Additionally, disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, significant judgments reached in the application of the guidance and assets recognized from the costs to obtain or fulfill a contract will be required. In July 2015, the FASB approved a one-year deferral of the effective date to all annual and interim periods beginning after December 15, 2017. The new guidance permits two methods of adoption: a full retrospective method to each prior reporting period presented or a modified retrospective approach with the cumulative effect of initially applying the guidance recognized at the date of initial application. We are continuing to evaluate the impact of this new standard. While ASU 2014-09 will not impact the overall economics of our products and services sold under customer incentive programs, we do expect the new standard will require us to delay revenue recognition related to certain of our customer incentive programs and to accelerate revenue recognition for certain other customer incentive programs. The volume and mix of future customer incentive programs will affect our assessment of the overall net impact of the new standard on our results and will also influence our choice of adoption method. We plan to determine our method of adoption and provide an estimate of any impacts by October 2017, in connection with our financial reporting for the quarter ending September 30, 2017.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations' leasing arrangements. The principal difference from previous guidance is that effective upon adoption, the lease assets and lease liabilities arising from operating leases will be recognized in the balance sheet. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. In transition, we are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, including the option to utilize a number of practical expedients. We are in process of evaluating our lessee and lessor arrangements to determine the impact of this amendment on the consolidated financial statements. This evaluation includes an extensive review of revenue through leasing arrangements as well as lease expenses, which are primarily through operating lease arrangements for most of our facilities.

In February 2017, the FASB issued ASU 2017-05, *Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets.* The ASU clarifies the scope and accounting of a financial asset that meets the definition of an "in-substance nonfinancial asset" and defines the term, "in-substance nonfinancial asset." The ASU also adds guidance for partial sales of nonfinancial assets. The new guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those years. Early adoption is permitted for interim or annual reporting periods beginning after December 15, 2016. The guidance may be applied retrospectively for all periods presented or retrospectively with a cumulative-effect adjustment at the date of adoption. The Company is currently evaluating the effects of ASU 2017-05 on its consolidated financial statements.

## NOTE 3. SHARE-BASED COMPENSATION

The fair value of options, restricted stock units, deferred stock units and employee stock purchase rights awarded during the three months ended March 31, 2017, totaled $27.9 million as compared to $24.0 million for the three months ended March 31, 2016. The total unrecognized compensation expense, net of estimated forfeitures, for unvested share-based compensation awards outstanding at March 31, 2017, was $58.0 million, which will be recognized over a weighted average period of approximately 2.3 years.

We determine the assumptions used in the valuation of option awards as of the date of grant. Differences in the expected stock price volatility, expected term or risk-free interest rate may necessitate distinct valuation assumptions at each grant date. As such, we may use different assumptions for options granted throughout the year. Option awards are granted with an exercise price equal to 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 intention to pay such a dividend at this time; 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 Three Months Ended March 31, 2017 | For the Three Months Ended March 31, 2016 |
|---|---|---|
| Share price at grant | $ 141.60 | $ 67.85 |
| Expected stock price volatility | 26 % | 25 % |
| Expected term, in years | 5.8 | 5.7 |
| Risk-free interest rate | 2.0 % | 1.2 % |
| Weighted average fair value of options granted | $ 40.51 | $ 17.54 |

## NOTE 4. MARKETABLE SECURITIES

The amortized cost and fair value of marketable securities were as follows (*in thousands*):

| As of March 31, 2017 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Corporate bonds | $ 120,898 | $ 76 | $ (81) | $ 120,893 |
| Certificates of deposit | 43,198 | - | - | 43,198 |
| Asset backed securities | 37,610 | 6 | (16) | 37,600 |
| Commercial paper | 17,013 | - | - | 17,013 |
| U.S. government bonds | 16,644 | 1 | (15) | 16,630 |
| Agency bonds | 4,600 | - | (1) | 4,599 |
| Total marketable securities | $ 239,963 | $ 83 | $ (113) | $ 239,933 |

| As of December 31, 2016 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Corporate bonds | $ 130,833 | $ 40 | $ (102) | $ 130,771 |
| Certificates of deposit | 40,400 | - | - | 40,400 |
| Asset backed securities | 27,290 | 25 | - | 27,315 |
| Commercial paper | 20,228 | - | - | 20,228 |
| U.S. government bonds | 12,244 | 1 | (14) | 12,231 |
| Agency bonds | 4,600 | 4 | - | 4,604 |
| Municipal bonds | 1,400 | - | - | 1,400 |
| Total marketable securities | $ 236,995 | $ 70 | $ (116) | $ 236,949 |

As of March 31, 2017, unrealized losses on marketable securities that have been in a continuous loss position for more than twelve months were not material. Our portfolio of marketable securities had an average AA- credit rating as of March 31, 2017. There were no marketable securities that we consider to be other-than-temporarily impaired as of March 31, 2017.

Remaining effective maturities of marketable securities were as follows (in thousands):

| As of March 31, 2017 | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year or less | $ 144,581 | $ 144,547 |
| Due after one year through three years | 95,382 | 95,386 |
| | $ 239,963 | $ 239,933 |

Our investment strategy is to buy short-duration marketable securities with a high credit rating. Some of our marketable securities have call features that can effectively shorten the lifespan from the contractual maturity date. We use the effective maturity date to measure the duration of the marketable securities.

## NOTE 5. INVENTORIES

Inventories, which are stated at the lower of cost (first-in, first-out) or market, include material, conversion costs and inbound freight charges. The components of inventories were as follows *(in thousands)*:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Raw materials | $ 28,232 | $ 27,561 |
| Work-in-process | 18,804 | 14,998 |
| Finished goods | 125,147 | 115,475 |
| Inventories | $ 172,183 | $ 158,034 |

## NOTE 6. GOODWILL AND INTANGIBLE ASSETS, NET

We believe that acquisitions of business and other assets enhances our existing businesses by either expanding our geographic range and customer base or expanding our existing product lines. During the three months ended March 31, 2017, we acquired one reference laboratory in Austria for approximately $1.6 million, with a majority of the acquisition price valued as an intangible asset.

During 2016, management reviewed our OPTI Medical product offerings. As a result of this review, we discontinued our product development activities in human point-of-care medical diagnostics. As a result of this change in strategy, we assessed the realizability of the related tangible and intangible assets and determined the expected future cash flows were less than the carrying value of the asset group and recorded a non-cash intangible asset impairment of $2.2 million within our condensed consolidated statement of operations within general and administration expense during 2016, of which, $1.1 million of expense was recorded during the first quarter of 2016.

## NOTE 7. OTHER CURRENT AND LONG-TERM ASSETS

Other current assets consisted of the following *(in thousands)*:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Prepaid expenses | $ 25,330 | $ 25,746 |
| Taxes receivable | 20,217 | 27,672 |
| Customer acquisition costs, net | 19,364 | 18,085 |
| Other assets | 15,800 | 19,703 |
| Other current assets | $ 80,711 | $ 91,206 |

Other long-term assets consisted of the following *(in thousands)*:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Investment in long-term product supply arrangements | $ 10,170 | $ 10,978 |
| Customer acquisition costs, net | 54,602 | 50,309 |
| Other assets | 35,344 | 36,321 |
| Deferred income taxes | 5,867 | 5,707 |
| Other long-term assets | $ 105,983 | $ 103,315 |

## NOTE 8. ACCRUED LIABILITIES

Accrued liabilities consisted of the following *(in thousands)*:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Accrued expenses | $ 55,545 | $ 71,984 |
| Accrued employee compensation and related expenses | 49,249 | 91,113 |
| Accrued taxes | 21,272 | 23,973 |
| Accrued customer programs | 48,697 | 49,061 |
| Accrued liabilities | $ 174,763 | $ 236,131 |

## NOTE 9. REPURCHASES OF COMMON STOCK

We primarily acquire shares by repurchases in the open market. However, we also acquire shares that are surrendered by employees in payment for the minimum required statutory withholding taxes due on the vesting of restricted stock units and the settlement of deferred stock units, otherwise referred to herein as employee surrenders.

We issue shares of treasury stock upon the vesting of certain restricted stock units and upon the exercise of certain stock options. The number of shares of treasury stock issued during the three months ended March 31, 2017 and 2016 was not material.

The following is a summary of our open market common stock repurchases, reported on a trade date basis, and shares acquired through employee surrender for the three months ended March 31, 2017 and 2016 *(in thousands, except per share amounts)*:

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| Shares repurchased in the open market | 390 | 708 |
| Shares acquired through employee surrender for statutory tax withholding | 52 | 52 |
| Total shares repurchased | 442 | 760 |
| | | |
| Cost of shares repurchased in the open market | $ 50,744 | $ 49,715 |
| Cost of shares for employee surrenders | 7,303 | 3,529 |
| Total cost of shares | $ 58,047 | $ 53,244 |
| | | |
| Average cost per share - open market repurchase | $ 130.12 | $ 70.21 |
| Average cost per share - employee surrenders | $ 141.09 | $ 67.96 |
| Average cost per share - total | $ 131.41 | $ 70.06 |

## NOTE 10. INCOME TAXES

Our effective income tax rate was 18.5 percent for the three months ended March 31, 2017, as compared to 30.6 percent for the three months ended March 31, 2016. The decrease in our effective tax rate for the three months ended March 31, 2017, as compared to the same period of the prior year, was primarily related to the adoption of FASB issued amendments related to share-based compensation discussed further in “Note 2. Accounting Policies”. The change in accounting guidance reduced our effective income tax rate for the three months ended March 31, 2017, by approximately 13 percentage points.

