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

(Mark One)

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

For the quarterly period ended **September 30, 2023**

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)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.10 par value per share	IDXX	NASDAQ Global Select Market

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 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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	☐	Smaller reporting company	☐
		Emerging growth 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 83,051,702 on October 27, 2023.

GLOSSARY OF TERMS AND SELECTED ABBREVIATIONS

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
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
CAG	Companion Animal Group, a reporting segment that provides veterinarians diagnostic products and services and information management solutions that enhance the health and well-being of pets
Credit Facility	Our $1.25 billion five-year unsecured credit facility under an amended and restated credit agreement; consisting of i) $1 billion revolving credit facility, also referred to as line of credit, and ii) $250 million three-year term loan.
FASB	U.S. 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 and improve producer efficiency
OPTI Medical	OPTI Medical Systems, Inc., a wholly-owned subsidiary of IDEXX Laboratories Inc., located in Roswell, Georgia. This business provides point-of-care and laboratory diagnostics (including electrolyte and blood gas analyzers and related consumable products) for the human medical diagnostics sector. The Roswell facility also manufactures electrolytes slides (instrument consumables) to run Catalyst One®, Catalyst Dx®, and blood gas analyzers and consumables for the veterinary sector; also referred to as OPTI. OPTI Medical is reported in our Other operating segment.
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, certain business acquisitions and divestitures. Organic revenue growth should be considered in addition to, and not as a replacement for or as a superior measure to, revenue growth reported in accordance with U.S. GAAP, and may not be comparable to similarly titled measures reported by other companies.
PCR	Polymerase chain reaction, a technique used to amplify small segments of DNA
Reported revenue growth	Represents the percentage change in revenue reported in accordance with U.S. GAAP, as compared to the same period in the prior year
SaaS	Software-as-a-service
SEC	U.S. Securities and Exchange Commission
Senior Note Agreements	Note purchase agreements for the private placement of senior notes, referred to as senior notes or long-term debt
SOFR	The secured overnight financing rate as administered by the Federal Reserve Board of New York (or a successor administrator of the secured overnight financing rate)
U.S. GAAP	Accounting principles generally accepted in the United States of America
Water	Water, a reporting segment that provides water microbiology testing products

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)

	September 30, 2023	December 31, 2022
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 331,696	$ 112,546
Accounts receivable, net	452,699	400,619
Inventories	393,974	367,823
Other current assets	205,861	220,489
Total current assets	1,384,230	1,101,477
Long-Term Assets:		
Property and equipment, net	687,101	649,474
Operating lease right-of-use assets	117,782	118,618
Goodwill	361,766	361,795
Intangible assets, net	87,129	97,672
Other long-term assets	448,396	417,729
Total long-term assets	1,702,174	1,645,288
TOTAL ASSETS	$ 3,086,404	$ 2,746,765
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 112,609	$ 110,221
Accrued liabilities	420,312	433,662
Credit facility	250,000	579,000
Current portion of long-term debt	149,990	74,982
Current portion of deferred revenue	37,282	37,938
Total current liabilities	970,193	1,235,803
Long-Term Liabilities:		
Deferred income tax liabilities	10,594	8,150
Long-term debt, net of current portion	618,813	694,387
Long-term deferred revenue, net of current portion	27,716	30,862
Long-term operating lease liabilities, net of current portion	101,470	101,239
Other long-term liabilities	60,211	67,587
Total long-term liabilities	818,804	902,225
Total liabilities	1,788,997	2,138,028
Commitments and Contingencies (Note 16)		
Stockholders' Equity:		
Common stock, $0.10 par value: Authorized: 120,000 shares; Issued: 107,452 shares in 2023 and 107,193 shares in 2022; Outstanding: 83,068 shares in 2023 and 82,894 shares in 2022	10,745	10,719
Additional paid-in capital	1,543,024	1,463,215
Deferred stock units: Outstanding: 59 units in 2023 and 58 units in 2022	5,523	5,182
Retained earnings	4,250,050	3,599,529
Accumulated other comprehensive loss	(74,891)	(77,796)
Treasury stock, at cost: 24,384 shares in 2023 and 24,299 shares in 2022	(4,437,044)	(4,392,112)
Total stockholders' equity	1,297,407	608,737
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 3,086,404	$ 2,746,765

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

IDEXX LABORATORIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Revenue:				
Product revenue	$ 521,489	$ 481,004	$ 1,568,111	$ 1,451,899
Service revenue	394,038	360,657	1,191,241	1,086,857
Total revenue	915,527	841,661	2,759,352	2,538,756
Cost of Revenue:				
Cost of product revenue	178,527	158,554	532,136	487,948
Cost of service revenue	189,018	176,481	563,413	531,397
Total cost of revenue	367,545	335,035	1,095,549	1,019,345
Gross profit	547,982	506,626	1,663,803	1,519,411
Expenses:				
Sales and marketing	135,698	130,021	424,034	392,570
General and administrative	89,034	83,764	248,804	243,201
Research and development	47,967	48,013	139,139	211,402
Income from operations	275,283	244,828	851,826	672,238
Interest expense	(8,647)	(10,998)	(32,316)	(26,311)
Interest income	1,255	353	1,998	830
Income before provision for income taxes	267,891	234,183	821,508	646,757
Provision for income taxes	55,660	53,245	170,987	139,875
Net income attributable to IDEXX Laboratories, Inc. stockholders	$ 212,231	$ 180,938	$ 650,521	$ 506,882
Earnings per Share:				
Basic	$ 2.55	$ 2.17	$ 7.83	$ 6.04
Diluted	$ 2.53	$ 2.15	$ 7.75	$ 5.97
Weighted Average Shares Outstanding:				
Basic	83,097	83,247	83,058	83,855
Diluted	83,993	84,113	83,990	84,858

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 September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income	$ 212,231	$ 180,938	$ 650,521	$ 506,882
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(12,949)	(31,220)	(6,939)	(59,024)
Benefit plans, net of tax expense of $0 and $0 in 2023 and $0 and $(991) in 2022	—	—	—	(5,056)
Reclassification adjustment for benefit plans included in net income, net of tax of $21 and $75 in 2023 and $23 and $74 in 2022	98	118	395	378
Unrealized gain (loss) on Euro-denominated notes, net of tax expense (benefit) of $727 and $152 in 2023 and $1,713 and $3,438 in 2022	2,331	5,495	488	11,028
Unrealized gain (loss) on investments, net of tax expense (benefit) of $0 and $2 in 2023 and $(3) and $(15) in 2022	(1)	(10)	6	(52)
Unrealized gain (loss) on derivative instruments:				
Unrealized gain (loss) on foreign currency exchange contracts, net of tax expense (benefit) of $2,765 and $2,785 in 2023 and $4,634 and $10,368 in 2022	7,645	13,490	7,305	26,930
Unrealized gain (loss) on cross currency swaps, net of tax expense (benefit) of $579 and $(361) in 2023 and $1,657 and $3,303 in 2022	1,858	5,319	(1,158)	10,597
Unrealized gain (loss) on interest rate swap, net of tax expense (benefit) of $545 and $1,638 in 2023 and $0 and $0 in 2022	1,749	—	5,254	—
Reclassification adjustments for (gain) loss included in net income, net of tax (expense) benefit of $(701) and $(945) in 2023 and $(2,254) and $(4,441) in 2022	(1,957)	(6,381)	(2,446)	(12,211)
Unrealized gain (loss) on derivative instruments	9,295	12,428	8,955	25,316
Other comprehensive (loss) income, net of tax	(1,226)	(13,189)	2,905	(27,410)
Comprehensive income attributable to IDEXX Laboratories, Inc.	$ 211,005	$ 167,749	$ 653,426	$ 479,472

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

IDEXX LABORATORIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except per share amounts)
(Unaudited)

	Common Stock							
	Number of Shares	**$0.10 Par Value**	**Additional Paid-in Capital**	**Deferred Stock Units**	**Retained Earnings**	**Accumulated Other Comprehensive (Loss) Income**	**Treasury Stock**	**Total Stockholders' Equity**
Balance December 31, 2022	**107,193**	**$ 10,719**	**$ 1,463,215**	**$ 5,182**	**$3,599,529**	**$ (77,796)**	**$(4,392,112)**	**$ 608,737**
Net income	—	—	—	—	214,054	—	—	214,054
Other comprehensive income, net	—	—	—	—	—	1,181	—	1,181
Repurchases of common stock, net	—	—	—	—	—	—	(9,554)	(9,554)
Common stock issued under stock plans, including excess tax benefit	128	13	12,765	(25)	—	—	—	12,753
Share-based compensation cost	—	—	13,923	7	—	—	—	13,930
Balance March 31, 2023	**107,321**	**$ 10,732**	**$ 1,489,903**	**$ 5,164**	**$3,813,583**	**$ (76,615)**	**$(4,401,666)**	**$ 841,101**
Net income	—	—	—	—	224,236	—	—	224,236
Other comprehensive income, net	—	—	—	—	—	2,950	—	2,950
Repurchases of common stock, net	—	—	—	—	—	—	(77)	(77)
Common stock issued under stock plans, including excess tax benefit	57	6	10,283	—	—	—	—	10,289
Deferred stock units activity	—	—	(345)	345	—	—	—	—
Share-based compensation cost	—	—	15,356	6	—	—	—	15,362
Balance June 30, 2023	**107,378**	**$ 10,738**	**$ 1,515,197**	**$ 5,515**	**$4,037,819**	**$ (73,665)**	**$(4,401,743)**	**$ 1,093,861**
Net income	—	—	—	—	212,231	—	—	212,231
Other comprehensive loss, net	—	—	—	—	—	(1,226)	—	(1,226)
Repurchases of common stock, net	—	—	—	—	—	—	(35,301)	(35,301)
Common stock issued under stock plans, including excess tax benefit	74	7	12,611	—	—	—	—	12,618
Share-based compensation cost	—	—	15,216	8	—	—	—	15,224
Balance September 30, 2023	**107,452**	**$ 10,745**	**$ 1,543,024**	**$ 5,523**	**$4,250,050**	**$ (74,891)**	**$(4,437,044)**	**$ 1,297,407**

	Common Stock							
	Number of Shares	$0.10 Par Value	Additional Paid-in Capital	Deferred Stock Units	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total Stockholders' Equity
Balance December 31, 2021	**106,878**	**$ 10,688**	**$ 1,377,320**	**$ 5,719**	**$2,920,440**	**$ (53,484)**	**$(3,570,691)**	**$ 689,992**
Net income	—	—	—	—	193,965	—	—	193,965
Other comprehensive income, net	—	—	—	—	—	6,136	—	6,136
Repurchases of common stock, net	—	—	—	—	—	—	(273,058)	(273,058)
Common stock issued under stock plans, including excess tax benefit	125	12	11,583	(5)	—	—	—	11,590
Share-based compensation cost	—	—	11,122	51	—	—	—	11,173
Balance March 31, 2022	**107,003**	**$ 10,700**	**$ 1,400,025**	**$ 5,765**	**$3,114,405**	**$ (47,348)**	**$(3,843,749)**	**$ 639,798**
Net income	—	—	—	—	131,979	—	—	131,979
Other comprehensive loss, net	—	—	—	—	—	(20,357)	—	(20,357)
Repurchases of common stock, net	—	—	—	—	—	—	(313,508)	(313,508)
Common stock issued under stock plans, including excess tax benefit	72	7	7,779	(1,060)	—	—	—	6,726
Deferred stock units activity	—	—	(459)	459	—	—	—	—
Share-based compensation cost	—	—	12,364	6	—	—	—	12,370
Balance June 30, 2022	**107,075**	**$ 10,707**	**$ 1,419,709**	**$ 5,170**	**$3,246,384**	**$ (67,705)**	**$(4,157,257)**	**$ 457,008**
Net income	—	—	—	—	180,938	—	—	180,938
Other comprehensive loss, net	—	—	—	—	—	(13,189)	—	(13,189)
Repurchases of common stock, net	—	—	—	—	—	—	(166,585)	(166,585)
Common stock issued under stock plans, including excess tax benefit	20	2	4,877	—	—	—	—	4,879
Share-based compensation cost	—	—	12,942	6	—	—	—	12,948
Balance September 30, 2022	**107,095**	**$ 10,709**	**$ 1,437,528**	**$ 5,176**	**$3,427,322**	**$ (80,894)**	**$(4,323,842)**	**$ 475,999**

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 Nine Months Ended September 30, 2023	2022
Cash Flows from Operating Activities:		
Net income	$ 650,521	$ 506,882
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	85,171	83,180
Impairment charges	—	2,346
Provision for credit losses	5,464	5,112
Deferred income taxes	(14,749)	(36,890)
Share-based compensation expense	44,516	36,491
Other	(12)	2,032
Changes in assets and liabilities:		
Accounts receivable	(54,557)	(35,061)
Inventories	(31,647)	(99,621)
Other assets and liabilities	(17,902)	(87,566)
Accounts payable	(6,799)	(3,930)
Deferred revenue	(3,347)	(3,419)
Net cash provided by operating activities	656,659	369,556
Cash Flows from Investing Activities:		
Purchases of property and equipment	(101,075)	(99,609)
Acquisition of intangible assets	—	(10,000)
Equity investment	—	(25,000)
Acquisitions of a business, net of cash acquired	—	(11,512)
Proceeds from net investment hedges	6,256	—
Net cash used by investing activities	(94,819)	(146,121)
Cash Flows from Financing Activities:		
(Repayments) borrowings under credit facility, net	(329,000)	559,500
Payment of senior debt	—	(75,000)
Payments of acquisition-related contingent consideration and holdbacks	(1,879)	(5,730)
Repurchases of common stock, net	(35,070)	(745,691)
Proceeds from exercises of stock options and employee stock purchase plans	35,704	23,257
Shares withheld for statutory tax withholding payments on restricted stock	(9,907)	(10,552)
Net cash used by financing activities	(340,152)	(254,216)
Net effect of changes in exchange rates on cash	(2,538)	(14,497)
Net increase (decrease) in cash and cash equivalents	219,150	(45,278)
Cash and cash equivalents at beginning of period	112,546	144,454
Cash and cash equivalents at end of period	$ 331,696	$ 99,176
Supplemental Cash Flow Information:		
Cash paid for income taxes	$ 160,860	$ 179,720
Unpaid property and equipment, reflected in accounts payable and accrued liabilities	$ 11,328	$ 19,661

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

NOTE 1. BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The accompanying unaudited condensed consolidated financial statements of IDEXX Laboratories, Inc. and its subsidiaries have been prepared in accordance with 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 unaudited 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 unaudited 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 condensed consolidated balance sheet data as of December 31, 2022, was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. The results of operations for the three and nine months ended September 30, 2023 are not necessarily indicative of the results to be expected for the full year or any future period. These unaudited condensed consolidated financial statements should be read in conjunction with this Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, and our Annual Report on Form 10-K for the year ended December 31, 2022, (the "2022 Annual Report") filed with the SEC.

The preparation of our condensed consolidated financial statements requires us to make estimates, judgments, and assumptions that may affect the reported amounts of assets, liabilities, equity, revenues, and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis we evaluate our estimates, judgments, and methodologies. We base our estimates on historical experience and on various other assumptions that we believe are reasonable, the results of which form the basis for making judgments about the carrying values of assets, liabilities, and equity, and the amount of revenues and expenses.

We have included certain terms and abbreviations used throughout this Quarterly Report on Form 10-Q in the "Glossary of Terms and Selected Abbreviations."

NOTE 2. ACCOUNTING POLICIES

Significant Accounting Policies

The significant accounting policies used in preparation of these unaudited condensed consolidated financial statements as of and for the three and nine months ended September 30, 2023 are consistent with those discussed in “Note 2. Summary of Significant Accounting Policies” to the consolidated financial statements in our 2022 Annual Report, and as updated below.