## NOTE 11. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in accumulated other comprehensive income ("AOCI"), net of tax, for the three months ended March 31, 2017 consisted of the following *(in thousands)*:

| For the Three Months Ended March 31, 2017 | Unrealized Gain (Loss) on Investments, Net of Tax | Unrealized Gain (Loss) on Derivative Instruments, Net of Tax | Unrealized Gain (Loss) on Net Investment Hedge, Net of Tax | Cumulative Translation Adjustment | Total |
|---|---|---|---|---|---|
| Balance as of December 31, 2016 | $ 20 | $ 4,916 | $ 4,036 | $ (52,025) | $ (43,053) |
| Other comprehensive (loss) income before reclassifications | (39) | (1,534) | (1,093) | 8,014 | 5,348 |
| Gains reclassified from accumulated other comprehensive income | - | (674) | - | - | (674) |
| Balance as of March 31, 2017 | $ (19) | $ 2,708 | $ 2,943 | $ (44,011) | $ (38,379) |

The following is a summary of reclassifications out of AOCI for the three months ended March 31, 2017 and 2016 *(in thousands)*:

| Details about AOCI Components | Affected Line Item in the Statement of Operations | Amounts Reclassified from AOCI For the Three Months Ended March 31, | |
|---|---|---|---|
| | | 2017 | 2016 |
| Gains (losses) on derivative instruments classified as cash flow hedges included in net income: | | | |
| Foreign currency exchange contracts | Cost of revenue | $ 1,075 | $ 809 |
| Interest rate swaps | Interest expense | - | (210) |
| | Total gains before tax | 1,075 | 599 |
| | Tax expense | 401 | 170 |
| | Gains, net of tax | $ 674 | $ 429 |

## NOTE 12. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income attributable to our stockholders by the weighted average number of shares of common stock and vested deferred stock units outstanding during the year. The computation of diluted earnings per share is similar to the computation of basic earnings per share, except that the denominator is increased for the assumed exercise of dilutive options and assumed issuance of unvested restricted stock units and unvested deferred stock units using the treasury stock method unless the effect is anti-dilutive. The treasury stock method assumes that proceeds, including cash received from the exercise of employee stock options, the total unrecognized compensation expense for unvested share-based compensation awards and, prior to the adoption of new accounting guidance related to share-based compensation on January 1, 2017, the tax benefits resulting from share-based compensation tax deductions in excess of the related expense recognized for financial reporting purposes, would be used to purchase our common stock at the average market price during the period. For further discussion regarding the impact of the new accounting guidance related to share-based compensation, see Note 2 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q. 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. See Note 4 to the consolidated financial statements in our 2016 Annual Report for additional information regarding deferred stock units.

The following is a reconciliation of weighted average shares outstanding for basic and diluted earnings per share for the three months ended March 31, 2017 and 2016 *(in thousands)*:

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| Shares outstanding for basic earnings per share | 88,117 | 89,924 |
| Shares outstanding for diluted earnings per share: | | |
| Shares outstanding for basic earnings per share | 88,117 | 89,924 |
| Dilutive effect of share-based payment awards | 1,877 | 914 |
| | 89,994 | 90,838 |

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 months ended March 31, 2017 and 2016 *(in thousands)*:

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| Weighted average number of shares underlying anti-dilutive options | 182 | 1,044 |
| Weighted average number of shares underlying anti-dilutive restricted stock units | 47 | - |

## NOTE 13. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Significant commitments, contingencies and guarantees at March 31, 2017 are consistent with those discussed in Note 14 to the consolidated financial statements in our 2016 Annual Report.

## NOTE 14. SEGMENT REPORTING

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker (“CODM”), or decision-making group, in deciding how to allocate resources and in assessing performance. Our CODM is our Chief Executive Officer. Our reportable segments include diagnostic and information technology-based products and services for the veterinary market, which we refer to as the Companion Animal Group (“CAG”), water quality products (“Water”) and diagnostic products and services for livestock and poultry health and to ensure the quality and safety of milk and food, which we refer to as Livestock, Poultry and Dairy (“LPD”). Our Other operating segment combines and presents products for the human point-of-care medical diagnostics market with our pharmaceutical product line and our out-licensing arrangements because they do not meet the quantitative or qualitative thresholds for reportable segments.

Certain costs are not allocated to our operating segments and are instead reported under the caption “Unallocated Amounts”. These costs include costs that do not align with one of our existing operating segments or are cost prohibitive to allocate, which primarily consist of our R&D function, regional or country expenses, certain foreign currency revaluation gains and losses on monetary balances in currencies other than our subsidiaries’ functional currency and unusual items. Corporate support function costs (such as information technology, facilities, human resources, finance and legal), health benefits and incentive compensation are charged to our business segments at pre-determined budgeted amounts or rates. Differences from these pre-determined budgeted amounts or rates are captured within Unallocated Amounts.

The following is a summary of segment performance for the three months ended March 31, 2017 and 2016 *(in thousands)*:

| | For the Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | CAG | Water | LPD | Other | Unallocated Amounts | Consolidated Total |
| **2017** | | | | | | |
| Revenue | $ 403,227 | $ 25,077 | $ 29,317 | $ 4,400 | $ - | $ 462,021 |
| | | | | | | |
| Income (loss) from operations | $ 79,855 | $ 10,263 | $ 3,802 | $ 393 | $ (2,070) | $ 92,243 |
| Interest expense, net | | | | | | (7,506) |
| Income before provision for income taxes | | | | | | 84,737 |
| Provision for income taxes | | | | | | 15,679 |
| Net income | | | | | | 69,058 |
| Less: Net income attributable to noncontrolling interest | | | | | | 39 |
| Net income attributable to IDEXX Laboratories, Inc. stockholders | | | | | | $ 69,019 |
| | | | | | | |
| **2016** | | | | | | |
| Revenue | $ 357,639 | $ 23,552 | $ 30,856 | $ 5,503 | $ - | $ 417,550 |
| | | | | | | |
| Income (loss) from operations | $ 61,378 | $ 9,679 | $ 4,570 | $ (837) | $ (997) | $ 73,793 |
| Interest expense, net | | | | | | (7,484) |
| Income before provision for income taxes | | | | | | 66,309 |
| Provision for income taxes | | | | | | 20,284 |
| Net income | | | | | | 46,025 |
| Less: Net income attributable to noncontrolling interest | | | | | | 6 |
| Net income attributable to IDEXX Laboratories, Inc. stockholders | | | | | | $ 46,019 |

The following is a summary of revenue by product and service category for the three months ended March 31, 2017 and 2016 (*in thousands*):

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| CAG segment revenue: | | |
| CAG Diagnostics recurring revenue: | $ 346,680 | $ 305,841 |
| *IDEXX VetLab consumables* | *123,553* | *107,969* |
| *Rapid assay products* | *47,895* | *43,086* |
| *Reference laboratory diagnostic and consulting services* | *159,069* | *140,708* |
| *CAG Diagnostics service and accessories* | *16,163* | *14,078* |
| CAG Diagnostics capital - instruments | 26,183 | 22,643 |
| Veterinary software, services and diagnostic imaging systems | 30,364 | 29,155 |
| CAG segment revenue | 403,227 | 357,639 |
| | | |
| Water segment revenue | 25,077 | 23,552 |
| LPD segment revenue | 29,317 | 30,856 |
| Other segment revenue | 4,400 | 5,503 |
| Total revenue | $ 462,021 | $ 417,550 |

## NOTE 15. FAIR VALUE MEASUREMENTS

U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. GAAP requires an entity to maximize the use of observable inputs, where available, and minimize the use of unobservable inputs when measuring fair value.

The Company has certain financial assets and liabilities that are measured at fair value on a recurring basis, certain nonfinancial assets and liabilities that may be measured at fair value on a nonrecurring basis and certain financial assets and liabilities that are not measured at fair value in our condensed consolidated balance sheets but for which we disclose the fair value. The fair value disclosures of these assets and liabilities are based on a three-level hierarchy, which is defined as follows:

| | |
|---|---|
| **Level 1** | Quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date. |
| **Level 2** | Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. |
| **Level 3** | Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. |

Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. We did not have any transfers between Level 1 and Level 2 or transfers in or out of Level 3 of the fair value hierarchy during the three months ended March 31, 2017.

Our marketable debt securities are initially valued at the transaction price and are subsequently remeasured to fair value as of the balance sheet date utilizing third-party pricing services. The pricing services utilize industry standard valuation models, including both income and market-based approaches and observable market inputs to determine value. Observable market inputs include reportable trades, benchmark yields, credit spreads, broker/dealer quotes, bids, offers and other industry and economic events. We validate the prices provided by our third-party pricing services by obtaining independent market values from other pricing sources and analyzing pricing data in certain instances.

Our foreign currency exchange contracts and interest rate swap agreements are measured at fair value on a recurring basis in our accompanying condensed consolidated balance sheets. We measure the fair value of our foreign currency exchange contracts classified as derivative instruments using an income approach, based on prevailing market forward rates less the contract rate multiplied by the notional amount. The product of this calculation is then adjusted for counterparty risk.

We measure the fair value of our interest rate swaps classified as derivative instruments using an income approach, utilizing a discounted cash flow analysis based on the terms of the contract and the interest rate curve adjusted for counterparty risk. As of March 31, 2017, and December 31, 2016, we had no outstanding interest rate swap agreements.

The amounts outstanding under our unsecured revolving credit facility (“Credit Facility” or “line of credit”) and senior notes (“long-term debt”) are measured at carrying value in our condensed consolidated balance sheets though we disclose the fair value of these financial instruments. We determine the fair value of the amount outstanding under our Credit Facility and long-term debt using an income approach, utilizing a discounted cash flow analysis based on current market interest rates for debt issues with similar remaining years to maturity, adjusted for applicable credit risk. Our Credit Facility and long-term debt are valued using Level 2 inputs. The estimated fair value of our Credit Facility approximates its carrying value. The estimated fair value and carrying value of our long-term debt were $611.0 million and $595.4 million, respectively, as of March 31, 2017, and $609.5 million and $593.7 million, respectively, as of December 31, 2016.