Accounts Payable - Supplier Financing Program

We have an agreement with a third party to provide a supplier finance program, which facilitates participating suppliers’ ability to finance payment obligations from us with a designated third-party financial institution. Participating suppliers may, at their sole discretion, make offers to finance one or more of our payment obligations prior to their scheduled due dates at a discounted price. Our obligations to our suppliers, including amounts due and scheduled payment dates, are not impacted by suppliers’ decisions to finance amounts under these arrangements. The terms of payments are consistent with the terms of our trade payables. Activity related to the obligations is presented within operating activities on the unaudited consolidated statements of cash flows. The changes in our outstanding payment obligations under this arrangement, which are included in accounts payable on the unaudited condensed consolidated balance sheets, are as follows:

(in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Payment obligations outstanding at the beginning of the period	$ 5,395	$ 8,010	$ 10,171	$ 4,775
Payment obligation additions during the period	9,332	15,170	34,706	46,775
Payment obligations settled during the period	(6,876)	(15,773)	(37,026)	(44,143)
Payment obligations outstanding at the end of the period	$ 7,851	$ 7,407	$ 7,851	$ 7,407

New Accounting Pronouncements Adopted

We adopted ASU 2022-04, “Liabilities - Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations,” as of January 1, 2023, which adds certain disclosure requirements for a buyer in a supplier finance program. The amendments in this update require that a buyer in a supplier finance program discloses sufficient information about the program to allow a user of financial statements to understand the program's nature, activity during the period, changes from period to period, and potential magnitude.

We adopted ASU 2021-08, “Business Combinations (Topic 805): Accounting for Acquired Contract Assets and Contract Liabilities,” as of January 1, 2023. ASU 2021-08 is intended to improve comparability for both the recognition and measurement of acquired revenue contracts with customers at the date of and after a business combination by providing consistent recognition guidance. The adoption of ASU 2021-08 did not have a material impact on our unaudited condensed consolidated financial statements.

NOTE 3. REVENUE RECOGNITION

Our revenue is recognized when, or as, performance obligations under the terms of a contract are satisfied, which occurs when control of the promised products or services is transferred to a customer. We exclude sales, use, value-added, and other taxes we collect on behalf of third parties from revenue. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring products or services to a customer. To accurately present the consideration received in exchange for promised products or services, we apply the five-step model outlined below:

1. Identification of a contract or agreement with a customer
2. Identification of our performance obligations in the contract or agreement
3. Determination of the transaction price
4. Allocation of the transaction price to the performance obligations
5. Recognition of revenue when, or as, we satisfy a performance obligation

We enter into contracts where customers purchase combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. The timing of revenue recognition, billings, and cash collections results in accounts receivable, lease receivables and contract assets arising when revenue is recognized in advance of billings, and contract liabilities or deferred revenue as a result of receiving consideration in advance of revenue recognition within our unaudited condensed consolidated balance sheet. Customer payment terms are typically 30 to 60 days; these terms vary by location based on local business practices and by customer.

Customer contracts are modified from time to time to create new, or change existing, enforceable rights and obligations. A modification is considered to be a separate contract, and revenue is recognized prospectively, when the modification creates new performance obligations to deliver additional goods or services and the related increase in consideration approximates the standalone selling price for the additional goods or services. If a contract modification does not create a new performance obligation to deliver new goods and/or services but the goods and/or services to be delivered after the contract modification date are distinct from the goods and/or services delivered on or before the contract modification date, then this contract modification is not accounted for as a separate contract, and we account for the goods and/or services to be delivered after the contract modification date prospectively. We generally do not modify customer contracts to change existing rights and obligations related to goods or services that form part of a single performance obligation that is partially satisfied at the date of the contract modification.

Below is a listing of our major categories of revenue for our products and services:

Diagnostic Products and Accessories. Diagnostic products and accessories revenues, including IDEXX VetLab® consumables and accessories, rapid assay, LPD, Water, and OPTI testing products, are predominantly recognized and invoiced at the time of shipment, which is when the customer obtains control of the product based on legal title transfer and we have the right to payment. We also provide customers with certain consumables that are recognized upon utilization by the customer, which is when we have the right to payment and the risks and rewards of ownership transfer. Shipping costs reimbursed by the customer are included in revenue and cost of sales. As a practical expedient, we do not account for shipping activities as a separate performance obligation.

Laboratory Diagnostic and Consulting Services. Laboratory diagnostic and consulting services revenues are recognized and invoiced when the laboratory diagnostic service is performed.

Instruments, Software and Systems. CAG Diagnostics capital instruments, veterinary software, and diagnostic imaging systems revenues are recognized and invoiced when the customer obtains control of the products based on legal title transfer and we have the right to payment, which generally occurs at the time of installation and customer acceptance. Our instruments, software, and systems are often included in one of our significant customer programs, as further described below. For veterinary software systems that include multiple performance obligations, such as perpetual software licenses and computer hardware, we allocate revenue to each performance obligation based on estimates of the price that we would charge the customer for each promised product or service if it were sold on a standalone basis.

Lease Revenue. Revenues from instrument rental agreements and reagent rental programs are recognized either as operating leases on a ratable basis over the term of the agreement or as sales-type leases at the time of installation and customer acceptance. Customers typically pay for the right to use instruments under rental agreements in equal monthly amounts over the term of the rental agreement. Our reagent rental programs provide our customers the right to use our instruments upon entering into multi-year agreements to purchase annual minimum amounts of consumables. These types of agreements include an embedded lease for the right to use our instruments. For some agreements, the customers are provided with the right to purchase the instrument at the end of the lease term. Lease revenues from these agreements are presented in product revenue on our unaudited condensed consolidated income statement. Lease revenue was approximately $5.3 million and $15.3 million for the three and nine months ended September 30, 2023, respectively, as compared to $5.6 million and $15.5 million for the three and nine months ended September 30, 2022, respectively, including both operating leases and sales-type leases under ASC 842, “Leases”, for leases entered into after January 1, 2019, and ASC 840, “Leases,” for leases entered into prior to 2019. Refer to below for revenue recognition under our reagent rental programs.

Extended Warranties and Post-Contract Support. CAG Diagnostics capital instruments and diagnostic imaging systems extended warranties typically provide customers with continued coverage for a period of one to five years beyond the first-year standard warranty. Customers can either pay in full for the extended warranty at the time of instrument or system purchase or can be billed on a quarterly basis over the term of the contract. We recognize revenue associated with extended warranties over time on a ratable basis using a time-elapsed measure of performance over the contract term, which approximates the expected timing in which applicable services are performed.

Veterinary software post-contract support provides customers with access to technical support when and as needed through access to call centers and online customer assistance. Post-contract support contracts typically have a term of twelve months and customers are billed for post-contract support in equal quarterly amounts over the term. We recognize revenue for post-contract support services over time on a ratable basis using a time-elapsed measure of performance over the contract term, which approximates the expected timing in which applicable services are performed.

On December 31, 2022, our deferred revenue related to extended warranties and post-contract support was $26.4 million, of which approximately $1.6 million and $18.5 million were recognized during the three and nine months ended September 30, 2023, respectively. Furthermore, as a result of new agreements, our deferred revenue related to extended warranties and post-contract support was $25.5 million as of September 30, 2023. We do not disclose information about remaining performance obligations that are part of contracts with an original expected duration of one year or less and do not adjust for the effect of the financing components when the period between customer payment and revenue recognition is one year or less. Deferred revenue related to extended warranties and post-contract support with an original duration of more than one year was $9.6 million as of September 30, 2023, of which approximately 12%, 40%, 25%, 12%, and 11% are expected to be recognized during the remainder of 2023, the full years 2024, 2025, 2026, and thereafter, respectively. Additionally, we have determined these agreements do not include a significant financing component.

<u>SaaS Subscriptions</u>. We offer a variety of veterinary software and diagnostic imaging SaaS subscriptions including ezyVet®, Animana®, Neo®, Cornerstone® Cloud, Pet Health Network® Pro, Petly® Plans, Web PACS, rVetLink®, Smart Flow™, and Vet Radar®. We recognize revenue for our SaaS subscriptions over time on a ratable basis over the contract term, beginning on the date our service is made available to the customer. Our subscription contracts vary in term from monthly to two years. Customers typically pay for our subscription contracts in equal monthly amounts over the term of the agreement. Deferred revenue related to our SaaS subscriptions is not material.

<u>Contracts with Multiple Performance Obligations</u>. We enter into contracts with multiple performance obligations where customers purchase a combination of IDEXX products and services. Determining whether products and services are considered distinct performance obligations that should be accounted for separately requires significant judgment. We determine the transaction price for a contract based on the total consideration we expect to receive in exchange for the transferred goods or services. To the extent the transaction price includes variable consideration, such as volume rebates or expected price adjustments, we apply judgment in constraining the estimated variable consideration due to factors that may cause reversal of revenue recognized. We evaluate constraints based on our historical and projected experience with similar customer contracts.

We allocate revenue to each performance obligation in proportion to the relative standalone selling prices, and recognize revenue when transfer of the related goods or services has occurred for each obligation. We utilize the observable standalone selling price when available, which represents the price charged for the promised product or service when sold separately. When standalone selling prices for our products or services are not directly observable, we determine the standalone selling prices using relevant information available and apply suitable estimation methods including, but not limited to, the cost plus a margin approach. We recognize revenue as each performance obligation is satisfied, either at a point in time or over time, as described in the revenue categories above. We do not disclose information about remaining performance obligations that are part of contracts with an original expected duration of one year or less.

The following customer programs represent our most significant customer contracts that contain multiple performance obligations:

<u>Customer Commitment Programs</u>. We offer customer incentives upon entering into multi-year agreements to purchase annual minimum amounts of products and services.

<u>Up-Front Customer Loyalty Programs</u>. Our up-front loyalty programs provide customers with incentives in the form of cash payments or IDEXX Points upon entering into multi-year agreements to purchase annual minimum amounts of future products or services. If a customer breaches their agreement, they are required to refund all or a portion of the up-front cash or IDEXX Points, or make other repayments, remedial actions, or both. Up-front incentives to customers in the form of cash or IDEXX Points are not made in exchange for distinct goods or services and are capitalized as customer acquisition costs within other current and long-term assets, which are subsequently recognized as a reduction to revenue over the term of the customer agreement. If these up-front incentives are subsequently utilized to purchase instruments, we allocate total consideration, including future committed purchases less up-front incentives and estimates of expected price adjustments, based on relative standalone selling prices to identified performance obligations

and recognize instrument revenue and cost at the time of installation and customer acceptance. To the extent invoiced instrument revenue exceeds recognized instrument revenue, we record deferred revenue as a contract liability, which is subsequently recognized upon the purchase of products and services over the term of the contract. We have determined these agreements do not include a significant financing component. Differences between estimated and actual customer purchases may impact the timing and amount of revenue recognition.

On December 31, 2022, our capitalized customer acquisition costs were $158.0 million, of which approximately $12.5 million and $38.9 million were recognized as a reduction of revenue during the three and nine months ended September 30, 2023, respectively. Furthermore, as a result of new up-front customer loyalty payments, net of subsequent recognition, our capitalized customer acquisition costs were $163.9 million as of September 30, 2023. We monitor customer purchases over the term of their agreement to assess the realizability of our capitalized customer acquisition costs and review estimates of variable consideration. Impairments and revenue adjustments that relate to performance obligations satisfied in prior periods, including cumulative catch-up adjustments to revenue arising from contract modifications during the three and nine months ended September 30, 2023, were not material.

Volume Commitment Programs. Our volume commitment programs, such as our IDEXX 360 program, provide customers with free or discounted instruments or systems upon entering into multi-year agreements to purchase annual minimum amounts of products and services. We allocate total consideration, including future committed purchases and expected price adjustments, based on relative standalone selling prices to identified performance obligations and recognize instrument revenue and cost at the time of installation and customer acceptance in advance of billing the customer, which is also when the customer obtains control of the instrument based on legal title transfer. Our right to future consideration related to instrument revenue is recorded as a contract asset within other current and long-term assets. The contract asset is transferred to accounts receivable when customers are billed for future products and services over the term of the contract. We have determined these agreements do not include a significant financing component. Differences between estimated and actual customer purchases may impact the timing and amount of revenue recognition.

On December 31, 2022, our volume commitment contract assets were $190.8 million, of which approximately $10.6 million and $32.6 million were reclassified to accounts receivable when customers were billed for related products and services during the three and nine months ended September 30, 2023, respectively. Furthermore, as a result of new placements under volume commitment programs, net of subsequent amounts reclassified to accounts receivable, and allowances established for credit losses, our volume commitment contract assets were $210.1 million as of September 30, 2023. We monitor customer purchases over the term of their agreement to assess the realizability of our contract assets and review estimates of variable consideration. Impairments and revenue adjustments that relate to performance obligations satisfied in prior periods, including cumulative catch-up adjustments to revenue arising from contract modifications during the three and nine months ended September 30, 2023, were not material.

For our up-front customer loyalty and volume commitment programs, we estimate future revenues related to multi-year agreements to be approximately $2.9 billion, of which approximately 8%, 29%, 24%, 19%, and 20% are expected to be recognized during the remainder of 2023, the full years 2024, 2025, 2026, and thereafter, respectively. These future revenues relate to performance obligations not yet satisfied, for which customers have committed to future purchases, net of the expected revenue reductions from customer acquisition costs and expected price adjustments, and, as a result, are lower than stated contractual commitments by our customers.

Instrument Rebate Programs. Our instrument rebate programs require an instrument purchase and provide customers the opportunity to earn future rebates based on the volume of products and services they purchase over the term of the program. We account for the customer's right to earn rebates on future purchases as a separate performance obligation and determine the standalone selling price based on an estimate of rebates the customer will earn over the term of the program. Total consideration allocated to identified performance obligations is limited to goods and services that the customer is presently obligated to purchase and does not include estimates of future purchases that are optional. We allocate total consideration to identified performance obligations, including the customer's right to earn rebates on future purchases, which is deferred and subsequently recognized upon the purchase of products and services, partly offsetting rebates as they are earned.

On December 31, 2022, our deferred revenue related to instrument rebate programs was $25.6 million, of which approximately $2.2 million and $7.2 million were recognized when customers purchased eligible products and services and earned rebates during the three and nine months ended September 30, 2023, respectively. Furthermore, as a result of new instrument purchases under rebate programs, net of subsequent recognition, our deferred revenue was $22.5 million as of September 30, 2023, of which approximately 10%, 32%, 24%, 17%, and 17% are expected to be recognized during the remainder of 2023, the full years 2024, 2025, 2026, and thereafter, respectively.

Reagent Rental Programs. Our reagent rental programs provide our customers the right to use our instruments upon entering into multi-year agreements to purchase annual minimum amounts of consumables and services. These types of agreements include an embedded lease for the right to use our instrument, and we determine the amount of lease revenue allocated to the instrument based on relative standalone selling prices. We evaluate the terms of these embedded leases to determine classification as either a sales-type lease or an operating lease.