The following tables set forth our assets and liabilities that were measured at fair value on a recurring basis at March 31, 2017 and at December 31, 2016 by level within the fair value hierarchy *(in thousands)*:

| **As of March 31, 2017** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Balance at March 31, 2017** |
|---|---|---|---|---|
| **Assets** | | | | |
| Money market funds[(1)] | $ 26,523 | $ - | $ - | $ 26,523 |
| Certificates of deposit[(1)] | - | 2,001 | - | 2,001 |
| Commercial paper[(1)] | - | 2,998 | - | 2,998 |
| | | | | |
| *Marketable Securities* | | | | |
| Corporate bonds | - | 120,893 | - | 120,893 |
| Certificates of deposit | - | 43,198 | - | 43,198 |
| Asset backed securities | - | 37,600 | - | 37,600 |
| Commercial paper | - | 17,013 | - | 17,013 |
| U.S. government bonds | - | 16,630 | - | 16,630 |
| Agency bonds | - | 4,599 | - | 4,599 |
| *Total marketable securities* | - | 239,933 | - | 239,933 |
| | | | | |
| Equity mutual funds[(2)] | 2,196 | - | - | 2,196 |
| Foreign currency exchange contracts[(3)] | - | 5,445 | - | 5,445 |
| **Liabilities** | | | | |
| Foreign currency exchange contracts[(3)] | - | 1,344 | - | 1,344 |
| Deferred compensation[(4)] | 2,196 | - | - | 2,196 |

| **As of December 31, 2016** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Balance at December 31, 2016** |
|---|---|---|---|---|
| **Assets** | | | | |
| Money market funds[(1)] | $ 34,208 | $ - | $ - | $ 34,208 |
| Certificates of deposit[(1)] | - | 1,500 | - | 1,500 |
| Commercial paper[(1)] | - | 898 | - | 898 |
| | | | | |
| *Marketable Securities* | | | | |
| Corporate bonds | - | 130,771 | - | 130,771 |
| Certificates of deposit | - | 40,400 | - | 40,400 |
| Asset backed securities | - | 27,315 | - | 27,315 |
| Commercial paper | - | 20,228 | - | 20,228 |
| U.S. government bonds | - | 12,231 | - | 12,231 |
| Agency bonds | - | 4,604 | - | 4,604 |
| Municipal bonds | - | 1,400 | - | 1,400 |
| *Total marketable securities* | - | 236,949 | - | 236,949 |
| | | | | |
| Equity mutual funds[(2)] | 2,182 | - | - | 2,182 |
| Foreign currency exchange contracts[(3)] | - | 8,926 | - | 8,926 |
| **Liabilities** | | | | |
| Foreign currency exchange contracts[(3)] | - | 1,081 | - | 1,081 |
| Deferred compensation[(4)] | 2,182 | - | - | 2,182 |

(1) Money market funds, certificates of deposit and commercial paper with an original maturity of less than ninety days are included within cash and cash equivalents. The remaining balance of cash and cash equivalents as of March 31, 2017 and December 31, 2016 consisted of demand deposits. Commercial paper and certificates of deposit with an original maturity of over ninety days are included within marketable securities.

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

(3) Foreign currency exchange contracts are included within other current assets; other long-term assets; accrued liabilities; or other long-term liabilities depending on the gain (loss) position and anticipated settlement date.

(4) A deferred compensation plan assumed as part of a previous business combination is included within accrued liabilities and other long-term liabilities. The fair value of our deferred compensation plan is indexed to the performance of the underlying equity mutual funds discussed in footnote (2) above.

The estimated fair value of certain financial instruments, including cash and cash equivalents, accounts receivable and accounts payable, approximate carrying value due to their short maturity.

## NOTE 16. HEDGING INSTRUMENTS

Disclosure within this note is presented to provide transparency about how and why we use derivative and non-derivative instruments (collectively "hedging instruments"), how the instruments and related hedged items are accounted for, and how the instruments and related hedged items affect our financial position, results of operations and cash flows.

We are exposed to certain risks related to our ongoing business operations. The primary risks that we manage by using hedging instruments are foreign currency exchange risk and interest rate risk. Our subsidiaries enter into foreign currency exchange contracts to manage the exchange risk associated with their forecasted intercompany inventory purchases and sales for the next year. From time to time, we may also enter into other foreign currency exchange contracts or foreign-denominated debt issuances to minimize the impact of foreign currency fluctuations associated with specific balance sheet exposures, including net investments in certain foreign subsidiaries. We may also enter into interest rate swaps to minimize the impact of interest rate fluctuations associated with borrowings under our variable-rate Credit Facility.

The primary purpose of our foreign currency hedging activities is to protect against the volatility associated with foreign currency transactions, including transactions denominated in the euro, British pound, Japanese yen, Canadian dollar, Australian dollar and Swiss franc. We also utilize natural hedges to mitigate our transaction and commitment exposures. Our corporate policy prescribes the range of allowable hedging activity. We enter into foreign currency exchange contracts with well-capitalized multinational financial institutions, and we do not hold or engage in transactions involving hedging instruments for purposes other than risk management. Our accounting policies for these contracts are based on the designation of such instruments as hedging transactions.

We recognize all hedging instruments on the balance sheet at fair value at the balance sheet date. Instruments that do not qualify for hedge accounting treatment must be recorded at fair value through earnings. To qualify for hedge accounting treatment, cash flow and net investment hedges must be highly effective in offsetting changes to expected future cash flows or fair value on hedged transactions. If the instrument qualifies for hedge accounting, changes in the fair value of the hedging instrument from the effective portion of the hedge are deferred in AOCI, net of tax, and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. We immediately record in earnings the extent to which a hedging instrument is not effective in achieving offsetting changes in fair value. We de-designate hedging instruments from hedge accounting when the likelihood of the hedged transaction occurring becomes less than probable. For de-designated instruments, the gain or loss from the time of de-designation through maturity of the instrument is recognized in earnings. Any gain or loss in AOCI at the time of de-designation is reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. See Note 11 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for further information regarding the effect of hedging instruments on the condensed consolidated statements of operations for the three months ended March 31, 2017 and 2016.

We enter into master netting arrangements with the counterparties to our derivative transactions which permit certain outstanding receivables and payables to be offset in the event of default. Our derivative contracts do not require either party to post cash collateral. We elect to present our derivative assets and liabilities in the condensed consolidated balance sheets on a gross basis. All cash flows related to our foreign currency exchange contracts and interest rate swaps are classified as operating cash flows, which is consistent with the cash flow treatment of the underlying items being hedged.

**Cash Flow Hedges**

We have designated our foreign currency exchange contracts and variable-to-fixed interest rate swaps as cash flow hedges as these derivative instruments mitigate the exposure to variability in the cash flows of forecasted transactions attributable to foreign currency exchange and interest rates. Unless noted otherwise, we have also designated our derivative instruments as qualifying for hedge accounting treatment.

We did not de-designate any instruments from hedge accounting treatment during the three months ended March 31, 2017 or 2016. Gains or losses related to hedge ineffectiveness recognized in earnings during the three months ended March 31, 2017 and 2016 were not material. At March 31, 2017, the estimated amount of net gains, net of income tax expense, which are expected to be reclassified out of AOCI and into earnings within the next 12 months, is $2.5 million if exchange rates do not fluctuate from the levels at March 31, 2017.

We hedge approximately 85 percent of the estimated exposure from intercompany product purchases and sales denominated in the euro, British pound, Canadian dollar, Japanese yen, Australian dollar and Swiss franc. We have additional unhedged foreign currency exposures related to foreign services and emerging markets where it is not practical to hedge. We primarily utilize foreign currency exchange contracts with durations of less than 24 months. Quarterly, we enter into contracts to hedge incremental portions of anticipated foreign currency transactions for the current and following year. As a result, our risk with respect to foreign currency exchange rate fluctuations and the notional value of foreign currency exchange contracts may vary throughout the year. The U.S. dollar is the currency purchased or sold in all of our foreign currency exchange contracts. The notional amount of foreign currency exchange contracts to hedge forecasted intercompany inventory purchases and sales totaled $203.5 million and $175.9 million at March 31, 2017 and December 31, 2016, respectively.

We previously entered into forward fixed interest rate swap agreements to manage the economic effect of variable interest obligations on amounts borrowed under the terms of our Credit Facility. Beginning on March 30, 2012, the variable interest rate associated with $40 million of borrowings outstanding under the Credit Facility was effectively fixed at 1.36 percent plus the range of applicable interest rate fixed credit spreads (“Credit Spread”) through June 30, 2016. Beginning on March 28, 2013, the variable interest rate associated with an additional $40 million of borrowings outstanding under the Credit Facility was effectively fixed at 1.64 percent plus the Credit Spread through June 30, 2016. From July 1, 2016, to March 31, 2017, we had no outstanding interest rate swap agreements.

**Net Investment Hedge**

In June 2015, we issued and sold through a private placement an aggregate principal amount of €88.9 million in euro-denominated 1.785 percent Series C Senior Notes due June 18, 2025. We have designated these euro-denominated notes as a hedge of our euro net investment in certain foreign subsidiaries to reduce the volatility in stockholders’ equity caused by changes in foreign currency exchange rates in the euro relative to the U.S. dollar. As a result of this designation, gains and losses from the change in translated U.S. dollar value of these euro-denominated notes are recorded in AOCI rather than to earnings. We recorded a $1.1 million loss, net of income tax, within AOCI as a result of this net investment hedge for the three months ended March 31, 2017. The related cumulative unrealized gain recorded at March 31, 2017 will not be reclassified in earnings until the complete or substantially complete liquidation of the net investment in the hedged foreign operations or a portion of the hedge no longer qualifies for hedge accounting treatment. See Note 11 to the consolidated financial statements included in our 2016 Annual Report for further information regarding the issuance of these euro-denominated notes.