Sales-type Reagent Rental Programs. Our reagent rental programs that effectively transfer control of instruments to our customers are classified as sales-type leases, and we recognize instrument revenue and cost in advance of billing the customer, at the time of installation and customer acceptance. Our right to future consideration related to instrument revenue is recorded as a lease receivable within other current and long-term assets, and is transferred to accounts receivable when customers are billed for future products and services over the term of the contract. On December 31, 2022, our lease receivable assets were $18.4 million, of which approximately $1.0 million and $3.2 million were reclassified to accounts receivable when customers were billed for related products and services during the three and nine months ended September 30, 2023, respectively. Furthermore, as a result of new placements under sales-type reagent rental programs, net of subsequent amounts reclassified to accounts receivable, and allowances established for credit losses, our lease receivable assets were $20.7 million as of September 30, 2023. The impacts of discounting and unearned income as of September 30, 2023 were not material. Profit and loss recognized at the commencement date and interest income during the three and nine months ended September 30, 2023, were not material. We monitor customer purchases over the term of their agreement to assess the realizability of our lease receivable assets. Impairments during the three and nine months ended September 30, 2023 were not material.

Operating-type Reagent Rental Programs. Our reagent rental programs that do not effectively transfer control of instruments to our customers are classified as operating leases, and we recognize instrument revenue and costs ratably over the term of the agreement. The cost of the instrument is capitalized within property and equipment. During the three and nine months ended September 30, 2023, we transferred instruments of $3.6 million and $12.2 million, respectively, as compared to $5.0 million and $12.6 million for the three and nine months ended September 30, 2022, respectively, from inventory to property and equipment.

We estimate future revenue to be recognized related to our reagent rental programs of approximately $51.0 million, of which approximately 7%, 26%, 22%, 17%, and 28% are expected to be recognized during the remainder of 2023, the full years 2024, 2025, 2026, and thereafter, respectively. These future revenues relate to performance obligations not yet satisfied for which customers have committed to future purchases, net of any expected price adjustments, and, as a result, are lower than stated contractual commitments by our customers.

Other Customer Incentive Programs. Certain agreements with customers include discounts or rebates on the sale of products and services applied retrospectively, such as volume rebates achieved by purchasing a specified purchase threshold of goods and services. We account for these discounts as variable consideration and estimate the likelihood of a customer meeting the threshold in order to determine the transaction price using the most predictive approach. We typically use the most-likely-amount method for incentives that are offered to individual customers and the expected-value method for programs that are offered to a broad group of customers. Revenue adjustments that relate to performance obligations satisfied in prior periods, including cumulative catch-up adjustments to revenue arising from contract modifications, during the three and nine months ended September 30, 2023, were not material. Refund obligations related to customer incentive programs are recorded in accrued liabilities for the actual issuance of incentives, incentives earned but not yet issued, and estimates of incentives to be earned in the future.

Program Combinations. At times, we combine elements of our significant customer programs within a single customer contract. We separate each significant program element and include the contract assets, customer acquisition costs, deferred revenues, and estimated future revenues within the most relevant program disclosures above. Each customer contract is presented as a net contract asset or net contract liability on our unaudited condensed consolidated balance sheet.

IDEXX Points. IDEXX Points may be applied to trade receivables due to us, converted to cash, or applied against the purchase price of IDEXX products and services. We consider IDEXX Points equivalent to cash. IDEXX Points that have not yet been used by customers are included in accrued liabilities until utilized or expired. Breakage is not material because customers can apply IDEXX Points to trade receivables at any time.

Accounts Receivable. We recognize revenue when it is probable that we will collect substantially all of the consideration to which we will be entitled, based on the customer's intent and ability to pay the promised consideration. We apply judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience or, in the case of a new customer, published credit and financial information pertaining to the customer. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers that purchase our products and services, and we have no significant customers that accounted for greater than 10% of our consolidated revenues during the three and nine months ended September 30, 2023.

Disaggregated Revenues. We present disaggregated revenue for our CAG segment based on major product and service categories. Our Water segment is comprised of a single major product category. Although our LPD segment does not meet the quantitative requirements to be reported as a separate segment, we believe it is important to disaggregate these revenues as a major product and service category separately from our Other reportable segment given its distinct markets, and therefore we have elected to report LPD as a reportable segment.

The following table presents disaggregated revenue by major product and service categories:

(in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
CAG segment revenue:				
CAG Diagnostics recurring revenue:	$ 733,958	$ 667,309	$ 2,223,336	$ 2,017,532
IDEXX VetLab consumables	*296,042*	*262,820*	*890,891*	*796,072*
Rapid assay products	*87,562*	*80,542*	*266,934*	*242,542*
Reference laboratory diagnostic and consulting services	*320,294*	*295,590*	*973,580*	*894,795*
CAG Diagnostics services and accessories	*30,060*	*28,357*	*91,931*	*84,123*
CAG Diagnostics capital - instruments	32,254	35,176	99,452	108,400
Veterinary software, services and diagnostic imaging systems	70,948	62,505	208,303	184,329
CAG segment revenue	837,160	764,990	2,531,091	2,310,261
Water segment revenue	44,450	40,840	126,362	116,406
LPD segment revenue	29,747	28,452	88,866	89,211
Other segment revenue	4,170	7,379	13,033	22,878
Total revenue	$ 915,527	$ 841,661	$ 2,759,352	$ 2,538,756

Revenue by principal geographic area, based on customers' domiciles, was as follows:

(in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
United States	$ 603,046	$ 560,292	$ 1,815,066	$ 1,646,023
Europe, the Middle East and Africa	177,852	152,235	532,526	488,036
Asia Pacific Region	77,666	76,799	236,932	240,760
Canada	35,612	33,642	113,209	108,407
Latin America & Caribbean	21,351	18,693	61,619	55,530
Total revenue	$ 915,527	$ 841,661	$ 2,759,352	$ 2,538,756

Costs to Obtain a Contract. We capitalize sales commissions, and the related fringe benefits earned by our sales force when considered incremental and recoverable costs of obtaining a contract. Our contracts include performance obligations related to various goods and services, some of which are satisfied at a point in time and others over time. Commission costs related to performance obligations satisfied at a point in time are expensed at the time of sale, which is when revenue is recognized. Commission costs related to long-term service contracts and performance obligations satisfied over time, including extended warranties and SaaS subscriptions, are deferred and recognized on a systematic basis that is consistent with the transfer of the goods or services to which the asset relates. We apply judgment in estimating the amortization period, which ranges from 3 to 7 years, by taking into consideration our customer contract terms, history of renewals, and expected length of customer relationship, as well as the useful life of the underlying technology and products. Amortization expense is included in sales and marketing expenses in the accompanying unaudited condensed consolidated statements of income. Deferred commission costs are periodically reviewed for impairment.

On December 31, 2022, our deferred commission costs, included within other assets, were $19.2 million, of which approximately $1.6 million and $5.0 million of commission expense was recognized during the three and nine months ended September 30, 2023, respectively. Furthermore, as a result of commissions related to new extended warranties and SaaS subscriptions, net of subsequent recognition, our deferred commission costs were $19.2 million as of September 30, 2023. Impairments of deferred commission costs during the three and nine months ended September 30, 2023 were not material.

NOTE 4. ACQUISITIONS, ASSET PURCHASES AND INVESTMENTS

We believe that our acquisitions of businesses and other assets enhance our existing businesses by either expanding our geographic range, customer base, or existing product and service lines. From time to time we may acquire small reference laboratories or radiology practices that we account for as either asset purchases or business combinations.

Asset Purchases and Investments

During the first quarter of 2022 we made a $10.0 million payment for a perpetual intellectual property license, which will be amortized over 10 years. The related amortization expense is recorded in our CAG segment.

During the second quarter of 2022, we entered into two discrete arrangements to license intellectual property for which we paid $65.0 million over the course of 2022, and accrued $15.0 million in subsequent payments, all of which was charged to research and development expense. The $15.0 million milestone payment was paid in the first quarter of 2023. These two arrangements were treated as asset acquisitions under U.S. GAAP and resulted in the full amount being expensed to research and development expense as in-process research and development costs with no alternative future use. The acquisition of these licensing arrangements supports new instrument platform development.

During the second quarter of 2022 we purchased $25.0 million of preferred shares for a noncontrolling minority interest in one of the entities with which we have a license agreement. We elected to measure the investment as an equity security investment, under ASC 321, “Investment - Equity Securities,” and recorded the investment at cost.

Business Combinations

During the third quarter of 2022, we acquired the assets of an international water testing company located in Canada for approximately $12.8 million in cash, including a holdback of approximately $1.3 million. This acquisition expands our product offering in the Water segment. The fair values of the assets and liabilities acquired consist of technology intangibles of approximately $3.4 million, with a life of 10 years; customer relationship intangibles of approximately $1.2 million, with a life of 10 years; approximately $6.9 million of goodwill, representing synergies with our Water testing portfolio; and approximately $1.3 million of tangible assets, including inventory and accounts receivable. Goodwill related to this acquisition is expected to be deductible for tax purposes. Pro forma information has not been presented for this acquisition because such information is not material to the financial statements. The results of operations have been included in our Water segment since the acquisition date. The acquisition expenses were not material.

NOTE 5. SHARE-BASED COMPENSATION

The fair value of options, restricted stock units, deferred stock units, and employee stock purchase rights awarded during the three and nine months ended September 30, 2023, totaled $1.5 million and $62.1 million, respectively, as compared to $1.7 million and $57.1 million for the three and nine months ended September 30, 2022, respectively. The total unrecognized compensation expense, net of estimated forfeitures, for unvested share-based compensation awards outstanding as of September 30, 2023, was $76.0 million, which will be recognized over a weighted average period of approximately 1.5 years. During the three and nine months ended September 30, 2023, we recognized expenses of $15.2 million and $44.5 million, respectively, as compared to $12.9 million and $36.5 million for the three and nine months ended September 30, 2022, respectively, related to share-based compensation.

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 or greater than the closing market price of our common stock at the date of grant. We have never paid any cash dividends on our common stock, and we have no 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 Nine Months Ended September 30,	
	2023	2022
Expected stock price volatility	32 %	30 %
Expected term, in years	6.7	6.4
Risk-free interest rate	3.7 %	2.1 %
Weighted average fair value of options granted	$ 201.48	$ 166.30

NOTE 6. CREDIT LOSSES

We are exposed to credit losses primarily through our sales of products and services to our customers. We maintain allowances for credit losses for potentially uncollectible receivables. We base our estimates on a detailed analysis of specific customer situations and a percentage of our accounts receivable by aging category. Additionally, our estimates are developed based on historical credit loss experience, estimates of recoveries, current economic conditions, and future expectations.

Additional allowances may be required if either the financial condition of our customers were to deteriorate, or a strengthening U.S. dollar impacts the ability of foreign customers to make payments to us on their U.S. dollar-denominated purchases. We monitor our ongoing credit exposure through active review of counterparty balances against contract terms and due dates. Our activities include timely account reconciliations, dispute resolution, and payment confirmations. We may employ collection agencies and legal counsel to pursue recovery of defaulted receivables.

Account balances are charged off against the allowance when we believe it is probable the receivable will not be recovered. We may require collateralized asset support or a prepayment to mitigate credit risk. We do not have any off-balance sheet credit exposure related to our customers.

Accounts Receivable

The allowance for credit losses associated with accounts receivable was $10.1 million and $8.3 million as of September 30, 2023 and December 31, 2022, respectively. The amount of accounts receivable reflected on the balance sheet is net of this reserve. Based on an aging analysis, as of September 30, 2023, approximately 85% of our accounts receivable had not yet reached the invoice due date, and approximately 15% was considered past due, of which less than 1% was greater than 60 days past due. As of December 31, 2022, approximately 86% of our accounts receivable had not yet reached the invoice due date, and approximately 14% was considered past due, of which approximately 2% was greater than 60 days past due.

Contract assets and lease receivables

The allowance for credit losses associated with the contract assets and lease receivables was $6.0 million and $5.5 million as of September 30, 2023 and December 31, 2022, respectively. The assets reflected on the balance sheet are net of these reserves. Historically, we have experienced low credit loss rates on our customer commitment programs and lease receivables. We apply judgment in determining the customer’s ability and intention to pay, which is based on a variety of factors including the customer’s historical payment experience or, in the case of a new customer, published credit and financial information pertaining to the customer.

NOTE 7. INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out) or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The components of inventories were as follows:

(in thousands)	September 30, 2023	December 31, 2022
Raw materials	$ 110,089	$ 92,796
Work-in-process	29,339	28,041
Finished goods	254,546	246,986
Inventories	$ 393,974	$ 367,823

NOTE 8. LEASES

Maturities of operating lease liabilities were as follows:

(in thousands)	September 30, 2023
2023 (remainder of year)	$ 4,930
2024	25,749
2025	22,840
2026	20,112
2027	15,183
Thereafter	54,302
Total lease payments	143,116
Less imputed interest	(21,754)
Total	$ 121,362

Total minimum future lease payments for leases that have not commenced as of September 30, 2023, is immaterial.

Supplemental cash flow information for leases was as follows:

(in thousands)	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022
Cash paid for amounts included in the measurement of operating leases liabilities	$ 20,304	$ 17,715
Right-of-use assets obtained in exchange for operating lease obligations, net of early lease terminations	$ 18,219	$ 26,040

NOTE 9. OTHER CURRENT AND LONG-TERM ASSETS

Other current assets consisted of the following:

(in thousands)	September 30, 2023	December 31, 2022
Customer acquisition costs	$ 52,912	$ 50,776
Contract assets, net [1]	50,954	41,854
Prepaid expenses	49,875	41,742
Taxes receivable	18,212	48,430
Deferred sales commissions	6,453	6,472
Foreign currency exchange contracts	7,993	5,185
Cross currency swap contracts	—	8,135
Other assets	19,462	17,895
Other current assets	$ 205,861	$ 220,489

[1] Contract assets, net, are net of allowances for credit losses. Refer to "Note 6. Credit Losses."

Other long-term assets consisted of the following:

(in thousands)	September 30, 2023	December 31, 2022
Contract assets, net [1]	$ 159,196	$ 148,971
Customer acquisition costs	110,996	107,205
Deferred income taxes	68,969	55,215
Equity investments	30,250	30,250
Investment in long-term product supply arrangements	24,083	25,250
Deferred sales commissions	12,795	12,718
Other assets	42,107	38,120
Other long-term assets	$ 448,396	$ 417,729

[1] Contract assets, net, are net of allowances for credit losses. Refer to "Note 6. Credit Losses."

NOTE 10. ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

(in thousands)	September 30, 2023	December 31, 2022
Accrued employee compensation and related expenses	$ 158,156	$ 142,994
Accrued expenses	107,590	149,446
Accrued customer incentives and refund obligations	84,415	72,250
Accrued taxes	50,259	48,547
Current lease liabilities	19,892	20,425
Accrued liabilities	$ 420,312	$ 433,662

Other long-term liabilities consisted of the following:

(in thousands)	September 30, 2023	December 31, 2022
Accrued taxes	$ 40,905	$ 49,142
Other accrued long-term expenses	19,306	18,445
Other long-term liabilities	$ 60,211	$ 67,587

NOTE 11. DEBT

Credit Facility

As of September 30, 2023, we had $250.0 million in outstanding borrowings under our Credit Facility, all of which was under our $250.0 million Term Loan, with an effective interest rate of 6.3%, excluding any impact of our interest rate swap. As of December 31, 2022, we had $579.0 million in outstanding borrowings under our Credit Facility, which consisted of $329.0 million drawn under our line of credit and a $250.0 million Term Loan, with a weighted average effective interest rate of 5.1%. As of September 30, 2023, we had remaining borrowing availability of $998.5 million under our $1.25 billion Credit Facility. The funds available under the Credit Facility reflect a further reduction due to the issuance of letters of credit, which were issued primarily in connection with our workers' compensation policy, for $1.5 million.