**Fair Values of Hedging Instruments Designated as Hedges in Consolidated Balance Sheets**

The fair values of hedging instruments and their respective classification on the condensed consolidated balance sheets and amounts subject to offset under master netting arrangements consisted of the following *(in thousands)*:

| | | Hedging Assets | |
|---|---|---|---|
| | | March 31, 2017 | December 31, 2016 |
| **Derivatives designated as hedging instruments** | **Balance Sheet Classification** | | |
| Foreign currency exchange contracts | Other current assets | $ 4,937 | $ 8,926 |
| Foreign currency exchange contracts | Other long-term assets | 508 | - |
| Total derivative instruments presented as cash flow hedges on the balance sheet | | 5,445 | 8,926 |
| Gross amounts subject to master netting arrangements not offset on the balance sheet | | 1,082 | 679 |
| Net amount | | $ 4,363 | $ 8,247 |

| | | Hedging Liabilities | |
|---|---|---|---|
| | | March 31, 2017 | December 31, 2016 |
| **Derivatives designated as hedging instruments** | **Balance Sheet Classification** | | |
| Foreign currency exchange contracts | Accrued liabilities | $ 1,174 | $ 1,081 |
| Foreign currency exchange contracts | Other long-term liabilities | 170 | - |
| Total derivative instruments presented as cash flow hedges on the balance sheet | | 1,344 | 1,081 |
| Foreign currency borrowings designated as net investment hedge on the balance sheet | Long-term debt | 95,406 | 93,664 |
| Total hedging instruments presented on the balance sheet | | 96,750 | 94,745 |
| Gross amounts subject to master netting arrangements not offset on the balance sheet | | 1,082 | 679 |
| Net amount | | $ 95,668 | $ 94,066 |

The effect of derivative instruments designated as cash flow hedges on the condensed consolidated balance sheets consisted of the following *(in thousands)*:

| | Gain (Loss) Recognized in AOCI on Derivative Instruments (Effective Portion) | |
|---|---|---|
| | For the Three Months Ended March 31, | |
| **Derivative instruments** | **2017** | **2016** |
| Cash flow hedging derivatives: | | |
| Foreign currency exchange contracts, net of tax | $ (2,208) | $ (3,806) |
| Interest rate swaps, net of tax | - | 111 |
| Total cash flow hedges | $ (2,208) | $ (3,695) |

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

This Quarterly Report on Form 10-Q contains statements which, to the extent they are not statements of historical fact, constitute "forward-looking statements." Such forward-looking statements about our business and expectations within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), include statements relating to future revenue growth rates, business trends, earnings and other measures of financial performance; the effect of economic downturns on our business performance; projected impact of foreign currency exchange rates; demand for our products; realizability of assets; future cash flow and uses of cash; future repurchases of common stock; future levels of indebtedness and capital spending; interest expense; warranty expense; share-based compensation expense; future commercial efforts; 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," "project," and similar words and expressions. These forward-looking statements are intended to provide our current expectations or forecasts of future events; are based on current estimates, projections, beliefs, and assumptions; and are not guarantees of future performance. Actual events or results may differ materially from those described in the forward-looking statements. These forward-looking statements involve a number of risks and uncertainties described in our Annual Report on Form 10-K for the year ended December 31, 2016, (the "2016 Annual Report") and this Quarterly Report on Form 10-Q, as well as those described from time to time in our other periodic reports filed with the U.S. Securities and Exchange Commission (the "SEC").

Any forward-looking statements represent our estimates only as of the day this Quarterly Report on Form 10-Q was filed with the SEC and should not be relied upon as representing our estimates as of any subsequent date. From time to time, oral or written forward-looking statements may also be included in other materials released to the public. While we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, even if our estimates or expectations change.

You should read the following discussion and analysis in conjunction with our 2016 Annual Report that includes additional information about us, our results of operations, our financial position and our cash flows, and with our unaudited condensed consolidated financial statements and related notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

### Business Overview

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

- Point-of-care veterinary diagnostic products, comprising instruments, consumables and rapid assay test kits;
- Veterinary reference laboratory diagnostic and consulting services;
- Veterinary management and diagnostic imaging systems and services;
- Biomedical research, reference laboratory diagnostic services and instruments;
- Diagnostic, health-monitoring products for livestock, poultry and antibiotic residue testing in dairy;
- Products that test water for certain microbiological contaminants;
- Point-of-care electrolytes and blood gas analyzers used in the human point-of-care medical diagnostics market.

Operating Segments. We operate primarily through three business segments: diagnostic and information technology-based products and services for the veterinary market, which we refer to as the Companion Animal Group ("CAG"), water quality products ("Water") and diagnostic products and services for livestock and poultry health and to ensure the quality and safety of milk and food, which we refer to as Livestock, Poultry and Dairy ("LPD"). Our Other operating segment combines and presents products for the human point-of-care medical diagnostics market ("OPTI Medical") with our pharmaceutical product line and our out-licensing arrangements because they do not meet the quantitative or qualitative thresholds for reportable segments.

CAG develops, designs, manufactures and distributes products and performs services for veterinarians and the bioresearch market, primarily related to diagnostics and information management. Water develops, designs, manufactures and distributes a range of products used in the detection of various microbiological parameters in water. LPD develops, designs, manufactures and distributes diagnostic tests and related instrumentation and performs services that are used to manage the health status of livestock and poultry, to improve bovine reproductive efficiency, and to ensure the quality and safety of milk and food. OPTI Medical manufactures and distributes point-of-care electrolyte and blood gas analyzers and related consumable products for the human medical diagnostics market.

Certain costs are not allocated to our operating segments and are instead reported under the caption "Unallocated Amounts". These costs include costs that do not align with one of our existing operating segments or are cost prohibitive to allocate, which primarily consist of our R&D function, regional or country expenses, certain foreign currency revaluation gains and losses on monetary balances in currencies other than our subsidiaries' functional currency and unusual items. Corporate support function costs (such as information technology, facilities, human resources, finance and legal), health benefits and incentive compensation are charged to our business segments at pre-determined budgeted amounts or rates. Differences from these pre-determined budgeted amounts or rates are captured within Unallocated Amounts.

**Effects of Certain Factors and Trends on Results of Operations**

Currency Impact. See "Part I. Item 3. Quantitative and Qualitative Disclosure about Market Risk" included in this Quarterly Report on Form 10-Q for additional information regarding the impact of foreign currency exchange rates.

Other Items. See "Part I. Item 1. Business - Patents and Licenses" and "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our 2016 Annual Report for additional information regarding distributor purchasing and inventories, economic conditions and patent expiration.

**Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an ongoing basis. We base our estimates on historical experience and on various assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The critical accounting policies and the significant judgments and estimates used in the preparation of our condensed consolidated financial statements for the three months ended March 31, 2017, are consistent with those discussed in our 2016 Annual Report in the section under the heading "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates."

**Recent Accounting Pronouncements**

Share-Based Compensation. We estimate that tax benefits related to share-based payments will add approximately \$0.22 to \$0.26 in diluted earnings per share for the full year 2017, primarily through a reduction in our effective income tax rate, partially offset by an increase in diluted shares outstanding resulting from this accounting change. These impacts may vary significantly by quarter based on the timing of actual settlement activity. We do not estimate that the level of share-based payment activity expected in 2017 will continue in future periods. We believe that the historical range of \$0.12 to \$0.16 per share of annual tax benefits reflects a reasonable estimate for 2018 and beyond, based on current settlement trends and stock price levels. For more information regarding the adoption of the new share-based guidance, ASU 2016-09, see Note 2 to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q.

Other Pronouncements. We are evaluating the impact that several recent accounting amendments related to revenue recognition and leases will have on our consolidated financial statements. Other recently issued accounting pronouncements did not have and are not expected to have a significant effect on our financial condition and results of operations.

### Non-GAAP Measures

The following revenue analysis and discussion focuses on organic revenue growth, and references in this analysis and discussion to “revenue,” “revenues” or “revenue growth” are references to “organic revenue growth.” Organic revenue growth is a non-GAAP financial measure and represents the percentage change in revenue during the three months ended March 31, 2017, as compared to the same period for the prior year, net of the effect of changes in foreign currency exchange rates, acquisitions and divestitures. Organic revenue growth should be considered in addition to, and not as a replacement for, or as a superior measure to, revenues reported in accordance with U.S. GAAP, and may not be comparable to similarly titled measures reported by other companies. Management believes that reporting organic revenue growth provides useful information to investors by facilitating easier comparisons of our revenue performance with prior and future periods and to the performance of our peers. We exclude the effect of changes in foreign currency exchange rates because changes in foreign currency exchange rates are not under management’s control, are subject to volatility and can obscure underlying business trends. We exclude the effect of acquisitions and divestitures because the nature, size and number of these transactions can vary dramatically from period to period, require or generate cash as an inherent consequence of the transaction, and therefore can also obscure underlying business and operating trends.

Organic revenue growth and the percentage changes in revenue from foreign currency exchange rates and acquisitions are non-GAAP financial measures. We calculate the impact on revenue resulting from changes in foreign currency exchange rates by applying the difference between the weighted average exchange rates during the current year period and the comparable previous year period to foreign currency denominated revenues for the prior year period. The percentage change in revenue resulting from acquisitions represents incremental revenues attributable to acquisitions that have occurred since the beginning of the prior year period.

**Results of Operations**

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

| Net Revenue *(dollars in thousands)* | | For the Three Months Ended March 31, 2017 | | For the Three Months Ended March 31, 2016 | | Dollar Change | Percentage Change | Percentage Change from Currency | Percentage Change from Acquisitions | Organic Revenue Growth |
|---|---|---|---|---|---|---|---|---|---|---|
| **CAG** | **$** | **403,227** | **$** | **357,639** | **$** | **45,588** | **12.7%** | **(0.8%)** | **0.1%** | **13.4%** |
| *United States* | | *270,488* | | *241,810* | | *28,678* | *11.9%* | - | *0.1%* | *11.8%* |
| *International* | | *132,739* | | *115,829* | | *16,910* | *14.6%* | *(2.5%)* | *0.4%* | *16.7%* |
| **Water** | | **25,077** | | **23,552** | | **1,525** | **6.5%** | **(0.8%)** | - | **7.3%** |
| *United States* | | *13,019* | | *12,323* | | *696* | *5.6%* | - | - | *5.6%* |
| *International* | | *12,058* | | *11,229* | | *829* | *7.4%* | *(1.8%)* | - | *9.2%* |
| **LPD** | | **29,317** | | **30,856** | | **(1,539)** | **(5.0%)** | **(0.4%)** | **-** | **(4.6%)** |
| *United States* | | *3,484* | | *3,169* | | *315* | *9.9%* | - | - | *9.9%* |
| *International* | | *25,833* | | *27,687* | | *(1,854)* | *(6.7%)* | *(0.4%)* | - | *(6.3%)* |
| **Other** | | **4,400** | | **5,503** | | **(1,103)** | **(20.0%)** | **(0.1%)** | **-** | **(19.9%)** |
| **Total Company** | **$** | **462,021** | **$** | **417,550** | **$** | **44,471** | **10.7%** | **(0.7%)** | **0.2%** | **11.2%** |
| *United States* | | *288,613* | | *258,939* | | *29,674* | *11.5%* | - | 0.1% | *11.4%* |
| *International* | | *173,408* | | *158,611* | | *14,797* | *9.3%* | *(2.0%)* | 0.3% | *11.0%* |

The increase in both U.S. and international organic revenues, for the three months ended March 31, 2017, as compared to the same period in the prior year, was driven by strong volume gains in CAG Diagnostics recurring revenue, supported by our differentiated diagnostic technologies that are driving increased volumes from new and existing customers in our reference laboratory business, and strong growth in CAG Diagnostics capital instrument placements, including our Sedivue analyzer, which increased overall revenue by approximately 2 percent. International organic growth was strong in Europe and Asia Pacific, reflecting the aforementioned CAG Diagnostics recurring volume driven growth, and growth in our Water business primarily due to our Colilert ® test products, offset by declines in LPD, primarily from lower herd health screening in the Asia-Pacific region.

The following table presents total Company results of operations:

| Results of Operations *(dollars in thousands)* | For the Three Months Ended March 31, | | | | | | Increase (Decrease) | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2017 | Percent of Revenue | | 2016 | Percent of Revenue | | Amount | Percentage |
| Revenues | $ | 462,021 | | $ | 417,550 | | $ | 44,471 | 10.7% |
| Cost of revenue | | 203,830 | | | 190,013 | | | 13,817 | 7.3% |
| Gross profit | | 258,191 | 55.9% | | 227,537 | 54.5% | | 30,654 | 13.5% |
| Operating Expenses: | | | | | | | | | |
| Sales and marketing | | 87,244 | 18.9% | | 79,829 | 19.1% | | 7,415 | 9.3% |
| General and administrative | | 52,914 | 11.5% | | 49,295 | 11.8% | | 3,619 | 7.3% |
| Research and development | | 25,790 | 5.6% | | 24,620 | 5.9% | | 1,170 | 4.8% |
| Total operating expenses | | 165,948 | 35.9% | | 153,744 | 36.8% | | 12,204 | 7.9% |
| Income from operations | $ | 92,243 | 20.0% | $ | 73,793 | 17.7% | $ | 18,450 | 25.0% |

Total Company gross profit increased during the three months ended March 31, 2017, as compared to the same period in the prior year, due to higher sale volumes and a 140-basis point increase in the gross profit percentage. The increase in gross profit percentage was due primarily to the net benefit of price increases and the favorable impact of volume leverage on IDEXX VetLab products cost. The gross profit percentage was unfavorably impacted by approximately 10-basis points of currency impact during the three months ended March 31, 2017, as compared to the same period of the prior year.

The increase in total Company sales and marketing expense during the three months ended March 31, 2017, as compared to the same period in the prior year, was due primarily to increased personnel-related costs as we continue to invest in our global commercial infrastructure. The increase in general and administrative expense resulted primarily from information technology investments, including ongoing depreciation and maintenance associated with prior year projects, and higher personnel-related costs. Research and development expense increased primarily due to higher personnel-related and consultant costs.

**Companion Animal Group**

The following table presents revenue by product and service category for CAG:

| **Net Revenue** *(dollars in thousands)* | **For the Three Months Ended March 31, 2017** | **For the Three Months Ended March 31, 2016** | **Dollar Change** | **Percentage Change** | **Percentage Change from Currency** | **Percentage Change from Acquisitions** | **Organic Revenue Growth** |
|---|---|---|---|---|---|---|---|
| CAG Diagnostics recurring revenue: | $ 346,680 | $ 305,841 | $ 40,839 | 13.4% | (0.8%) | 0.2% | 14.0% |
| *IDEXX VetLab consumables* | *123,553* | *107,969* | *15,584* | *14.4%* | *(0.9%)* | - | *15.3%* |
| *Rapid assay products* | *47,895* | *43,086* | *4,809* | *11.2%* | *(0.2%)* | - | *11.4%* |
| *Reference laboratory diagnostic and consulting services* | *159,069* | *140,708* | *18,361* | *13.0%* | *(0.9%)* | *0.4%* | *13.5%* |
| *CAG diagnostics services and accessories* | *16,163* | *14,078* | *2,085* | *14.8%* | *(1.0%)* | - | *15.8%* |
| CAG Diagnostics capital - instruments | 26,183 | 22,643 | 3,540 | 15.6% | (1.8%) | - | 17.4% |
| Veterinary software, services and diagnostic imaging systems | 30,364 | 29,155 | 1,209 | 4.1% | 0.1% | - | 4.0% |
| Net CAG revenue | $ 403,227 | $ 357,639 | $ 45,588 | 12.7% | (0.8%) | 0.1% | 13.4% |

CAG Diagnostic Recurring Revenue. The increase in CAG Diagnostics recurring revenue was due primarily to increased volumes in reference laboratory diagnostic services and IDEXX VetLab consumables and, to a lesser extent, higher realized prices.

IDEXX VetLab consumables revenue growth was primarily due to higher sales volumes in the U.S., Europe and the Asia-Pacific region for our Catalyst consumables and, to a lesser extent, ProCyte Dx® consumables and Sedivue pay-per-run sales, resulting from growth in testing by existing customers and an expanded menu of available tests, as well as benefits from higher average unit sales prices.

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

The increase in rapid assay revenue resulted from higher sales volume and average unit price of canine SNAP 4Dx Plus Tests and higher sales volumes of single analyte SNAP products.

The increase in reference laboratory diagnostic and consulting services revenue was primarily due to the impact of higher testing volumes throughout our worldwide network of laboratories, most prominently in the U.S., resulting from increased testing from existing customers, supported by our differentiated diagnostic technologies, such as IDEXX SDMA™. Additionally, the increase in revenue was the result of higher average unit sales prices.

CAG Diagnostic Capital – Instruments Revenue. The increase in CAG Diagnostics capital instruments revenue resulted primarily from sales of the SediVue Dx analyzer, launched in North America in April of 2016. During the first quarter of 2017, we also launched the SediVue Dx analyzer in select international markets. This growth was partly offset by a slight decline in Catalyst placements compared to the elevated prior year levels driven by the international launch of Catalyst One and relatively higher prior year levels of second Catalyst placements in the U.S. as part of customer retention programs.

Veterinary Software, Services and Diagnostic Imaging Systems Revenue. The increase in customer information management and diagnostic imaging systems revenue was primarily due to increasing veterinary subscription service revenue and higher support revenue resulting from an increase in our installed base. These favorable factors were partially offset by fewer licensed-based Cornerstone ® placements as we evolve to a subscription-based model for new practice management customer acquisitions.

The following table presents the CAG segment results of operations:

| **Results of Operations** *(dollars in thousands)* | **For the Three Months Ended March 31, 2017** | **Percent of Revenue** | **2016** | **Percent of Revenue** | **Increase (Decrease) Amount** | **Percentage** |
|---|---|---|---|---|---|---|
| Revenues | $ 403,227 | | $ 357,639 | | $ 45,588 | 12.7% |
| Cost of revenue | 182,157 | | 166,847 | | 15,310 | 9.2% |
| Gross profit | 221,070 | 54.8% | 190,792 | 53.3% | 30,278 | 15.9% |
| | | | | | | |
| Operating Expenses: | | | | | | |
| Sales and marketing | 77,782 | 19.3% | 70,566 | 19.7% | 7,216 | 10.2% |
| General and administrative | 44,067 | 10.9% | 41,097 | 11.5% | 2,970 | 7.2% |
| Research and development | 19,366 | 4.8% | 17,751 | 5.0% | 1,615 | 9.1% |
| Total operating expenses | 141,215 | 35.0% | 129,414 | 36.2% | 11,801 | 9.1% |
| Income from operations | $ 79,855 | 19.8% | $ 61,378 | 17.2% | $ 18,477 | 30.1% |

CAG Gross Profit. Gross profit for CAG increased during the three months ended March 31, 2017, as compared to the same period in the prior year, primarily due to higher sales volume and a 150-basis point increase in the gross profit percentage for the three months ended March 31, 2017, as compared to the same period in the prior year. The gross profit percentage was primarily supported by the net benefit of price increases on our CAG Diagnostics recurring revenue portfolio and the favorable impact of volume leverage on IDEXX VetLab product costs. These favorable impacts were slightly offset by a reduction of approximately 20-basis points from currency movements.

CAG Operating Expense. The increase in CAG operating expense during the three months ended March 31, 2017, as compared to the same period in the prior year, was due primarily to increased personnel-related costs as we continue to invest in our global commercial infrastructure. The increase in general and administrative expense resulted primarily from higher personnel-related costs and, to a lesser extent, incremental information technology investments. The increase in research and development expense was due primarily to increased personnel-related costs.