The applicable interest rate for the Credit Facility is calculated at a per annum rate equal to either (at our option) (1) a prime rate plus a margin ranging from 0.0% to 0.375% based on our consolidated leverage ratio, (2) an adjusted term SOFR rate, plus 0.10%, plus a margin ranging from 0.875% to 1.375% based on our consolidated leverage ratio, or (3) an adjusted daily simple SOFR rate, plus 0.10%, plus a margin ranging from 0.875% to 1.375% based on our consolidated leverage ratio. In March 2023 we entered into an interest rate swap contract to manage the economic effect of $250.0 million of variable interest borrowings under our Credit Facility. Refer to Note 19 for a discussion of our derivative instruments and hedging activity.

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, and certain restrictive agreements. The sole financial covenant is a consolidated leverage ratio test that requires our ratio of debt to earnings before interest, taxes, depreciation, amortization, and share-based compensation, which is defined as the consolidated leverage ratio under the terms of the Credit Facility, not to exceed 3.5-to-1. At September 30, 2023 and December 31, 2022, we were in compliance with the covenants of the Credit Facility.

Senior Notes

The following describes our outstanding unsecured senior notes issued and sold in private placements (collectively, the "Senior Notes") as of September 30, 2023:

(Principal Amount in thousands)

Issue Date	Due Date	Series	Principal Amount	Coupon Rate	Senior Note Agreement
12/11/2013	12/11/2023	2023 Series A Notes	$ 75,000	3.94 %	NY Life 2013 Note Agreement
12/11/2013	12/11/2025	2025 Series B Notes	$ 75,000	4.04 %	NY Life 2013 Note Agreement
9/4/2014	9/4/2026	2026 Senior Notes	$ 75,000	3.72 %	NY Life 2014 Note Agreement
7/21/2014	7/21/2024	2024 Series B Notes	$ 75,000	3.76 %	Prudential 2015 Amended Agreement
6/18/2015	6/18/2025	2025 Series C Notes	€ 88,857	1.785 %	Prudential 2015 Amended Agreement
2/12/2015	2/12/2027	2027 Series B Notes	$ 75,000	3.72 %	MetLife 2014 Note Agreement
3/14/2019	3/14/2029	2029 Series C Notes	$ 100,000	4.19 %	MetLife 2014 Note Agreement
4/2/2020	4/2/2030	MetLife 2030 Series D Notes	$ 125,000	2.50 %	MetLife 2014 Note Agreement
4/14/2020	4/14/2030	Prudential 2030 Series D Notes	$ 75,000	2.50 %	Prudential 2015 Amended Agreement

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, and certain restrictive agreements. The sole financial covenant is a consolidated leverage ratio test that requires our ratio of debt to earnings before interest, taxes, depreciation, amortization, and share-based compensation, as defined in the Senior Note Agreements, not to exceed 3.5-to-1. At September 30, 2023 and December 31, 2022, we were in compliance with the covenants of the Senior Note Agreements.

NOTE 12. 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 and nine months ended September 30, 2023 and 2022 was not material.

The Inflation Reduction Act of 2022, which was enacted into law on August 16, 2022, imposed a nondeductible 1% excise tax on the net value of certain stock repurchases made after December 31, 2022. The excise tax is included in the cost of treasury stock acquired in repurchases in the open market for the current year.

The following is a summary of our open market common stock repurchases, reported on a trade date basis, and shares acquired through employee surrender:

(in thousands, except per share amounts)	For the Three Months Ended September 30, 2023	For the Three Months Ended September 30, 2022	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022
Shares repurchased in the open market	65	453	65	1,764
Shares acquired through employee surrender for statutory tax withholding	1	—	20	21
Total shares repurchased	66	453	85	1,785
Cost of shares repurchased in the open market	$ 35,070	$ 166,423	$ 35,070	$ 742,661
Cost of shares for employee surrenders	231	162	9,907	10,552
Total cost of shares	$ 35,301	$ 166,585	$ 44,977	$ 753,213
Average cost per share - open market repurchases	$ 536.03	$ 367.55	$ 536.03	$ 421.12
Average cost per share - employee surrenders	$ 506.74	$ 387.07	$ 503.43	$ 502.26
Average cost per share - total	$ 535.83	$ 367.56	$ 528.49	$ 422.07

NOTE 13. INCOME TAXES

Our effective income tax rate was 20.8% for the three months ended September 30, 2023, as compared to 22.7% for the three months ended September 30, 2022, and 20.8% for the nine months ended September 30, 2023, as compared to 21.6% for the nine months ended September 30, 2022. The decrease in our effective tax rate for the three months ended September 30, 2023, as compared to the same period in the prior year, was primarily driven by an increase in the tax rate benefits related to share-based compensation and, to a lesser extent, research and development tax credits and geographical income mix. The decrease in our effective tax rate for the nine months ended September 30, 2023, as compared to the same period in the prior year, was primarily driven by geographical income mix and, to a lesser extent, tax rate benefits related to share-based compensation.

The effective tax rate for the three and nine months ended September 30, 2023 differed from the U.S. federal statutory tax rate of 21% primarily due to U.S. state income taxes, net of federal benefit, partially offset by tax benefits from share-based compensation.

NOTE 14. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in AOCI, net of tax, consisted of the following:

	For the Nine Months Ended September 30, 2023							
		Unrealized Gain (Loss) on Cash Flow Hedges, Net of Tax		Unrealized Gain (Loss) on Net Investment Hedges, Net of Tax				
(in thousands)	Unrealized (Loss) Gain on Investments, Net of Tax	Foreign Currency Exchange Contracts	Interest Rate Swap	Euro-Denominated Notes	Cross Currency Swaps	Defined Benefit Plans, Net of Tax	Cumulative Translation Adjustment	Total
Balance as of December 31, 2022	$ (172)	$ 839	$ —	$ 4,947	$ 7,057	$ (2,776)	$ (87,691)	$ (77,796)
Other comprehensive income (loss) before reclassifications	6	7,305	5,254	488	(1,158)	—	(6,939)	4,956
Reclassified from accumulated other comprehensive income	—	(1,174)	(1,272)	—	—	395	—	(2,051)
Balance as of September 30, 2023	$ (166)	$ 6,970	$ 3,982	$ 5,435	$ 5,899	$ (2,381)	$ (94,630)	$ (74,891)

	For the Nine Months Ended September 30, 2022						
		Unrealized Gain (Loss) on Cash Flow Hedges, Net of Tax	Unrealized Gain (Loss) on Net Investment Hedges, Net of Tax				
(in thousands)	Unrealized (Loss) on Investments, Net of Tax	Foreign Currency Exchange Contracts	Euro-Denominated Notes	Cross Currency Swaps	Defined Benefit Plans, Net of Tax	Cumulative Translation Adjustment	Total
Balance as of December 31, 2021	$ (126)	$ 4,979	$ 422	$ 3,240	$ —	$ (61,999)	$ (53,484)
Other comprehensive (loss) income before reclassifications	(52)	26,930	11,028	10,597	(5,056)	(59,024)	(15,577)
Reclassified from accumulated other comprehensive income	—	(12,211)	—	—	378	—	(11,833)
Balance as of September 30, 2022	$ (178)	$ 19,698	$ 11,450	$ 13,837	$ (4,678)	$ (121,023)	$ (80,894)

The following table presents components and amounts reclassified out of AOCI to net income:

(in thousands)	Affected Line Item in the Statements of Income	Amounts Reclassified from AOCI For the Three Months Ended September 30,		Amounts Reclassified from AOCI For the Nine Months Ended September 30,	
		2023	2022	2023	2022
Foreign currency exchange contracts	Cost of revenue	$ 1,273	$ 8,635	$ 1,723	$ 16,652
	Tax expense	372	2,254	549	4,441
	Gain, net of tax	$ 901	$ 6,381	$ 1,174	$ 12,211
Interest rate swap contracts	Interest expense	$ 1,385	$ —	$ 1,668	$ —
	Tax expense	329	—	396	—
	Gain, net of tax	$ 1,056	$ —	$ 1,272	$ —
Defined benefit plans	Cost of revenue and operating expenses	$ (119)	$ (141)	$ (470)	$ (452)
	Tax benefit	(21)	(23)	(75)	(74)
	Loss, net of tax	$ (98)	$ (118)	$ (395)	$ (378)

NOTE 15. 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 and the total unrecognized compensation expense for unvested share-based compensation awards, would be used to purchase our common stock at the average market price during the period. 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. Refer to Note 5 to the consolidated financial statements in our 2022 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:

(in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Shares outstanding for basic earnings per share	83,097	83,247	83,058	83,855
Shares outstanding for diluted earnings per share:				
Shares outstanding for basic earnings per share	83,097	83,247	83,058	83,855
Dilutive effect of share-based payment awards	896	866	932	1,003
	83,993	84,113	83,990	84,858

Certain awards and options to acquire shares have been excluded from the calculation of shares outstanding for diluted earnings per share because they were anti-dilutive. The following table presents information concerning those anti-dilutive awards and options:

(in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Weighted average number of shares underlying anti-dilutive awards	—	78	1	44
Weighted average number of shares underlying anti-dilutive options	393	287	379	258

NOTE 16. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Commitments

Refer to “Note 8. Leases,” for more information regarding our lease commitments.

Contingencies

We are subject to claims that may arise in the ordinary course of business, including with respect to actual and threatened litigation and other matters. We accrue for loss contingencies when it is probable that future expenditures will be made, and such expenditures can be reasonably estimated. However, the results of legal actions cannot be predicted with certainty, and therefore our actual losses with respect to these contingencies could exceed our accruals. Except for the litigation matter described below, as of September 30, 2023, our accruals with respect to actual and threatened litigation were not material.

We are a defendant in an ongoing litigation matter involving an alleged breach of contract for underpayment of royalty payments made from 2004 through 2017 under an expired patent license agreement. The plaintiff has asserted a claim of approximately $50 million, inclusive of interest through June 30, 2020, alleging that the incorrect royalty provision was applied to certain licensed products and services throughout the agreement term and that royalties were also due on non-licensed diagnostic services that were provided concurrently with licensed services. The trial court previously ruled in favor of the plaintiff in this matter. The appellate court reversed the trial court’s decision, and the plaintiff petitioned the state supreme court for review. During the third quarter of 2023, the state supreme court granted plaintiff’s petition for review of the appellate court decision and scheduled a hearing for January of 2024. While we believe the claim is without merit and continue to vigorously defend ourselves against the plaintiff’s allegations, litigation is inherently unpredictable, and there can be no assurance that we will prevail in this matter. During the third quarter of 2020, we established an accrual of $27.5 million related to this ongoing matter, which represents the amount of the contingent loss that we have determined to be probable and estimable. We have not made any adjustments to this accrual since it was established. The actual cost of resolving this matter may be higher or lower than the amount we have accrued.

From time to time, we have received notices alleging that our products infringe third-party proprietary rights, although we are not aware of any pending litigation with respect to such claims. Patent litigation frequently is complex and expensive, and the outcome of patent litigation can be difficult to predict. There can be no assurance that we will prevail in any infringement proceedings that may be commenced against us. If we lose any such litigation, we may be stopped from selling certain products and/or we may be required to pay damages as a result of the litigation.

Guarantees

We enter into agreements with third parties in the ordinary course of business under which we are obligated to indemnify such third parties for and against various risks and losses. The precise terms of such indemnities vary with the nature of the agreement. In many cases, we limit the maximum amount of our indemnification obligations, but in some cases, those obligations may be theoretically unlimited. We have not incurred material expenses in discharging any of these indemnification obligations and, based on our analysis of the nature of the risks involved, we believe that the fair value of potential indemnification under these agreements is minimal. Accordingly, we have recorded no liabilities for these obligations as of September 30, 2023 and December 31, 2022.

NOTE 17. SEGMENT REPORTING

We operate primarily through three business segments: Companion Animal Group ("CAG"), water quality products ("Water"), and Livestock, Poultry and Dairy ("LPD"). CAG provides products and services for veterinarians and the biomedical research community, primarily related to diagnostics and information management. Water provides innovative testing solutions for the detection and quantification of various microbiological parameters in water. LPD provides diagnostic tests, services, and related instrumentation that are used to manage the health status of livestock and poultry, to improve producer efficiency, and to ensure the quality and safety of milk. Our Other operating segment combines and presents our human medical diagnostic business ("OPTI Medical") with our out-licensing arrangements because they do not meet the quantitative or qualitative thresholds for reportable segments. OPTI Medical develops, manufactures, and distributes human medical diagnostic products and provides human medical diagnostic services.

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: CAG, Water, LPD, and Other. Assets are not allocated to segments for internal reporting purposes.

The following is a summary of segment performance:

(in thousands)	For the Three Months Ended September 30,				
	CAG	Water	LPD	Other	Consolidated Total
2023					
Revenue	$ 837,160	$ 44,450	$ 29,747	$ 4,170	$ 915,527
Income from operations	$ 253,358	$ 20,328	$ 2,405	$ (808)	$ 275,283
Interest expense, net					(7,392)
Income before provision for income taxes					267,891
Provision for income taxes					55,660
Net income attributable to IDEXX Laboratories, Inc. stockholders					$ 212,231
2022					
Revenue	$ 764,990	$ 40,840	$ 28,452	$ 7,379	$ 841,661
Income from operations	$ 221,454	$ 19,924	$ 4,480	$ (1,030)	$ 244,828
Interest expense, net					(10,645)
Income before provision for income taxes					234,183
Provision for income taxes					53,245
Net income attributable to IDEXX Laboratories, Inc. stockholders					$ 180,938

(in thousands)	For the Nine Months Ended September 30,				
	CAG	Water	LPD	Other	Consolidated Total
2023					
Revenue	$ 2,531,091	$ 126,362	$ 88,866	$ 13,033	$ 2,759,352
Income from operations	$ 790,617	$ 57,119	$ 5,664	$ (1,574)	$ 851,826
Interest expense, net					(30,318)
Income before provision for income taxes					821,508
Provision for income taxes					170,987
Net income attributable to IDEXX Laboratories, Inc. stockholders					$ 650,521
2022					
Revenue	$ 2,310,261	$ 116,406	$ 89,211	$ 22,878	$ 2,538,756
Income from operations	$ 601,105	$ 54,498	$ 14,447	$ 2,188	$ 672,238
Interest expense, net					(25,481)
Income before provision for income taxes					646,757
Provision for income taxes					139,875
Net income attributable to IDEXX Laboratories, Inc. stockholders					$ 506,882

Refer to “Note 3. Revenue Recognition” for a summary of disaggregated revenue by reportable segment and by major product and service category for the three and nine months ended September 30, 2023 and 2022.

NOTE 18. 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.

We have 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 non-recurring basis, and certain financial assets and liabilities that are not measured at fair value in our unaudited 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 and nine months ended September 30, 2023.

Our cross currency swap contracts are measured at fair value on a recurring basis in our accompanying unaudited condensed consolidated balance sheets. We measure the fair value of our cross currency swap contracts classified as derivative instruments using prevailing market conditions as of the close of business on each balance sheet date. The product of this calculation is then adjusted for counterparty risk.

Our foreign currency exchange contracts are measured at fair value on a recurring basis in our accompanying unaudited 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 exchange rates less the contract rate multiplied by the notional amount. The product of this calculation is then adjusted for counterparty risk.

Our interest rate swap contracts are measured at fair value on a recurring basis in our accompanying unaudited condensed consolidated balance sheets. We measure the fair value of our interest rate swap contracts classified as derivative instruments using current market interest rates for debt issues with similar remaining years to maturity, adjusted for applicable credit risk.

The amounts outstanding under our unsecured Credit Facility and senior notes ("long-term debt") are measured at carrying value in our unaudited 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 $719.7 million and $769.1 million, respectively, as of September 30, 2023, and $725.6 million and $769.8 million, respectively, as of December 31, 2022.