**Water**

The following table presents the Water segment results of operations:

| **Results of Operations** *(dollars in thousands)* | **For the Three Months Ended March 31,** | | | | **Increase (Decrease)** | |
|---|---|---|---|---|---|---|
| | **2017** | **Percent of Revenue** | **2016** | **Percent of Revenue** | **Amount** | **Percentage** |
| Revenues | $ 25,077 | | $ 23,552 | | $ 1,525 | 6.5% |
| Cost of revenue | 7,602 | | 7,446 | | 156 | 2.1% |
| Gross profit | 17,475 | 69.7% | 16,106 | 68.4% | 1,369 | 8.5% |
| Operating Expenses: | | | | | | |
| Sales and marketing | 3,663 | 14.6% | 3,222 | 13.7% | 441 | 13.7% |
| General and administrative | 2,931 | 11.7% | 2,498 | 10.6% | 433 | 17.3% |
| Research and development | 618 | 2.5% | 707 | 3.0% | (89) | (12.6%) |
| Total operating expenses | 7,212 | 28.8% | 6,427 | 27.3% | 785 | 12.2% |
| Income from operations | $ 10,263 | 40.9% | $ 9,679 | 41.1% | $ 584 | 6.0% |

Revenue. The increase in Water revenue during the three months ended March 31, 2017, as compared to the same period in the prior year, was attributable to the benefits of price increases and, to a lesser extent, higher sales volumes of our Colilert test products and related accessories, used in coliform and *E. coli* testing in North America, the Asia-Pacific region and Europe, slightly offset by lower volumes in Latin America.  These overall favorable impacts were offset by a reduction of approximately 80-basis points from currency movements.

Gross Profit. Gross profit for Water increased during the three months ended March 31, 2017, as compared to the same period in the prior year, due to higher sales volumes as well as a 130-basis point increase in the gross profit percentage. The increase in the gross profit percentage was primarily due to the net benefit of price increases. The overall change in currency exchange rates resulted in a decrease in the gross profit percentage of approximately 30-basis points during the three months ended March 31, 2017, as compared to the same period of the prior year.

Operating Expenses. The increase in Water operating expense during the three months ended March 31, 2017, as compared to the same period in the prior year, was primarily due to higher personnel-related costs related to increased head count in sales and marketing expense and general administrative expenses. Research and development expense for the three months ended March 31, 2017, as compared to the same period in the prior year, was lower due to certain project cost incurred in the first quarter of 2016.

**Livestock, Poultry and Dairy**

The following table presents the LPD segment results of operations:

| **Results of Operations** *(dollars in thousands)* | **For the Three Months Ended March 31,** **2017** | **Percent of Revenue** | **2016** | **Percent of Revenue** | **Increase (Decrease)** **Amount** | **Percentage** |
|---|---|---|---|---|---|---|
| Revenues | $ 29,317 | | $ 30,856 | | $ (1,539) | (5.0%) |
| Cost of revenue | 12,472 | | 12,879 | | (407) | (3.2%) |
| Gross profit | 16,845 | 57.5% | 17,977 | 58.3% | (1,132) | (6.3%) |
| Operating Expenses: | | | | | | |
| Sales and marketing | 5,535 | 18.9% | 5,579 | 18.1% | (44) | (0.8%) |
| General and administrative | 4,409 | 15.0% | 4,836 | 15.7% | (427) | (8.8%) |
| Research and development | 3,099 | 10.6% | 2,992 | 9.7% | 107 | 3.6% |
| Total operating expenses | 13,043 | 44.5% | 13,407 | 43.5% | (364) | (2.7%) |
| Income from operations | $ 3,802 | 13.0% | $ 4,570 | 14.8% | $ (768) | (16.8%) |

Revenue. The decrease in LPD revenue for the three months ended March 31, 2017, as compared to the same period in the prior year, resulted from lower herd health screening in the Asia-Pacific region, as well as lower dairy testing volumes in China and Brazil. These decreases were partially offset by an increase in swine and poultry testing, primarily in China, as well as expanded pregnancy testing worldwide. The overall change in exchange rates contributed approximately 40-basis points to the overall decline.

Gross Profit. The decrease in LPD gross profit for the three months ended March 31, 2017, as compared to the same period in the prior year, was primarily due to an 80-basis point reduction in the gross profit percentage reflecting higher royalty expense, and unfavorable product mix, primarily related to lower levels of herd health screening. Royalty expense was lower in the first quarter of 2016, due to the receipt of a royalty credit. These unfavorable factors were offset by approximately 80-basis points of currency impact, due to hedging gains during the three months ended March 31, 2017, as compared to hedging losses in the same period of the prior year.

Operating Expenses. The decrease in LPD operating expenses for the three months ended March 31, 2017, as compared to the same period in the prior year, was primarily due to lower personnel-related costs, in part due to a lower LPD allocation of overall overhead costs reflecting the higher relative growth in our CAG business as compared to LPD. This decrease was partially offset by increases in commercial infrastructure investments within emerging markets. Research and development expense for the three months ended March 31, 2017, was generally consistent with the same period of the prior year.

## Other

The following table presents the Other results of operations:

| Results of Operations<br>*(dollars in thousands)* | For the Three Months Ended March 31, 2017 | Percent of Revenue | 2016 | Percent of Revenue | Increase (Decrease) Amount | Percentage |
|---|---|---|---|---|---|---|
| Revenues | $ 4,400 | | $ 5,503 | | $ (1,103) | (20.0%) |
| Cost of revenue | 2,289 | | 2,580 | | (291) | (11.3%) |
| Gross profit | 2,111 | 48.0% | 2,923 | 53.1% | (812) | (27.8%) |
| Operating Expenses: | | | | | | |
| Sales and marketing | 619 | 14.1% | 805 | 14.6% | (186) | (23.1%) |
| General and administrative | 791 | 18.0% | 1,956 | 35.5% | (1,165) | (59.6%) |
| Research and development | 308 | 7.0% | 999 | 18.2% | (691) | (69.2%) |
| Total operating expenses | 1,718 | 39.0% | 3,760 | 68.3% | (2,042) | (54.3%) |
| Income (loss) from operations | $ 393 | 8.9% | $ (837) | -15.2% | $ 1,230 | (147.0%) |

Revenue. The decrease in Other revenue during the three months ended March 31, 2017, as compared to the same period in the prior year, was primarily due to lower sales volumes of our OPTI Medical blood gas analyzers and related consumables as a result of temporary product availability constraints, partially offset by price increases.

Gross Profit. Gross profit for Other decreased due to lower sales volumes and a 510-basis points reduction to the gross profit percentage related to higher overall OPTI Medical product costs, partially offset by the net benefit of price increases. The overall change in currency exchange rates resulted in a decrease in the gross profit percentage of approximately 20-basis points.

Operating Expenses. The decrease in operating expense for the three months ended March 31, 2017, as compared to the same period in the prior year, was due primarily to an intangible asset impairment within our OPTI Medical business during the first quarter of 2016 and lower personnel cost in research and development as a result of discontinuing our product development activities in the human point-of-care medical diagnostics market. As a result of this change in strategy, we assessed the realizability of the related tangible and intangible assets and determined the expected future cash flows were less than the carrying value of the asset group and recorded a non-cash intangible asset impairment of $1.1 million during the three months ended March 31, 2016.

**Unallocated Amounts**

The following table presents the Unallocated Amounts results of operations:

| Results of Operations *(dollars in thousands)* | For the Three Months Ended March 31, 2017 | 2016 | Increase (Decrease) Amount | Percentage |
|---|---|---|---|---|
| Revenues | $ - | $ - | $ - | N/A |
| Cost of revenue | (690) | 261 | (951) | (364.4%) |
| Gross profit | 690 | (261) | 951 | (364.4%) |
| Operating Expenses: | | | | |
| Sales and marketing | (355) | (343) | (12) | 3.5% |
| General and administrative | 716 | (1,092) | 1,808 | (165.6%) |
| Research and development | 2,399 | 2,171 | 228 | 10.5% |
| Total operating expenses | 2,760 | 736 | 2,024 | 275.0% |
| Loss from operations | $ (2,070) | $ (997) | $ (1,073) | 107.6% |

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

Gross Profit. The increase in gross profit during the three months ended March 31, 2017, as compared to the same period in the prior year, was primarily due to lower than budgeted personnel-related costs, including self-insured health claims.

Operating Expenses. The increase in operating expenses during the three months ended March 31, 2017, as compared to the same period in the prior year, was primarily due to higher than budgeted costs in information technology and human resources infrastructure spending, employee incentives and workers' compensation claims, partially offset by lower than budgeted self-insured health claims.

**Non-Operating Items**

Interest Income. Interest income was $1.1 million for the three months ended March 31, 2017, as compared to $0.8 million for the three months ended March 31, 2016. The increase in interest income was due primarily to a relatively larger portfolio of marketable securities during the three months ended March 31, 2017, as compared to the same period of the prior year.

Interest Expense. Interest expense was $8.6 million for the three months ended March 31, 2017, as compared to $8.3 million for the same period of the prior year. The increase in interest expense was due to higher floating interest rates on our Credit Facility and senior notes.

Provision for Income Taxes. Our effective income tax rate was 18.5 percent for the three months ended March 31, 2017, and 30.6 percent for the three months ended March 31, 2016. The decrease in our effective tax rate for the three months ended March 31, 2017, as compared to the same period of the prior year, was primarily related to the adoption of FASB issued ASU 2016-09 related to share-based compensation discussed further in "Note 2: Accounting Policies". The change in accounting guidance reduced tax expense by $11.2 million and our effective income tax rate by approximately 13 percentage points, for the three months ended March 31, 2017.