The following tables set forth our assets and liabilities that were measured at fair value on a recurring basis by level within the fair value hierarchy:

(in thousands)

As of September 30, 2023	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Balance as of September 30, 2023**
Assets				
Money market funds [1]	$ 165,824	$ —	$ —	$ 165,824
Equity mutual funds [2]	$ 164	$ —	$ —	$ 164
Cross currency swaps [3]	$ —	$ 1,880	$ —	$ 1,880
Foreign currency exchange contracts [3]	$ —	$ 9,597	$ —	$ 9,597
Interest rate swap [4]	$ —	$ 5,223	$ —	$ 5,223
Liabilities				
Cross currency swaps [3]	$ —	$ 393	$ —	$ 393
Foreign currency exchange contracts [3]	$ —	$ 598	$ —	$ 598
Deferred compensation [5]	$ 164	$ —	$ —	$ 164

(in thousands)

As of December 31, 2022	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Balance as of December 31, 2022**
Assets				
Equity mutual funds [2]	$ 385	$ —	$ —	$ 385
Cross currency swaps [3]	$ —	$ 9,262	$ —	$ 9,262
Foreign currency exchange contracts [3]	$ —	$ 5,185	$ —	$ 5,185
Liabilities				
Foreign currency exchange contracts [3]	$ —	$ 4,572	$ —	$ 4,572
Deferred compensation [5]	$ 385	$ —	$ —	$ 385
Contingent payments - acquisitions	$ —	$ —	$ 120	$ 120

(1) Money market funds 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 September 30, 2023, consists of demand deposits.
(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 current assets and other long-term assets. Refer to footnote (4) below for a discussion of the related deferred compensation liability.
(3) Cross currency swaps and 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) Interest rate swap is included within other long-term assets.
(5) 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 (1) above.

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

Contingent Consideration

We have classified our liabilities for contingent consideration related to acquisitions within Level 3 of the fair value hierarchy because the fair value is determined using significant unobservable inputs, which includes the achievements of future revenues. The contingent consideration is included within other short-term liabilities.

We record changes in the estimated fair value of contingent consideration in the unaudited condensed consolidated statements of income. The changes in contingent consideration liabilities, which are measured at fair value on a recurring basis using unobservable inputs (Level 3), for the nine months ended September 30, 2023, are as follows:

(in thousands)		**Fair Value**
Contingent consideration as of December 31, 2022	$	120
Payment of contingent consideration		(99)
Realized gain		(21)
Contingent consideration as of September 30, 2023	$	—

NOTE 19. 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. We utilize hedging instruments to manage a portion of our foreign currency exchange risk and interest rate risk. During the first quarter of 2023, we entered into an interest rate swap to manage the impact of interest rate fluctuations associated with $250.0 million of borrowings under our variable-rate Credit Facility. We have designated the interest rate swap as a cash flow hedge.

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, cross currency swaps, 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.

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, and Australian dollar. 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 derivative instruments for purposes other than risk management. Our accounting policies for these contracts are based on our designation of such instruments as hedging transactions.

We recognize all hedging instrument assets and liabilities at fair value at the balance sheet date. Instruments that do not qualify for hedge accounting treatment are 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. Refer to "Note 14. Accumulated Other Comprehensive Income" for further information regarding the effect of hedging instruments on our unaudited condensed consolidated statements of income for the three and nine months ended September 30, 2023 and 2022.

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 unaudited condensed consolidated balance sheets on a gross basis. All cash flows related to our foreign currency exchange contracts 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 our interest rate swap as cash flow hedges as these derivative instruments manage our exposure to variability in the cash flows of forecasted transactions attributable to foreign currency exchange and to interest rates on variable interest obligations under the terms of our Credit Facility. 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 and nine months ended September 30, 2023 or 2022. As of September 30, 2023, the estimated amount of gains, net of tax, from our foreign exchange contracts which are expected to be reclassified out of AOCI and into earnings within the next 12 months is $5.6 million if exchange rates do not fluctuate from the levels as of September 30, 2023. As of September 30, 2023, the estimated amount of gains, net of tax, from our interest rate swap contract which are expected to be reclassified out of AOCI and into earnings within the next twelve months is $2.9 million if interest rates do not fluctuate from the levels as of September 30, 2023.

Foreign Currency Exchange Contracts: We target to hedge approximately 75% to 85% of the estimated exposure from intercompany product purchases and sales denominated in the euro, British pound, Canadian dollar, Japanese yen, and Australian dollar. We have additional unhedged foreign currency exposures related to intercompany foreign transactions 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 $256.8 million and $258.2 million as of September 30, 2023 and December 31, 2022, respectively.

Interest Rate Swap: We entered into an interest rate swap contract to manage the economic effect of variable interest obligations on amounts borrowed under the terms of the Credit Facility. Beginning on March 31, 2023, the variable interest rate associated with $250.0 million of borrowings outstanding under the Credit Facility became effectively fixed at 3.9% plus the applicable credit spread, through October 20, 2025.

The following table presents the effect of cash flow hedge accounting on our unaudited condensed consolidated statements of income and comprehensive income, and provides information regarding the location and amounts of pretax gains or losses of derivatives:

(in thousands)		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
Financial statement line items in which effects of cash flow hedges are recorded	Cost of revenue	$ 367,545	$ 335,035	$ 1,095,549	$ 1,019,345
Foreign exchange contracts					
Amount of gain reclassified from accumulated other comprehensive income into net income		$ 1,273	$ 8,635	$ 1,723	$ 16,652
Financial statement line items in which effects of cash flow hedges are recorded	Interest expense	$ (8,647)	$ (10,998)	$ (32,316)	$ (26,311)
Interest rate swap contract					
Amount of gain reclassified from accumulated other comprehensive income into net income		$ 1,385	$ —	$ 1,668	$ —

Net Investment Hedges, Euro-Denominated Notes

In June 2015, we issued and sold through a private placement an aggregate principal amount of €88.9 million in euro-denominated 1.785% 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 gains of $2.3 million and $0.5 million, net of tax, within AOCI as a result of this net investment hedge for the three and nine months ended September 30, 2023, respectively, and gains of $5.5 million and $11.0 million for the three and nine months ended September 30, 2022, respectively. The related cumulative unrealized gain recorded as of September 30, 2023, will be reclassified to earnings when the foreign subsidiaries are sold or substantially liquidated or all or a portion of the hedge no longer qualifies for hedge accounting treatment. Refer to Note 13 to the consolidated financial statements included in our 2022 Annual Report for further information regarding the issuance of these euro-denominated notes.

Net Investment Hedges, Cross Currency Swaps

We have entered into several cross currency swap contracts as a hedge of our net investment in foreign operations to offset foreign currency translation gains and losses on the net investment. These cross currency swaps have maturity dates beginning on June 30, 2025, through June 30, 2028. At maturity of the cross currency swap contracts we will deliver the notional amount of €15 million and will receive approximately $17.5 million from the counterparties on June 18, 2025; we will deliver the notional amount of €35 million and will receive $37.8 million from the counterparties on March 31, 2028; and we will deliver the notional amount of €90 million and will receive $98.2 million from the counterparties on June 30, 2028. The changes in fair value of the cross currency swap contracts are recorded in AOCI and will be reclassified to earnings when the foreign subsidiaries are sold or substantially liquidated. During the three and nine months ended September 30, 2023, we recorded gains of $1.9 million and losses of $1.2 million, net of tax, respectively, within AOCI as a result of these net investment hedges, and gains of $5.3 million and $10.6 million during the three and nine months ended September 30, 2022, respectively. We will receive quarterly interest payments from the counterparties based on a fixed interest rate until maturity of the cross currency swaps. This interest rate component is excluded from the assessment of hedge effectiveness and is recognized as a reduction to interest expense over the life of the hedge instrument. We recognized approximately $0.3 million and $1.8 million related to the excluded component as a reduction of interest expense for the three and nine months ended September 30, 2023, respectively, and $0.7 million and $2.1 million for the three and nine months ended September 30, 2022, respectively.

During the second quarter of 2023, the notional amount of €90.0 million in cross currency swaps matured, resulting in a net cash receipt of $6.3 million. The receipt of cash is reflected within investing activities on the Condensed Consolidated Statements of Cash Flows.

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

The fair values of hedging instruments and their respective classification on our unaudited condensed consolidated balance sheets and amounts subject to offset under master netting arrangements consisted of the following derivative instruments, unless otherwise noted:

(in thousands)		Hedging Assets	
		September 30, 2023	December 31, 2022
Derivatives and non-derivatives designated as hedging instruments	**Balance Sheet Classification**		
Foreign currency exchange contracts	Other current assets	$ 7,993	$ 5,185
Cross currency swaps	Other current assets	—	8,135
Interest rate swap contract	Other long-term assets	5,223	—
Foreign currency exchange contracts	Other long-term assets	1,604	—
Cross currency swaps	Other long-term assets	1,880	1,127
Total derivative instruments presented as hedging instruments on the balance sheet		16,700	14,447
Gross amounts subject to master netting arrangements not offset on the balance sheet		(598)	(3,210)
Net amount		$ 16,102	$ 11,237

(in thousands)		Hedging Liabilities	
		September 30, 2023	December 31, 2022
Derivatives and non-derivatives designated as hedging instruments	**Balance Sheet Classification**		
Foreign currency exchange contracts	Accrued liabilities	$ 583	$ 4,572
Cross currency swaps	Other long-term liabilities	393	—
Foreign currency exchange contracts	Other long-term liabilities	15	—
Total derivative instruments presented as hedging instruments on the balance sheet		991	4,572
Non-derivative foreign currency denominated debt designated as net investment hedge on the balance sheet (1)	Long-term debt	94,135	94,775
Total hedging instruments presented on the balance sheet		95,126	99,347
Gross amounts subject to master netting arrangements not offset on the balance sheet		(598)	(3,210)
Net amount		$ 94,528	$ 96,137

(1) Amounts represent reported carrying amounts of our foreign currency-denominated debt. Refer to “Note 18. Fair Value Measurements” for information regarding the fair value of our long-term debt.

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, among other things, our expectations regarding revenue recognition timing and amounts; business trends, earnings and other measures of financial performance; projected impact of foreign currency exchange rates and hedging activities; realizability of assets; future cash flow and uses of cash; future repurchases of common stock; future levels of indebtedness and capital spending; the working capital and liquidity outlook; critical accounting estimates; deductibility of goodwill; and future commercial and operational efforts. 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, including, among other things, the adverse impact, and the duration, of macroeconomic events, conditions, and uncertainties, such as geopolitical instability (including wars, terrorist attacks, and armed conflicts), general economic uncertainty, inflationary pressures, and supply chain challenges on our business, results of operations, liquidity, financial condition, and stock price, as well as the other matters described under the headings "Business," "Risk Factors," "Legal Proceedings," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Quantitative and Qualitative Disclosure About Market Risk" in our 2022 Annual Report and in the corresponding sections of this Quarterly Report on Form 10-Q, and the Quarterly Reports on Form 10-Q for the quarters ended March 31, 2023, and June 30, 2023, as well as those described from time to time in our other periodic reports filed with 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, and they are subject to the risk and uncertainties described or cross-referenced in this section. While we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, even if our estimates or expectations change.

You should read the following discussion and analysis in conjunction with our 2022 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. Financial Statements" of this Quarterly Report on Form 10-Q.

Our fiscal quarter ended on September 30. Unless otherwise stated, the analysis and discussion of our financial condition and results of operations below, including references to growth and organic growth and increases and decreases, are being compared to the equivalent prior-year periods.

Business Overview

We develop, manufacture, and distribute products and provide services primarily for the companion animal veterinary, livestock, poultry and dairy, and water testing sectors. We also design, manufacture, and distribute point of care and laboratory diagnostics for the human medical diagnostics sector. 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;
- Practice management and diagnostic imaging systems and services used by veterinarians;
- Health monitoring, biological materials testing, and laboratory diagnostic instruments and services used by the biomedical research community;
- Diagnostic, health-monitoring products for livestock, poultry, and dairy;
- Products that test water for certain microbiological contaminants; and
- Point-of-care electrolytes and blood gas analyzers.

<u>Description of Business Segments</u>. We operate primarily through three business segments: diagnostic and information management-based products and services for the companion animal veterinary industry, 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 improve producer efficiency, which we refer to as Livestock, Poultry and Dairy ("LPD"). Our Other operating segment combines and presents our human medical diagnostics products and services business ("OPTI Medical") with 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 software, and performs services for veterinarians and the biomedical analytics sector, 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 software 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. OPTI Medical develops, designs, manufactures, and distributes point-of-care and laboratory diagnostics (including electrolyte and blood gas analyzers and related consumable products) for the human medical diagnostics sector. During the first quarter of 2023, we discontinued actively marketing our OPTI COVID-19 PCR testing products and services.

Currency and Other Items

Currency Impact. Refer to "Part I, Item 3. Quantitative and Qualitative Disclosures 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. Refer to "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 2022 Annual Report for additional information regarding trends in companion animal healthcare, distributor purchasing and inventories, economic conditions, and patent expiration.

Critical Accounting Estimates and Assumptions

The discussion and analysis of our financial condition and results of operations is based upon our unaudited 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 unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2023, are consistent with those discussed in our 2022 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 Estimates and Assumptions."

Recent Accounting Pronouncements

For more information regarding the impact that recent accounting standards and amendments will have on our consolidated financial statements, refer to Note 2 to the unaudited condensed consolidated financial statements in "Part I. Item 1. Financial Statements" of this Quarterly Report on Form 10-Q.

Non-GAAP Financial 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 and nine months ended September 30, 2023, as compared to the same periods for the prior year, net of the effect of changes in foreign currency exchange rates, certain business acquisitions, and divestitures. Organic revenue growth should be considered in addition to, and not as a replacement for, or as a superior measure to, revenue growth 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 from organic revenue growth 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 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 prior-year period to foreign currency denominated revenues for the prior-year period.

We also exclude from organic revenue growth the effect of certain business acquisitions and divestitures because the nature, size, and number of these transactions can vary dramatically from period to period, and because they either require or generate cash as an inherent consequence of the transaction, and therefore can also obscure underlying business and operating trends. We consider acquisitions to be a business when all three elements of inputs, process, and outputs are present, consistent with ASU 2017-01, “Business Combinations: (Topic 805) Clarifying the Definition of a Business.” In a business combination, if substantially all the fair value of the assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, we do not consider these assets to be a business. A typical acquisition that we do not consider a business is a customer list asset acquisition, which does not have all elements necessary to operate a business, such as employees or infrastructure. We believe the efforts required to convert and retain these acquired customers are similar in nature to our existing customer base and therefore are included in organic revenue growth. The percentage change in revenue resulting from acquisitions represents revenues during the current year period, limited to the initial 12 months from the date of the acquisition, that are directly attributable to business acquisitions.

We also use Adjusted EBITDA, gross debt, net debt, gross debt to Adjusted EBITDA ratio and net debt to Adjusted EBITDA ratio, in this Quarterly Report on Form 10-Q, all of which are non-GAAP financial measures that 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.