### Liquidity and Capital Resources

#### Liquidity

We fund the capital needs of our business through cash on hand, funds generated from operations, proceeds from long-term senior note financings and amounts available on our $850 million five-year unsecured revolving credit facility under an amended and restated credit agreement that we executed in December 2015 (the "Credit Facility"). At March 31, 2017, we had $400.3 million of cash, cash equivalents and marketable securities, as compared to $391.8 million on December 31, 2016. Working capital, including our Credit Facility, totaled negative $57.5 million at March 31, 2017, as compared to negative $89.0 million at December 31, 2016. Additionally, at March 31, 2017, we had remaining borrowing availability of $178.0 million under our $850 million Credit Facility. We believe that, if necessary, we could obtain additional borrowings at similar rates to our existing borrowings to fund our growth objectives. We further believe that current cash and cash equivalents, our portfolio of short-duration marketable securities, funds generated from operations, and committed borrowing availability will be sufficient to fund our operations, capital purchase requirements, and anticipated growth needs for the next twelve months. We believe that these resources, coupled with our ability, as needed, to obtain additional financing on favorable terms will also be sufficient for the foreseeable future to fund our business as currently conducted.

We consider the majority of the operating earnings of certain of our non-U.S. subsidiaries to be indefinitely invested outside the U.S. No provision has been made for the payment of U.S. federal and state or international taxes that may result from future remittances of these undistributed earnings of our non-U.S. subsidiaries. Changes to this position could have adverse tax consequences. A determination of the related tax liability that would be paid on these undistributed earnings if repatriated, is not practicable for several reasons including the complexity of laws and regulations in the various jurisdictions where we operate, the varying tax treatment of potential repatriation scenarios, and the timing of any future repatriation. We manage our worldwide cash requirements considering available funds among all of our subsidiaries. Our foreign cash and marketable securities are generally available without restrictions to fund ordinary business operations outside the U.S.

The following table presents cash, cash equivalents and marketable securities held domestically and by our foreign subsidiaries at March 31, 2017, and December 31, 2016:

| Cash, cash equivalents and marketable securities *(dollars in thousands)* | March 31, 2017 | December 31, 2016 |
|---|---|---|
| U.S. | $ 3,342 | $ 4,833 |
| Foreign | 396,999 | 387,017 |
| Total | $ 400,341 | 391,850 |
| Total cash, cash equivalents and marketable securities held in U.S. dollars | $ 280,509 | $ 285,756 |
| Percentage of total cash, cash equivalents and marketable securities held in U.S. dollars | 70.1% | 72.9% |

The following table presents marketable securities at fair value as of March 31, 2017, and December 31, 2016:

| **Marketable securities** *(dollars in thousands)* | March 31, 2017 | Percent of Total | December 31, 2016 | Percent of Total |
|---|---|---|---|---|
| Corporate bonds | $ 120,893 | 50.4% | $ 130,771 | 55.2% |
| Certificates of deposit | 43,198 | 18.0% | 40,400 | 17.1% |
| Asset backed securities | 37,600 | 15.7% | 27,315 | 11.5% |
| Commercial paper | 17,013 | 7.1% | 20,228 | 8.5% |
| U.S. government bonds | 16,630 | 6.9% | 12,231 | 5.2% |
| Agency bonds | 4,599 | 1.9% | 4,604 | 1.9% |
| Other | - | 0.0% | 1,400 | 0.6% |
| Total marketable securities | $ 239,933 | | $ 236,949 | |

Of the $160.4 million of cash and cash equivalents held as of March 31, 2017, 80 percent was held as bank deposits, 17 percent was invested in money market funds restricted to U.S. government and agency securities, and the remainder consisted of commercial paper and other securities with original maturities of less than ninety days.

Should we require more capital in the U.S. than is generated by our operations domestically, for example to fund significant discretionary activities, we could elect to repatriate future earnings from foreign jurisdictions or raise capital in the U.S. through debt or equity issuances. These alternatives could result in higher effective tax rates or increased interest expense and other dilution of our earnings. We have borrowed funds domestically and believe we will continue to have the ability to borrow funds domestically at reasonable interest rates.

The following table presents additional key information concerning working capital:

| | For the Three Months Ended | | | | |
|---|---|---|---|---|---|
| | March 31, 2017 | December 31, 2016 | September 30, 2016 | June 30, 2016 | March 31, 2016 |
| Days sales outstanding [1] | 42.4 | 42.1 | 42.4 | 41.5 | 43.7 |
| Inventory turns [2] | 1.9 | 2.0 | 1.8 | 1.7 | 1.6 |

[1] Days sales outstanding represents the average of the accounts receivable balances at the beginning and end of each quarter divided by revenue for that quarter, the result of which is then multiplied by 91.25 days.
[2] Inventory turns represent inventory-related cost of product revenue for the 12 months preceding each quarter-end divided by the inventory balance at the end of the quarter.

### Sources and Uses of Cash

The following table presents cash provided (used):

| *(dollars in thousands)* | For the Three Months Ended March 31, 2017 | 2016 | Dollar Change |
|---|---|---|---|
| Net cash provided by operating activities | $ 31,274 | $ 26,990 | $ 4,284 |
| Net cash used by investing activities | (29,012) | (23,799) | (5,213) |
| Net cash provided (used) by financing activities | 1,313 | (2,562) | 3,875 |
| Net effect of changes in exchange rates on cash | 1,932 | 3,330 | (1,398) |
| Net increase in cash and cash equivalents | $ 5,507 | $ 3,959 | $ 1,548 |

Operating Activities. The increase in cash provided by operating activities of $4.3 million was driven primarily by the increase in net income, including the impact of adopting the new accounting guidance to share-based compensation, offset by the changes in operating assets and liabilities. The following table presents cash flows from changes in operating assets and liabilities and the tax benefit from share-based compensation arrangements:

| *(dollars in thousands)* | For the Three Months Ended March 31, 2017 | 2016 | Dollar Change |
|---|---|---|---|
| Accounts receivable | $ (19,429) | $ (21,504) | $ 2,075 |
| Inventories | (5,369) | 1,764 | (7,133) |
| Accounts payable | (3,687) | (1,801) | (1,886) |
| Deferred revenue | 469 | 637 | (168) |
| Other assets and liabilities | (38,531) | (23,752) | (14,779) |
| Tax benefit from share-based compensation arrangements | - | (2,063) | 2,063 |
| Total change in cash due to changes in operating assets and liabilities and the tax benefit from share-based compensation arrangements | $ (66,547) | $ (46,719) | $ (19,828) |

Cash used by inventory during the three months ended March 31, 2017, as compared to cash provided during the same period in the prior year, increased by $7.1 million, primarily as a result of timing of inventory shipments between the fourth quarter of 2016 and the first quarter of 2017. Cash used by other assets and liabilities during the three months ended March 31, 2017, was primarily the result of higher relative employee incentive compensation payments during the first quarter of 2017, as compared to the same period in the prior year.

We have historically experienced proportionally lower net cash flows from operating activities during the first quarter and proportionally higher cash flows from operating activities for the remainder of the year and for the annual period driven primarily by payments related to annual employee incentive programs in the first quarter following the year for which the bonuses were earned and the seasonality of vector-borne disease testing, which has historically resulted in significant increases in accounts receivable balances during the first quarter of the year.

Investing Activities. Cash used by investing activities was $29.0 million for the three months ended March 31, 2017, as compared to $23.8 million for the same period of the prior year. The increase in cash used by investing activities was primarily due to acquisitions of businesses, as well as higher relative purchases of property, equipment and marketable securities during the three months ended March 31, 2017, as compared to the same period of the prior year.

Financing Activities. Cash provided by financing activities was $1.3 million for the three months ended March 31, 2017, as compared to cash used by financing activities of $2.6 million for the same period in the prior year. The increase in cash provided by financing activities was primarily due to an increase in proceeds from the exercises of stock options and under the employee stock purchase plan primarily due to the increase in share price, as compared to the same period in the prior year. This increase was partially offset by the impacts of adopting the new accounting guidance related to share-based compensation, which resulted in reclassification to operating activities, as compared to the same period in the prior year.

Cash used to repurchase shares of our common stock increased $10.4 million during the three months ended March 31, 2017, as compared to the same period of the prior year. From the inception of our share repurchase program in August 1999 to March 31, 2017, we have repurchased 61.7 million shares. During the three months ended March 31, 2017, we purchased 0.4 million shares for a cash outflow of $58.0 million, as compared to purchases of 0.7 million shares for a cash outflow of $49.7 million during the same period of the prior year. We believe that the repurchase of our common stock is a favorable means of returning value to our shareholders and we also repurchase our stock to offset the dilutive effect of our share-based compensation programs. Repurchases of our common stock may vary depending upon the level of other investing activities and the share price. See Note 9 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information about our share repurchases.

Net borrowing and repayment activity under the Credit Facility resulted in incremental cash provided of $11.0 million during the three months ended March 31, 2017, as compared to the same period of the prior year. At March 31, 2017, we had $671.0 million outstanding under the Credit Facility. The general availability of funds under the Credit Facility was further reduced by $1.0 million for a letter of credit that was issued in connection with claims under our workers' compensation policy. The Credit Facility contains affirmative, negative and financial covenants customary for financings of this type. The negative covenants include restrictions on liens, indebtedness of subsidiaries of the Company, fundamental changes, investments, transactions with affiliates, certain restrictive agreements and violations of laws and regulations. The obligations under the Credit Facility may be accelerated upon the occurrence of an event of default under the Credit Facility, which includes customary events of default including payment defaults, defaults in the performance of the affirmative, negative and financial covenants, the inaccuracy of representations or warranties, bankruptcy and insolvency related defaults, defaults relating to judgments, certain events related to employee pension benefit plans under the Employee Retirement Income Security Act of 1974, the failure to pay specified indebtedness, cross-acceleration to specified indebtedness and a change of control default.

Since December 2013, we have issued and sold through private placements senior notes having an aggregate principal amount of approximately $600 million pursuant to certain note purchase agreements (collectively, the "Senior Note Agreements"). The Senior Note Agreements contain affirmative, negative and financial covenants customary for agreements of this type. The negative covenants include restrictions on liens, indebtedness of our subsidiaries, priority indebtedness, fundamental changes, investments, transactions with affiliates, certain restrictive agreements and violations of laws and regulations. See Note 11 to the consolidated financial statements in our 2016 Annual Report for additional information regarding our senior notes.