Results of Operations

Three Months Ended September 30, 2023, Compared to Three Months Ended September 30, 2022

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

Net Revenue *(dollars in thousands)*	For the Three Months Ended September 30, 2023	2022	Dollar Change	Reported Revenue Growth (1)	Percentage Change from Currency	Percentage Change from Acquisitions	Organic Revenue Growth (1)
CAG	**$ 837,160**	**$ 764,990**	**$ 72,170**	**9.4%**	**1.0%**	**—**	**8.4%**
United States	*573,830*	*530,758*	*43,072*	*8.1%*	*—*	*—*	*8.1%*
International	*263,330*	*234,232*	*29,098*	*12.4%*	*3.4%*	*—*	*9.0%*
Water	**44,450**	**40,840**	**3,610**	**8.8%**	**1.2%**	**1.1%**	**6.6%**
United States	*22,804*	*20,940*	*1,864*	*8.9%*	*—*	*0.7%*	*8.2%*
International	*21,646*	*19,900*	*1,746*	*8.8%*	*2.4%*	*1.5%*	*4.9%*
LPD	**29,747**	**28,452**	**1,295**	**4.6%**	**2.5%**	**—**	**2.0%**
United States	*5,040*	*4,452*	*588*	*13.2%*	*—*	*—*	*13.2%*
International	*24,707*	*24,000*	*707*	*2.9%*	*2.9%*	*—*	*—*
Other	**4,170**	**7,379**	**(3,209)**	**(43.5%)**	**0.1%**	**—**	**(43.5%)**
Total Company	**$ 915,527**	**$ 841,661**	**$ 73,866**	**8.8%**	**1.1%**	**0.1%**	**7.6%**
United States	*603,046*	*560,292*	*42,754*	*7.6%*	*—*	*—*	*7.6%*
International	*312,481*	*281,369*	*31,112*	*11.1%*	*3.3%*	*0.1%*	*7.7%*

(1) Reported revenue growth and organic revenue growth may not recalculate due to rounding.

Total Company Revenue. The increase in organic revenue reflects higher realized prices and demand for companion animal diagnostics globally, supported by higher CAG Diagnostics recurring revenue. Increases in our subscription-based veterinary software and diagnostic imaging services also contributed to higher revenue. Higher revenue in our Water business was primarily due to higher realized prices, as well as the benefit of an acquisition in the third quarter of 2022. The increase in LPD revenue was primarily due to higher realized prices and to volume growth in North and South America, partially offset by lower herd health screening revenues. The decrease in Other revenue reflects lower sales of OPTI COVID-19 PCR testing products and services, and lower volumes of our OPTI Medical instruments and consumables internationally. The impact of foreign currency movements increased total revenue growth by 1.1%.

The following table presents total Company results of operations:

Total Company - Results of Operations *(dollars in thousands)*	For the Three Months Ended September 30, 2023	Percent of Revenue	2022	Percent of Revenue	Change Amount	Percentage
Revenues	$ 915,527		$ 841,661		$ 73,866	8.8%
Cost of revenue	367,545		335,035		32,510	9.7%
Gross profit	547,982	59.9%	506,626	60.2%	41,356	8.2%
Operating expenses:						
Sales and marketing	135,698	14.8%	130,021	15.4%	5,677	4.4%
General and administrative	89,034	9.7%	83,764	10.0%	5,270	6.3%
Research and development	47,967	5.2%	48,013	5.7%	(46)	(0.1%)
Total operating expenses	272,699	29.8%	261,798	31.1%	10,901	4.2%
Income from operations	$ 275,283	30.1%	$ 244,828	29.1%	$ 30,455	12.4%

Gross Profit. Gross profit increased due to higher revenue, partially offset by a 30 basis point decrease in the gross profit margin. The impact from foreign currency movements decreased the gross profit margin by approximately 60 basis points, including the impact of lower hedge gains in the current year, as compared to the prior year. Excluding the impact of foreign currency movements, the increase in the gross profit margin was primarily due to recurring revenue net price gains, improved software services gross margins, and product mix including effects from lower CAG Diagnostics instrument revenue. These increases were partially offset by higher product and labor costs, which reflect the effects of inflation, as well as investments in productivity initiatives and to support future growth.

Operating Expenses. Sales and marketing expense increased primarily due to higher personnel-related costs, partially offset by lower meeting and conference costs. General and administrative expense increased primarily due to higher personnel-related and outside services costs. Research and development expense was relatively constant compared to the prior year as increases in personnel-related costs were offset by the favorable comparison to higher project costs in the prior year including the acquisition of certain intellectual property licenses. The overall change in foreign currency exchange rates was not significant to operating expense growth.

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 September 30, 2023	2022	Dollar Change	Reported Revenue Growth [1]	Percentage Change from Currency	Percentage Change from Acquisitions	Organic Revenue Growth [1]
CAG Diagnostics recurring revenue:	$ 733,958	$ 667,309	$ 66,649	10.0%	1.1%	—	8.9%
IDEXX VetLab consumables	*296,042*	*262,820*	*33,222*	*12.6%*	*1.2%*	—	*11.4%*
Rapid assay products	*87,562*	*80,542*	*7,020*	*8.7%*	*0.5%*	—	*8.2%*
Reference laboratory diagnostic and consulting services	*320,294*	*295,590*	*24,704*	*8.4%*	*1.0%*	—	*7.3%*
CAG diagnostics services and accessories	*30,060*	*28,357*	*1,703*	*6.0%*	*1.3%*	—	*4.7%*
CAG Diagnostics capital - instruments	32,254	35,176	(2,922)	(8.3%)	1.9%	—	(10.2%)
Veterinary software, services and diagnostic imaging systems	70,948	62,505	8,443	13.5%	0.2%	—	13.3%
Net CAG revenue	$ 837,160	$ 764,990	$ 72,170	9.4%	1.0%	—	8.4%

(1) Reported revenue growth and organic revenue growth may not recalculate due to rounding.

CAG Diagnostics Recurring Revenue. The increase in CAG Diagnostics recurring revenue was primarily due to higher realized prices and continued demand globally. The impact of foreign currency movements increased CAG Diagnostics recurring revenue growth by 1.1%.

The increase in IDEXX VetLab consumables revenue was primarily due to higher price realization and volume increases supported by the expansion of our installed base of instruments and our expanded menu of available tests. The impact of foreign currency movements increased revenue growth by 1.2%.

The increase in rapid assay revenue resulted primarily from higher price realization and, to a lesser extent, higher volumes.

The increase in reference laboratory diagnostic and consulting services revenue was primarily due to higher price realization and to higher testing volumes in our U.S. labs. Growth in other regions was primarily due to higher price realization, partially offset by lower volumes in international regions, reflecting challenging regional macroeconomic conditions. The impact of foreign currency movements increased revenue growth by 1.0%.

The increase in CAG Diagnostics services and accessories revenue was primarily a result of the 11% growth in our active installed base of instruments. The impact of foreign currency movements increased revenue growth by 1.3%.

CAG Diagnostics Capital – Instrument Revenue. The decrease in instrument revenue was primarily due to program pricing effects, comparisons to higher prior year instrument placements, and regional mix of instrument placements. The impact of foreign currency movements increased revenue growth by 1.9%.

Veterinary Software, Services and Diagnostic Imaging Systems Revenue. The increase in veterinary software, services and diagnostic imaging systems revenue was primarily due to higher subscription and services revenue, supported by the expansion in our active installed base, and higher realized prices on service offerings.

The following table presents the CAG segment results of operations:

Results of Operations *(dollars in thousands)*	**For the Three Months Ended September 30, 2023**	**Percent of Revenue**	**2022**	**Percent of Revenue**	**Change Amount**	**Percentage**
Revenues	$ 837,160		$ 764,990		$ 72,170	9.4%
Cost of revenue	337,869		308,656		29,213	9.5%
Gross profit	499,291	59.6%	456,334	59.7%	42,957	9.4%
Operating expenses:						
Sales and marketing	123,657	14.8%	119,173	15.6%	4,484	3.8%
General and administrative	78,770	9.4%	72,123	9.4%	6,647	9.2%
Research and development	43,506	5.2%	43,584	5.7%	(78)	(0.2%)
Total operating expenses	245,933	29.4%	234,880	30.7%	11,053	4.7%
Income from operations	$ 253,358	30.3%	$ 221,454	28.9%	$ 31,904	14.4%

Gross Profit. Gross profit increased due to higher revenue, partially offset by a 10 basis point decrease in the gross profit margin. The impact from foreign currency movements decreased the gross profit margin by approximately 40 basis points, including the impact of lower hedge gains in the current year as compared to the prior year. Excluding the impact of foreign currency movements, the increase in the gross profit margin was primarily due to recurring revenue net price gains, the benefit of reference laboratory and operational productivity initiatives, improved software services gross margins, and sales mix including effects from lower CAG Diagnostics instrument revenue. These increases were partially offset by higher product and labor costs, which reflect the effects of inflation, as well as investments in productivity initiatives and to support future growth.

Operating Expenses. Sales and marketing expense increased primarily due to higher personnel-related costs, partially offset by lower meeting and conference costs. General and administrative expense increased primarily due to higher personnel-related costs. Research and development expense was relatively constant compared to the prior year as increases in personnel-related costs were offset by the favorable comparison to higher project costs in the prior year including the acquisition of certain intellectual property licenses. The overall change in foreign currency exchange rates was not significant to operating expense growth.

Water

The following table presents the Water segment results of operations:

Results of Operations *(dollars in thousands)*	For the Three Months Ended September 30, 2023	Percent of Revenue	2022	Percent of Revenue	Change Amount	Change Percentage
Revenues	$ 44,450		$ 40,840		$ 3,610	8.8%
Cost of revenue	13,416		11,434		1,982	17.3%
Gross profit	31,034	69.8%	29,406	72.0%	1,628	5.5%
Operating expenses:						
Sales and marketing	5,345	12.0%	4,645	11.4%	700	15.1%
General and administrative	4,125	9.3%	3,747	9.2%	378	10.1%
Research and development	1,236	2.8%	1,090	2.7%	146	13.4%
Total operating expenses	10,706	24.1%	9,482	23.2%	1,224	12.9%
Income from operations	$ 20,328	45.7%	$ 19,924	48.8%	$ 404	2.0%

Revenue. The increase in revenue was primarily due to higher realized prices. The impact of foreign currency movements increased revenue by approximately 1.2%. The impact of the acquisition completed during the third quarter of 2022 increased revenue growth by 1.1%.

Gross Profit. Gross profit increased due to higher revenue, partially offset by a 220 basis point decrease in the gross profit margin. The impact from foreign currency movements decreased the gross profit margin by approximately 170 basis points, including the impact of lower hedge gains in the current year compared to the prior year. Excluding the impact of foreign currency movements, the decrease in the gross profit margin was primarily due to higher product costs, partially offset by higher realized prices.

Operating Expenses. Sales and marketing expense increased primarily due to higher personnel-related costs. General and administrative expense increased primarily due to higher personnel-related costs related to our acquisition in the prior year. Research and development expense increased primarily due to higher personnel-related and project costs. The overall change in foreign currency exchange rates resulted in an increase in operating expense growth by approximately 1%.

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 September 30, 2023	Percent of Revenue	2022	Percent of Revenue	Change Amount	Percentage
Revenues	$ 29,747		$ 28,452		$ 1,295	4.6%
Cost of revenue	13,911		10,990		2,921	26.6%
Gross profit	15,836	53.2%	17,462	61.4%	(1,626)	(9.3%)
Operating expenses:						
Sales and marketing	6,253	21.0%	5,783	20.3%	470	8.1%
General and administrative	4,199	14.1%	4,231	14.9%	(32)	(0.8%)
Research and development	2,979	10.0%	2,968	10.4%	11	0.4%
Total operating expenses	13,431	45.2%	12,982	45.6%	449	3.5%
Income from operations	$ 2,405	8.1%	$ 4,480	15.7%	$ (2,075)	(46.3%)

Revenue. The increase in revenue was primarily due to higher realized prices, as well as higher volumes in swine, poultry, and ruminant testing in North and South America, partially offset by lower herd health screening revenues related to reduced live animal imports by China. The favorable impact of foreign currency movements increased revenue growth by 2.5%.

Gross Profit. The decrease in gross profit was primarily due to an 820 basis point decrease in the gross profit margin, partially offset by higher revenue. The impact from foreign currency movements decreased the gross profit margin by approximately 580 basis points, including the impact of lower hedge gains in the current year as compared to the prior year. Excluding the impact of foreign currency movements, the decrease in the gross profit margin was primarily due to higher product costs and unfavorable sales mix impacts related to lower herd health screening volumes, partially offset by higher realized prices.

Operating Expenses. Sales and marketing expense increased primarily due to increases in personnel-related costs. General and administrative expense and research and development costs were relatively constant compared to the prior year. The overall change in foreign currency exchange rates resulted in an increase in operating expense growth by approximately 1%.

Other

The following table presents the Other results of operations:

Results of Operations *(dollars in thousands)*	For the Three Months Ended September 30, 2023	Percent of Revenue	2022	Percent of Revenue	Change Amount	Percentage
Revenues	$ 4,170		$ 7,379		$ (3,209)	(43.5%)
Cost of revenue	2,349		3,955		(1,606)	(40.6%)
Gross profit	1,821	43.7%	3,424	46.4%	(1,603)	(46.8%)
Operating expenses:						
Sales and marketing	443	10.6%	420	5.7%	23	5.5%
General and administrative	1,940	46.5%	3,663	49.6%	(1,723)	(47.0%)
Research and development	246	5.9%	371	5.0%	(125)	(33.7%)
Total operating expenses	2,629	63.0%	4,454	60.4%	(1,825)	(41.0%)
Income from operations	$ (808)	(19.4%)	$ (1,030)	(14.0%)	$ 222	(21.6%)

Revenue. The decrease in revenue was primarily due to lower sales of OPTI COVID-19 PCR testing products and services in the U.S., following our discontinuation of active marketing of such products and services in the first quarter of 2023, and lower volumes of our OPTI Medical instruments and consumables internationally, partially offset by higher realized prices.

Gross Profit. Gross profit decreased due to lower sales volume and a 270 basis point decrease in the gross profit margin. The decrease in the gross profit margin was primarily due to higher product costs and unfavorable sales mix impacts from lower OPTI COVID-19 PCR testing volumes, partially offset by higher realized prices. The overall change in foreign currency exchange rates did not have a significant impact on gross profit.

Operating Expenses. General and administrative expense decreased primarily due to lower foreign exchange losses on settlements of foreign currency denominated transactions, as compared to the prior year. Foreign exchange losses on settlements for all operating segments are reported within Other. Research and development expense decreased primarily due to lower product development costs related to human medical diagnostic products.

Non-Operating Items

Interest Expense. Interest expense was $8.6 million for the three months ended September 30, 2023, as compared to $11.0 million for the same period in the prior year. The decrease in interest expense was primarily due to lower average debt levels, partially offset by higher interest rates.

Provision for Income Taxes. Our effective income tax rate was 20.8% for the three months ended September 30, 2023, as compared to 22.7% for the three months ended September 30, 2022. The decrease in our effective tax rate was primarily due to a comparative increase in the tax rate benefits related to share-based compensation and, to a lesser extent, research and development tax credits and geographical income mix.

Results of Operations

Nine Months Ended September 30, 2023, Compared to Nine Months Ended September 30, 2022

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

Net Revenue *(dollars in thousands)*	For the Nine Months Ended September 30, 2023	2022	Dollar Change	Reported Revenue Growth (1)	Percentage Change from Currency	Percentage Change from Acquisitions	Organic Revenue Growth (1)
CAG	**$ 2,531,091**	**$ 2,310,261**	**$ 220,830**	**9.6%**	**(0.5%)**	**—**	**10.1%**
United States	*1,732,752*	*1,563,150*	*169,602*	*10.8%*	*—*	*—*	*10.8%*
International	*798,339*	*747,111*	*51,228*	*6.9%*	*(1.6%)*	*—*	*8.5%*
Water	**126,362**	**116,406**	**9,956**	**8.6%**	**(0.9%)**	**1.5%**	**8.0%**
United States	*63,932*	*58,304*	*5,628*	*9.7%*	*—*	*0.7%*	*8.9%*
International	*62,430*	*58,102*	*4,328*	*7.4%*	*(1.8%)*	*2.2%*	*7.0%*
LPD	**88,866**	**89,211**	**(345)**	**(0.4%)**	**(0.7%)**	**—**	**0.3%**
United States	*14,005*	*12,054*	*1,951*	*16.2%*	*—*	*—*	*16.2%*
International	*74,861*	*77,157*	*(2,296)*	*(3.0%)*	*(0.8%)*	*—*	*(2.2%)*
Other	**13,033**	**22,878**	**(9,845)**	**(43.0%)**	**—**	**—**	**(43.0%)**
Total Company	**$ 2,759,352**	**$ 2,538,756**	**$ 220,596**	**8.7%**	**(0.6%)**	**0.1%**	**9.2%**
United States	*1,815,066*	*1,646,023*	*169,043*	*10.3%*	*—*	*—*	*10.2%*
International	*944,286*	*892,733*	*51,553*	*5.8%*	*(1.5%)*	*0.1%*	*7.2%*

(1) Reported revenue growth and organic revenue growth may not recalculate due to rounding.

Total Company Revenue. The increase in organic revenue reflects growth in CAG Diagnostics recurring revenue, including benefits from higher realized prices globally and higher demand in the U.S. for companion animal diagnostics across modalities. Increases in our subscription-based veterinary software and diagnostic imaging services also contributed to higher revenue. Higher revenue in our Water business was primarily due to higher realized prices and higher testing volumes in certain international regions, as well as the benefit of an acquisition in the third quarter of 2022. The decline in our LPD business was primarily due to lower herd health screening volume, partially offset by higher realized prices and volume growth in North and South America. The decrease in Other revenue reflects lower sales of OPTI COVID-19 PCR testing products and services, and lower volumes of our OPTI Medical instruments and consumables. The impact of foreign currency movements decreased total revenue growth by 0.6%.

The following table presents total Company results of operations:

Total Company - Results of Operations *(dollars in thousands)*	For the Nine Months Ended September 30, 2023	Percent of Revenue	2022	Percent of Revenue	Change Amount	Change Percentage
Revenues	$ 2,759,352		$ 2,538,756		$ 220,596	8.7%
Cost of revenue	1,095,549		1,019,345		76,204	7.5%
Gross profit	1,663,803	60.3%	1,519,411	59.8%	144,392	9.5%
Operating expenses:						
Sales and marketing	424,034	15.4%	392,570	15.5%	31,464	8.0%
General and administrative	248,804	9.0%	243,201	9.6%	5,603	2.3%
Research and development	139,139	5.0%	211,402	8.3%	(72,263)	(34.2%)
Total operating expenses	811,977	29.4%	847,173	33.4%	(35,196)	(4.2%)
Income from operations	$ 851,826	30.9%	$ 672,238	26.5%	$ 179,588	26.7%

Gross Profit. Gross profit increased due to higher revenue and a 50 basis point increase in the gross profit margin. The increase in the gross profit margin was primarily due to recurring revenue net price gains, the benefit of reference laboratory and operational productivity initiatives, improved software services gross margins, and product mix including effects from lower CAG Diagnostics instrument revenue. These increases were partially offset by higher product and labor costs, which reflect the effects of inflation, as well as investments in productivity initiatives and to support future growth. The impact from foreign currency movements decreased the gross profit margin by approximately 60 basis points, including the impact of lower hedge gains in the current year as compared to the prior year.

Operating Expenses. Sales and marketing expense increased primarily due to higher personnel-related and travel costs, including investments in our global commercial capability. General and administrative expense increased primarily due to higher personnel-related costs, partially offset by a $16 million customer contract resolution payment recognized during the first quarter of 2023. Research and development expense decreased primarily due to the comparison to the prior year acquisition of rights to use certain technology for $84 million, partially offset by higher personnel-related costs. The overall change in foreign currency exchange rates was not significant to operating expense growth.

Companion Animal Group

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

Net Revenue *(dollars in thousands)*	For the Nine Months Ended September 30, 2023	2022	Dollar Change	Reported Revenue Growth [(1)]	Percentage Change from Currency	Percentage Change from Acquisitions	Organic Revenue Growth [(1)]
CAG Diagnostics recurring revenue:	$ 2,223,336	$ 2,017,532	$ 205,804	10.2%	(0.6%)	—	10.8%
IDEXX VetLab consumables	*890,891*	*796,072*	*94,819*	*11.9%*	*(0.8%)*	—	*12.7%*
Rapid assay products	*266,934*	*242,542*	*24,392*	*10.1%*	*(0.4%)*	—	*10.4%*
Reference laboratory diagnostic and consulting services	*973,580*	*894,795*	*78,785*	*8.8%*	*(0.4%)*	—	*9.2%*
CAG diagnostics services and accessories	*91,931*	*84,123*	*7,808*	*9.3%*	*(0.8%)*	—	*10.1%*
CAG Diagnostics capital - instruments	99,452	108,400	(8,948)	(8.3%)	(0.4%)	—	(7.8%)
Veterinary software, services and diagnostic imaging systems	208,303	184,329	23,974	13.0%	(0.3%)	—	13.3%
Net CAG revenue	$ 2,531,091	$ 2,310,261	$ 220,830	9.6%	(0.5%)	—	10.1%

(1) Reported revenue growth and organic revenue growth may not recalculate due to rounding.

<u>CAG Diagnostics Recurring Revenue</u>. The increase in CAG Diagnostics recurring revenue was primarily due to higher realized prices and higher demand in the U.S. for companion animal diagnostics across modalities. International volume growth was constrained by macroeconomic conditions. The impact of foreign currency movements decreased CAG Diagnostics recurring revenue growth by 0.6%.

The increase in IDEXX VetLab consumables revenue was primarily due to higher price realization and volume increases supported by the expansion of our installed base of instruments and our expanded menu of available tests. The impact of foreign currency movements decreased revenue growth by 0.8%.

The increase in rapid assay revenue resulted primarily from higher price realization and, to a lesser extent, growth in SNAP 4Dx Plus volumes.

The increase in reference laboratory diagnostic and consulting services revenue was primarily due to higher price realization and to higher testing volumes in our U.S. labs. Growth in other regions was primarily due to higher price realization, partially offset by lower volumes in international regions, reflecting challenging regional macroeconomic conditions. The impact of foreign currency movements decreased revenue growth by 0.4%.

The increase in CAG Diagnostics services and accessories revenue was primarily a result of the 11% growth in our active installed base of instruments. The impact of foreign currency movements decreased revenue growth by 0.8%.

<u>CAG Diagnostics Capital – Instrument Revenue</u>. The decrease in instrument revenue was primarily due to program pricing effects and regional mix of instrument placements, partially offset by higher premium instrument placements. The impact of foreign currency movements decreased revenue growth by 0.4%

<u>Veterinary Software, Services and Diagnostic Imaging Systems Revenue</u>. The increase in veterinary software, services and diagnostic imaging systems revenue was primarily due to higher subscription and services revenue, supported by the expansion in our active installed base, and higher realized prices on service offerings.

The following table presents the CAG segment results of operations:

Results of Operations *(dollars in thousands)*	For the Nine Months Ended September 30, 2023	Percent of Revenue	2022	Percent of Revenue	Change Amount	Change Percentage
Revenues	$ 2,531,091		$ 2,310,261		$ 220,830	9.6%
Cost of revenue	1,007,334		938,574		68,760	7.3%
Gross profit	1,523,757	60.2%	1,371,687	59.4%	152,070	11.1%
Operating expenses:						
Sales and marketing	387,695	15.3%	359,732	15.6%	27,963	7.8%
General and administrative	219,758	8.7%	213,083	9.2%	6,675	3.1%
Research and development	125,687	5.0%	197,767	8.6%	(72,080)	(36.4%)
Total operating expenses	733,140	29.0%	770,582	33.4%	(37,442)	(4.9%)
Income from operations	$ 790,617	31.2%	$ 601,105	26.0%	$ 189,512	31.5%

Gross Profit. Gross profit increased primarily due to higher revenue, as well as an 80 basis point increase in the gross profit margin. The increase in the gross profit margin was primarily due to recurring revenue net price gains, the benefit of reference laboratory and operational productivity initiatives, improved software services gross margins, and product mix including effects from lower CAG Diagnostics instrument revenue. These increases were partially offset by higher product and labor costs, which reflect the effects of inflation, as well as investments in productivity initiatives and to support future growth. The impact from foreign currency movements decreased the gross profit margin by approximately 40 basis points, including the impact of lower hedge gains in the current year as compared to the prior year.

Operating Expenses. Sales and marketing expense increased primarily due to higher personnel-related and travel costs, including investments in our global commercial capability. General and administrative expense increased due to higher personnel-related costs, partially offset by a $16 million customer contract resolution payment recognized during the first quarter of 2023. Research and development expense decreased primarily due to the comparison to the prior year acquisition of rights to use certain technology for $84 million, partially offset by higher personnel-related costs. The overall change in foreign currency exchange rates was not significant to operating expense growth.

Water

The following table presents the Water segment results of operations:

Results of Operations *(dollars in thousands)*	For the Nine Months Ended September 30, 2023	Percent of Revenue	2022	Percent of Revenue	Change Amount	Percentage
Revenues	$ 126,362		$ 116,406		$ 9,956	8.6%
Cost of revenue	37,741		33,904		3,837	11.3%
Gross profit	88,621	70.1%	82,502	70.9%	6,119	7.4%
Operating expenses:						
Sales and marketing	15,814	12.5%	13,954	12.0%	1,860	13.3%
General and administrative	12,054	9.5%	10,652	9.2%	1,402	13.2%
Research and development	3,634	2.9%	3,398	2.9%	236	6.9%
Total operating expenses	31,502	24.9%	28,004	24.1%	3,498	12.5%
Income from operations	$ 57,119	45.2%	$ 54,498	46.8%	$ 2,621	4.8%

Revenue. The increase in revenue was due to higher realized prices and, to a lesser extent, higher volumes. The impact of foreign currency movements decreased revenue growth by 0.9%. The impact of the acquisition completed during the third quarter of 2022 increased revenue growth by 1.5%.

Gross Profit. Gross profit increased due to higher revenue, partially offset by an 80 basis point decrease in the gross profit margin. The impact from foreign currency movements decreased the gross profit margin by approximately 150 basis points, including the impact of lower hedge gains in the current year compared to the prior year. Excluding the impact of foreign currency movements, the increase in the gross profit margin was primarily due to higher realized prices, partially offset by higher product costs.

Operating Expenses. Sales and marketing expense increased primarily due to higher personnel-related costs. General and administrative expense increased primarily due to higher personnel-related costs related to our acquisition in the prior year. Research and development expense increased primarily due to higher personnel-related and project costs, partially offset by lower third-party costs. The overall change in foreign currency exchange rates resulted in a decrease in operating expense growth by approximately 1%.

Livestock, Poultry and Dairy

The following table presents the LPD segment results of operations:

Results of Operations *(dollars in thousands)*	For the Nine Months Ended September 30, 2023	Percent of Revenue	2022	Percent of Revenue	Change Amount	Percentage
Revenues	$ 88,866		$ 89,211		$ (345)	(0.4%)
Cost of revenue	41,891		35,206		6,685	19.0%
Gross profit	46,975	52.9%	54,005	60.5%	(7,030)	(13.0%)
Operating expenses:						
Sales and marketing	19,153	21.6%	17,567	19.7%	1,586	9.0%
General and administrative	13,075	14.7%	12,924	14.5%	151	1.2%
Research and development	9,083	10.2%	9,067	10.2%	16	0.2%
Total operating expenses	41,311	46.5%	39,558	44.3%	1,753	4.4%
Income from operations	$ 5,664	6.4%	$ 14,447	16.2%	$ (8,783)	(60.8%)

Revenue. Revenue decreased primarily due to lower herd health screening revenues related to reduced live animal imports by China, partially offset by higher realized prices and higher volumes in swine, poultry, and ruminant testing in certain regions. The unfavorable impact of foreign currency movements decreased revenue growth by 0.7%.

Gross Profit. The decrease in gross profit was primarily due to a 760 basis point decrease in the gross profit margin and lower sales volumes. The impact from foreign currency movements decreased the gross profit margin by approximately 450 basis points, including the impact of hedge losses in the current year compared to hedge gains in the prior year. Excluding the impact of foreign currency movements, the decrease in the gross profit margin was primarily due to higher product costs and, to a lesser extent, unfavorable sales mix, partially offset by higher realized prices.

Operating Expenses. Sales and marketing expense increased primarily due to increases in personnel-related costs. General and administrative and research and development expenses were relatively constant compared to the prior year. The overall change in foreign currency exchange rates was not significant to operating expense growth.

Other

The following table presents the Other results of operations:

Results of Operations *(dollars in thousands)*	For the Nine Months Ended September 30, 2023	Percent of Revenue	2022	Percent of Revenue	Change Amount	Percentage
Revenues	$ 13,033		$ 22,878		$ (9,845)	(43.0%)
Cost of revenue	8,583		11,661		(3,078)	(26.4%)
Gross profit	4,450	34.1%	11,217	49.0%	(6,767)	(60.3%)
Operating expenses:						
Sales and marketing	1,372	10.5%	1,317	5.8%	55	4.2%
General and administrative	3,917	30.1%	6,542	28.6%	(2,625)	(40.1%)
Research and development	735	5.6%	1,170	5.1%	(435)	(37.2%)
Total operating expenses	6,024	46.2%	9,029	39.5%	(3,005)	(33.3%)
Income from operations	$ (1,574)	(12.1%)	$ 2,188	9.6%	$ (3,762)	(171.9%)

Revenue. The decrease in revenue was primarily due to lower sales of OPTI COVID-19 PCR testing products and services in the U.S., following our discontinuation of active marketing of such products and services in the first quarter of 2023, and lower volumes of our OPTI Medical instruments and consumables, partially offset by higher realized prices.

Gross Profit. Gross profit decreased due to lower sales volume and a 1,490 basis point decrease in the gross profit margin. The decrease in the gross profit margin was primarily due to higher product costs and unfavorable sales mix impacts from lower OPTI COVID-19 PCR testing volumes, partially offset by higher realized prices. The overall change in foreign currency exchange rates did not have a significant impact on gross profit.

Operating Expenses. General and administrative expense decreased primarily due to lower foreign exchange losses on settlements of foreign currency denominated transactions, as compared to the prior year. Foreign exchange losses on settlements for all operating segments are reported within Other. Research and development expense decreased primarily due to lower product development costs related to human medical diagnostic products.

Non-Operating Items

Interest Expense. Interest expense was $32.3 million for the nine months ended September 30, 2023, as compared to $26.3 million for the same period in the prior year. The increase in interest expense was primarily due to higher interest rates, partially offset by lower average debt levels.

Provision for Income Taxes. Our effective income tax rate was 20.8% for the nine months ended September 30, 2023, compared to 21.6% for the nine months ended September 30, 2022. The decrease in our effective tax rate was primarily due to geographical income mix and, to a lesser extent, a comparative increase in the tax rate benefits related to share-based compensation.