Should we elect to prepay the senior notes, such aggregate prepayment will include the applicable make-whole amount(s), as defined within the applicable Senior Note Agreements. Additionally, in the event of a change in control of the Company or upon the disposition of certain assets of the Company the proceeds of which are not reinvested (as defined in the Senior Note Agreements), we may be required to prepay all or a portion of the Senior Notes. The obligations under the Senior Notes may be accelerated upon the occurrence of an event of default under the applicable Senior Note Agreement, each of which includes customary events of default including payment defaults, defaults in the performance of the affirmative, negative and financial covenants, the inaccuracy of representations or warranties, bankruptcy and insolvency related defaults, defaults relating to judgments, certain events related to employee pension benefit plans under the Employee Retirement Income Security Act of 1974, the failure to pay specified indebtedness and cross-acceleration to specified indebtedness.

The sole financial covenant of our Credit Facility and Senior Note Agreements is a consolidated leverage ratio test that requires our ratio of debt to earnings before interest, taxes, depreciation and amortization and certain other non-cash charges (“Adjusted EBITDA”) not to exceed 3.5-to-1. At March 31, 2017, we were in compliance with the covenants of the Credit Facility and Senior Note Agreements. The following details our consolidated leverage ratio calculation as of March 31, 2017:

| **Trailing 12 Months Adjusted EBITDA:** | | **March 31, 2017** |
|---|---|---|
| Net income attributable to stockholders | $ | 245,045 |
| Interest expense | | 32,334 |
| Provision for income taxes | | 95,187 |
| Depreciation and amortization | | 79,979 |
| Share-based compensation expense | | 20,624 |
| Extraordinary and other non-recurring non-cash charges | | 1,118 |
| Adjusted EBITDA | $ | 474,287 |

| **Debt to Adjusted EBITDA Ratio:** | | **March 31, 2017** |
|---|---|---|
| Line of credit | $ | 671,000 |
| Long-term debt | | 594,868 |
| Total debt | | 1,265,868 |
| Acquisition-related contingent consideration payable | | 1,667 |
| Capitalized leases | | 560 |
| U.S. GAAP change - deferred financing costs | | 538 |
| Gross debt | | 1,268,633 |
| Gross debt to Adjusted EBITDA ratio | | 2.67 |
| | | |
| Less: Cash and cash equivalents | | (160,408) |
| Less: Marketable securities | | (239,933) |
| Net debt | $ | 868,292 |
| Net debt to Adjusted EBITDA ratio | | 1.83 |

Adjusted EBITDA, gross debt, net debt, gross debt to Adjusted EBITDA and net debt to Adjusted EBITDA ratio are non-GAAP financial measures which should be considered in addition to, and not as a replacement for, financial measures presented according to U.S. GAAP. Management believes that reporting these non-GAAP financial measures provides supplemental analysis to help investors further evaluate our business performance and available borrowing capacity under our Credit Facility.

**Other Commitments, Contingencies and Guarantees**

Significant commitments, contingencies and guarantees at March 31, 2017, are consistent with those discussed in the section under the heading “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources,” and in Note 14 to the consolidated financial statements contained in our 2016 Annual Report.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

For quantitative and qualitative disclosures about market risk affecting us, see the section under the heading “Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk” of our 2016 Annual Report. As of the date of this Quarterly Report on Form 10-Q, there have been no material changes to the market risks described in our 2016 Annual Report, except for the impact of foreign exchange rates, as discussed below.

Foreign currency exchange impacts. For the three months ended March 31, 2017, approximately 21 percent of our consolidated revenue was derived from products manufactured in the U.S. and sold internationally in local currencies, as compared to 20 percent for the three months ended March 31, 2016. Strengthening of the U.S. dollar exchange rate relative to other currencies has a negative impact on our revenues derived in currencies other than the U.S. dollar and on profits of products manufactured in the U.S. and sold internationally, and a weakening of the U.S. dollar has the opposite effect. Similarly, to the extent that the U.S. dollar is stronger in current or future periods relative to the exchange rates in effect in the corresponding prior periods, our growth rate will be negatively affected. The impact of foreign currency denominated operating expenses and foreign currency denominated supply contracts partly offsets this exposure. Additionally, our designated hedges of intercompany inventory purchases and sales help delay the impact of certain exchange rate fluctuations on non-U.S. denominated revenues.

Our foreign currency exchange impacts are comprised of three components: 1) local currency revenues and expenses; 2) the impact of hedge contracts; and 3) intercompany and trade receivables and payables balances, and monetary balances for our subsidiaries that are denominated in a currency that is different from the functional currency used by each subsidiary. Based on projected revenues and expenses for the remainder of 2017, excluding the impact of intercompany and trade balances denominated in currencies other than the functional subsidiary currencies, we project a 1 percent strengthening of the U.S. dollar would reduce revenue by approximately $5 million and operating income by approximately $2 million. Additionally, we project our foreign currency hedge contracts in place as of March 31, 2017 would provide incremental offsetting gains of less than $1 million. The impact of the intercompany and trade balances, and monetary balances referred to in the third component above have been excluded, as they are transacted at multiple times during the year and we are not able to reliably forecast the impact that changes in exchange rates would have on such balances.

The following table presents the foreign currency exchange impact on our revenues, operating profit and diluted earnings per share for the three months ended March 31, 2017 and 2016:

| *(dollars in thousands)* | **March 31, 2017** | **March 31, 2016** |
|---|---|---|
| **Revenue impact** | **$ (2,955)** | **$ (7,573)** |
| Operating profit impact, excluding hedge activity | $ (2,452) | $ (2,509) |
| Hedge gains - prior year | (809) | (4,479) |
| Hedge gains - current year | 1,075 | 809 |
| Hedging activity impact | 266 | (3,670) |
| **Operating profit impact, including hedge activity** | **$ (2,186)** | **$ (6,179)** |
| **Diluted earnings per share impact, including hedge activity** | **$ (0.02)** | **$ (0.05)** |

At our current foreign exchange rate assumptions, we anticipate that a stronger U.S. dollar will have an adverse effect on our operating results by decreasing our revenues, operating profit and diluted earnings per share in the year ending December 31, 2017, by approximately $21 million, $6 million, and $0.05 per share, respectively. This unfavorable impact is net of projected 2017 benefits from previously established foreign currency hedging contracts, which is expected to increase total company operating profit by approximately $6 million and diluted earnings per share by $0.05 in the year ending December 31, 2017. The actual impact of changes in the value of the U.S. dollar against foreign currencies in which we transact may materially differ from our expectations described above. The above estimate assumes that the value of the U.S. dollar relative to other currencies will reflect the euro at $1.06, the British pound at $1.24, the Canadian dollar at $0.74, the Australian dollar at $0.75, the Japanese yen at ¥111, Chinese renminbi at RMB 6.89 and Brazilian real at R$3.20 to the U.S. dollar for the remainder of 2017.

**Item 4. Controls and Procedures**

**Disclosure Controls and Procedures**

Our management is responsible for establishing and maintaining disclosure controls and procedures, as defined by the SEC in its Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as amended (the "Exchange Act"). The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures at March 31, 2017, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended March 31, 2017, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in "Part I, Item 1A. Risk Factors" in our 2016 Annual Report, which could materially affect our business, financial condition or future results. There have been no material changes from the risk factors previously disclosed in the 2016 Annual Report. The risks described in our 2016 Annual Report are not the only risks facing our Company and additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

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

During the three months ended March 31, 2017, we repurchased shares of common stock as described below:

| Period | Total Number of Shares Purchased (a) | | Average Price Paid per Share (b) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [1] (c) | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (d) |
|---|---|---|---|---|---|
| January 1 to January 31, 2017 | 221,716 | $ | 119.19 | 220,611 | 3,514,897 |
| February 1 to February 28, 2017 | 146,291 | $ | 140.97 | 95,700 | 3,419,197 |
| March 1 to March 31, 2017 | 73,732 | $ | 149.16 | 73,668 | 3,345,529 |
| Total | 441,739 [2] | $ | 131.41 | 389,979 | 3,345,529 |

The total shares repurchased include shares purchased in the open market and shares surrendered for employee statutory tax withholding. See Part 1, Item 1, “Note 9 – Repurchases of Common Stock” for discussion on shares repurchased.

(1) On August 13, 1999, our Board of Directors approved and announced the repurchase of our common stock in the open market or in negotiated transactions pursuant to the Company’s share repurchase program. The authorization has been increased by the Board of Directors on numerous occasions; most recently the maximum level of shares that may be repurchased under the program was increased to 65 million shares on June 15, 2015. There is no specified expiration date for this share repurchase program. There were no other repurchase programs outstanding during the three months ended March 31, 2017, and no share repurchase programs expired during the period. Repurchases of 389,979 shares were made during the three months ended March 31, 2017, in transactions made pursuant to our share repurchase program.

(2) During the three months ended March 31, 2017, we received 51,760 shares of our common stock that were surrendered by employees in payment for the minimum required withholding taxes due on the vesting of restricted stock units and settlement of deferred stock units. In the above table, these shares are included in columns (a) and (b), but excluded from columns (c) and (d). These shares do not reduce the number of shares that may yet be purchased under the share repurchase program.

## Item 6. Exhibits

| Exhibit No. | Description |
|---|---|
| 31.1 | Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |

## SIGNATURES

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

| | |
|---|---|
| | **IDEXX LABORATORIES, INC.** |
| | /s/ Brian P. McKeon |
| Date: April 28, 2017 | Brian P. McKeon<br>Executive Vice President, Chief Financial Officer<br>and Treasurer<br>(Principal Financial Officer) |

**Exhibit Index**

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