Liquidity and Capital Resources

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 under our Credit Facility. We generate cash primarily through the payments made by customers for our companion animal veterinary, livestock, poultry, dairy, and water products and services, consulting services, and other various systems and services. Our cash disbursements are primarily related to compensation and benefits for our employees, inventory and supplies, taxes, research and development, capital expenditures, rents, occupancy-related charges, interest expense, and business acquisitions. As of September 30, 2023, we had $331.7 million of cash and cash equivalents, as compared to $112.5 million as of December 31, 2022. Working capital totaled $414.0 million as of September 30, 2023, as compared to negative $134.3 million as of December 31, 2022. The change in working capital is primarily due to lower outstanding borrowings under our Credit Facility and higher cash balances. As of September 30, 2023, we had borrowing availability of $998.5 million under our $1.25 billion Credit Facility, with $250.0 million in outstanding borrowings under the Credit Facility. We believe that, if necessary, we could obtain additional borrowings to fund our growth objectives. We further believe that current cash and cash equivalents, 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, will also be sufficient to fund our business as currently conducted for the foreseeable future. We may enter into new financing arrangements or refinance or retire existing debt in the future depending on market conditions. Should we require more capital than is generated by our operations, for example, to fund significant discretionary activities, we could elect to raise capital through the incurrence of debt or equity issuances, which we may not be able to complete on favorable terms or at all. In addition, these alternatives could result in increased interest expense or other dilution of our earnings.

We manage our worldwide cash requirements considering available funds among all of our subsidiaries. Our foreign cash and cash equivalents are generally available without restrictions to fund ordinary business operations outside the U.S.

The following table presents cash and cash equivalents held domestically and by our foreign subsidiaries:

Cash and cash equivalents *(dollars in thousands)*	**September 30, 2023**	**December 31, 2022**
U.S.	$ 212,401	$ 16,112
Foreign	119,295	96,434
Total	$ 331,696	$ 112,546
Total cash and cash equivalents held in U.S. dollars by our foreign subsidiaries	$ 10,343	$ 6,647

Of the $331.7 million of cash and cash equivalents held as of September 30, 2023, approximately $165.9 million was held as bank deposits at a diversified group of institutions, primarily systemically important banks, and $165.8 million was held in a U.S. government money market fund. As of December 31, 2022, more than 99% of our cash was held as bank deposits at a diversified group of institutions, primarily systemically important banks. Cash and cash equivalents as of September 30, 2023, included approximately $2.0 million in cash denominated in non-U.S. currencies held in countries with currency control restrictions, which limit our ability to transfer funds outside of the countries in which they are held. The currency control restricted cash is generally available for use within the country where it is held.

The following table presents additional key information concerning working capital:

	For the Three Months Ended				
	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022
Days sales outstanding (1)	45.6	43.9	42.9	43.4	43.4
Inventory turns (2)	1.3	1.3	1.3	1.3	1.3

(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 average inventory balances at the beginning and end of each quarter.

Sources and Uses of Cash

The following table presents cash provided (used):

	For the Nine Months Ended September 30,		
(dollars in thousands)	2023	2022	Change
Net cash provided by operating activities	$ 656,659	$ 369,556	$ 287,103
Net cash used by investing activities	(94,819)	(146,121)	51,302
Net cash used by financing activities	(340,152)	(254,216)	(85,936)
Net effect of changes in exchange rates on cash	(2,538)	(14,497)	11,959
Net change in cash and cash equivalents	$ 219,150	$ (45,278)	$ 264,428

Operating Activities. The increase in cash provided by operating activities of $287.1 million was driven primarily by an increase in net income, in part due to the comparison to the prior year acquisition of rights to use certain licensed technology that resulted in higher research and development expenses, and to changes in other assets and liabilities. The following table presents cash flow impacts from changes in operating assets and liabilities:

	For the Nine Months Ended September 30,		
(dollars in thousands)	2023	2022	Change
Accounts receivable	$ (54,557)	$ (35,061)	$ (19,496)
Inventories	(31,647)	(99,621)	67,974
Accounts payable	(6,799)	(3,930)	(2,869)
Deferred revenue	(3,347)	(3,419)	72
Other assets and liabilities	(17,902)	(87,566)	69,664
Total change in cash due to changes in operating assets and liabilities	$ (114,252)	$ (229,597)	$ 115,345

Cash used decreased due to changes in operating assets and liabilities during the nine months ended September 30, 2023, as compared to the same period in the prior year, by approximately $115.3 million. The increase in cash used by accounts receivable was primarily due to higher revenue growth during the current period. The decrease in cash used by inventories was primarily due to inventory increases during the prior year to mitigate supply chain risks and support demand. The decrease of cash used for other assets and liabilities was primarily due to higher non-cash operating expenses recorded as accrued liabilities for personnel-related costs and lower annual employee incentive program payments in the current year, and lower tax payments in the current year, as compared to the same period in the prior year, partially offset by milestone payments to license intellectual property made during the current 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 driven primarily by payments related to annual employee incentive programs in the first quarter following the year for which the bonuses were earned.

Investing Activities. Cash used by investing activities was $94.8 million for the nine months ended September 30, 2023, as compared to $146.1 million for the same period in the prior year. The decrease in cash used by investing activities was primarily due to the comparison to the prior year equity investment and acquisition of intangible assets.

Our total capital expenditure outlook for 2023 is estimated to be between $160 million and $180 million, which includes capital investments to support growth in manufacturing and operations facilities and in customer-facing software.

Financing Activities. Cash used by financing activities was $340.2 million for the nine months ended September 30, 2023, as compared to $254.2 million of cash used for the same period in the prior year. The increase in cash used by financing activities was primarily due to $329.0 million cash used for repayments under our Credit Facility in the current year, compared to borrowings of $559.5 million under our Credit Facility in the prior year. The increase in cash used by financing activities was partially offset by $745.7 million cash used to repurchase our common stock in the prior year, as compared to $35.1 million of repurchases in the current year, and by cash used to pay our $75.0 million 2022 Series A Notes in the prior year.

Under our Credit Facility, the net borrowing activity during the nine months ended September 30, 2023, as compared to the same period in the prior year, decreased $888.5 million. As of September 30, 2023, we had $250.0 million in outstanding borrowings under the Credit Facility. The obligations under our 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 ("ERISA"), the failure to pay specified indebtedness, cross-acceleration to specified indebtedness, and a change of control default. 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, and certain restrictive agreements. The financial covenant is a consolidated leverage ratio test.

During the nine months ended September 30, 2023, we purchased $35.1 million of shares of our common stock. During the nine months ended September 30, 2022, we purchased $745.7 million of shares of our common stock. We believe that the repurchase of our common stock is a favorable means of returning value to our stockholders, 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 and deployment activities, as well as share price and prevailing interest rates. Refer to Note 12 to the unaudited condensed consolidated financial statements in "Part I. Item 1. Financial Statements" of this Quarterly Report on Form 10-Q for additional information about our share repurchases.

In February 2022, we paid off our $75.0 million 2022 Series A Notes with cash provided by operations and financing activities. The aggregate principal amounts of our 2023 Series A Notes will become due and payable on December 11, 2023 and we anticipate paying off our 2023 Series A Notes for $75.0 million when due in December 2023 with cash provided by operations. The aggregate principal amounts of our 2024 Series B Notes will become due and payable on July 21, 2024 and we anticipate paying off our 2024 Series B Notes for $75.0 million when due in July 2024 with cash provided by operations.

Should we elect to prepay any of our 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 Agreements, 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 ERISA, the failure to pay specified indebtedness, cross-acceleration to specified indebtedness, and a change of control default.

Effect of Currency Translation on Cash. The net effect of changes in foreign currency exchange rates is related to changes in exchange rates between the U.S. dollar and the functional currencies of our foreign subsidiaries. These changes will fluctuate for each period presented as the value of the U.S. dollar relative to the value of foreign currencies changes. A currency's value depends on many factors, including interest rates and the issuing governments' debt levels and strength of economy.

Off-Balance Sheet Arrangements. We have no off-balance sheet arrangements or variable interest entities, except for letters of credit and third-party guarantees.

Financial Covenant. 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, non-recurring transaction expenses incurred in connection with acquisitions, share-based compensation expense, and certain other non-cash losses and charges ("Adjusted EBITDA"), as defined in the Senior Note Agreement and Credit Facility, not to exceed 3.5-to-1. As of September 30, 2023, we were in compliance with such covenant. The following details our consolidated leverage ratio calculation:

(dollars in thousands) **Trailing 12 Months Adjusted EBITDA:**		**Twelve Months Ended September 30, 2023**
Net income attributable to stockholders (as reported)	$	822,728
Interest expense		45,863
Provision for income taxes		211,995
Depreciation and amortization		113,891
Acquisition-related expense		80
Share-based compensation expense		57,795
Extraordinary and other non-recurring non-cash charges		—
Adjusted EBITDA	$	1,252,352

Debt to Adjusted EBITDA Ratio:		**September 30, 2023**
Credit facility	$	250,000
Current and long-term portions of long-term debt		768,803
Total debt		1,018,803
Acquisition-related contingent consideration payable		1,543
Financing leases		—
Deferred financing costs		332
Gross debt	$	1,020,678
Gross debt to Adjusted EBITDA ratio		0.82
Less: Cash and cash equivalents	$	331,696
Net debt	$	688,982
Net debt to Adjusted EBITDA ratio		0.55

Adjusted EBITDA, gross debt, net debt, gross debt to Adjusted EBITDA ratio, 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 as of September 30, 2023, are described in Note 16 to the unaudited condensed consolidated financial statements in "Part I. Item 1. Financial Statements" of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk affecting us, refer to the section under the heading "Part II. Item 7A. Quantitative and Qualitative Disclosure About Market Risk" of our 2022 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 2022 Annual Report, except for the impact of foreign exchange rates, as discussed below.

Foreign Currency Exchange Impacts. Approximately 21% of our consolidated revenue was derived from products manufactured in the U.S. and sold internationally in local currencies for both the three and nine months ended September 30, 2023, as compared to approximately 20% and 21% for the three and nine months ended September 30, 2022, respectively. 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 costs and expenses and foreign currency denominated supply contracts partially 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. dollar denominated revenues.

Our foreign currency exchange impacts on operating results are comprised of three components: 1) local currency revenues and expenses; 2) the impact of hedge contracts; and 3) intercompany and monetary balances for our subsidiaries that are denominated in a currency that is different from the functional currency used by each subsidiary.

The following table presents the estimated foreign currency exchange impact on our revenues, operating profit, and diluted earnings per share for the current period and as compared to the respective prior-year period:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(in thousands, except per share amounts)	**2023**	**2022**	**2023**	**2022**
Revenue impact	**$ 9,044**	**$ (34,901)**	**$ (13,481)**	**$ (77,562)**
Operating profit impact, excluding hedge activity and exchange impacts on settlement of foreign currency denominated transactions	$ 4,541	$ (16,180)	$ (8,522)	$ (38,888)
Hedge gains - current period	1,273	8,635	1,723	16,652
Exchange (losses) on settlements of foreign currency denominated transactions - current period	(1,396)	(3,036)	(2,071)	(4,643)
Operating profit impact - current period	**$ 4,418**	**$ (10,581)**	**$ (8,870)**	**$ (26,879)**
Hedge (gains) losses - prior period	(8,635)	1,583	(16,652)	6,728
Exchange losses on settlement of foreign currency denominated transactions - prior period	3,036	838	4,643	1,762
Operating profit impact - as compared to prior period	**$ (1,181)**	**$ (8,160)**	**$ (20,879)**	**$ (18,389)**
Diluted earnings per share impact - as compared to prior period	**$ (0.01)**	**$ (0.07)**	**$ (0.19)**	**$ (0.17)**

At our current foreign currency exchange rate assumptions, we anticipate that the effect of a weaker U.S. dollar for the remainder of the year, as compared to the respective prior-year period, will have a net unfavorable impact on our operating results for the remainder of the year ending December 31, 2023, by increasing our revenues by approximately $2 million, and decreasing our operating profit and diluted earnings per share by approximately $6 million and $0.06 per share, respectively. This unfavorable year-over-year currency impact to our operating profit includes foreign currency hedging activity, which is expected to decrease our total operating profit by approximately $6 million and $0.05 per share for the remainder of the year ending December 31, 2023. 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 estimates assume that the value of the U.S. dollar will reflect the euro at $1.05, the British pound at $1.21, the Canadian dollar at $0.73, and the Australian dollar at $0.63; and the Japanese yen at ¥151, the Chinese renminbi at RMB 7.40, and the Brazilian real at R$5.14 relative to the U.S. dollar for the remainder of 2023.

Based on projected revenues and expenses for the remainder of 2023, excluding the impact of intercompany and trade balances denominated in currencies other than the functional subsidiary currencies, we project a 1% strengthening of the U.S. dollar would reduce revenue by approximately $3 million and operating income by approximately $1 million, net of hedge positions.

Interest Rate Impacts. We entered into an interest rate swap to manage the effect of variable interest obligations on amounts borrowed under the terms of the Credit Facility. Beginning on March 31, 2023, the variable interest rate associated with $250.0 million of borrowings outstanding under the Credit Facility became effectively fixed at 3.9%, plus the applicable credit spread, through October 20, 2025. Borrowings outstanding under the Credit Facility at September 30, 2023, were $250.0 million. We have designated the interest rate swap as a cash flow hedge. For more information regarding our interest rate swap, refer to “Part I, Item 1. Financial Statements, Note 19. Hedging Instruments.”

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 are recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2023, our Chief Executive Officer and our 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 September 30, 2023, 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 risk factors discussed in “Part I. Item 1A. Risk Factors” in our 2022 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 2022 Annual Report. The risks described in our 2022 Annual Report are not the only risks facing our Company. 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 September 30, 2023, 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 [1] (d)
July 1 to July 31, 2023	59,425	$ 536.64	59,425	2,969,817
August 1 to August 31, 2023	6,287	$ 528.79	6,000	2,963,817
September 1 to September 30, 2023	168	$ 511.29	—	2,963,817
Total	65,880 [2]		65,425	2,963,817

(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, on February 12, 2020, the maximum level of shares that may be repurchased under the program was increased from 68 million to 73 million shares. There is no specified expiration date for this share repurchase program. There were no other repurchase programs outstanding during the three months ended September 30, 2023, and no share repurchase programs expired during the period. There were 65,425 share repurchases made during the three months ended September 30, 2023, in transactions made pursuant to our share repurchase program.

(2) During the three months ended September 30, 2023, we received 455 shares of our common stock that were surrendered by employees in payment for the minimum required withholding taxes due on the vesting of restricted stock units. In the above table, these shares are included in columns (a) and (b), but excluded from columns (c) and (d). These shares do not reduce the number of shares that may yet be purchased under the share repurchase program.

The total shares repurchased include shares surrendered for employee statutory tax withholding. Refer to Note 12 to the unaudited condensed consolidated financial statements in "Part I. Item 1. Financial Statements" of this Quarterly Report on Form 10-Q for additional information about our share repurchases.

Item 5. Other Information

Rule 10b5-1 Trading Plan Elections

During the three months ended September 30, 2023, none of our directors or officers (as defined in Rule 16a-1(f) under the Exchange Act) adopted, modified, or terminated any "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement" (as such terms are defined in Item 408(a) of Regulation S-K of the Securities Act of 1933).

Item 6. Exhibits

Exhibit No.	Description
10.1*	Letter agreement between Ortho-Clinical Diagnostics, Inc., IDEXX B.V. and IDEXX Operations, Inc. dated July 28, 2023.
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	The following financial and related information from IDEXX Laboratories, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, formatted in Inline eXtensible Business Reportable Language (iXBRL) includes: (i) the Condensed Consolidated Balance Sheet; (ii) the Condensed Consolidated Statement of Income; (iii) the Condensed Consolidated Statements of Comprehensive Income; (iv) the Condensed Consolidated Statement of Changes in Stockholders' Equity; (v) the Condensed Consolidated Statement of Cash Flows; and, (vi) Notes to Consolidated Financial Statements.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, formatted in Inline XBRL and contained in Exhibit 101.

* Certain provisions of this exhibit have been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K.

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: November 1, 2023	Brian P. McKeon Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)