



IDEXX

# Connecting

innovative technologies to provide  
practical solutions for what matters most

Annual Report  
**2005**

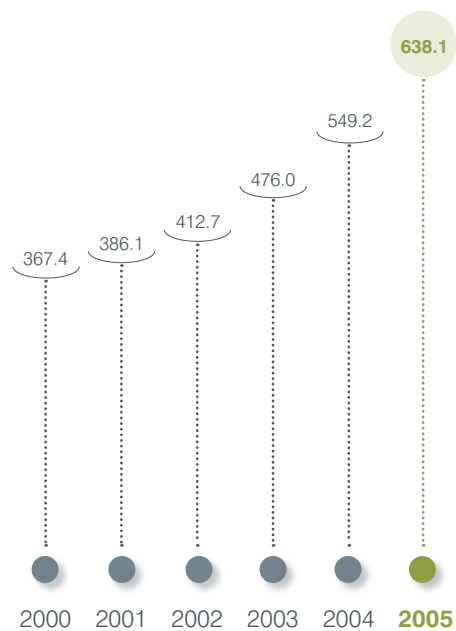
**IDEXX**  
LABORATORIES



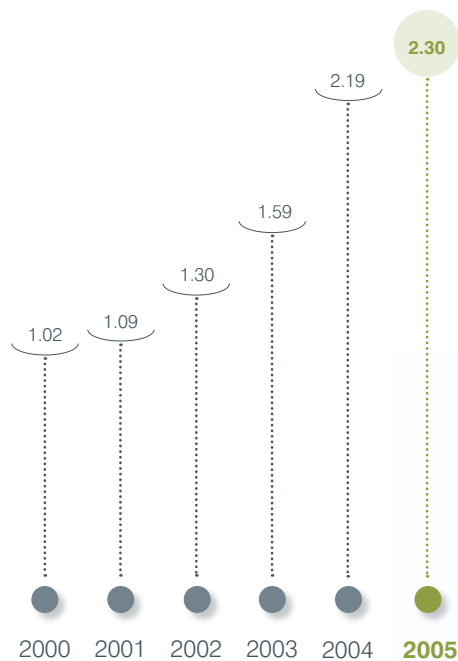
IDEXX Laboratories is a leader in animal health, serving practicing veterinarians worldwide with the industry's broadest line of diagnostic, practice-management, and therapeutic products and services. Our innovative veterinary-specific solutions are designed to connect and work together simply and seamlessly—**enabling veterinarians to provide advanced medical care to their clients' pets, and build successful practices.**

IDEXX is also a worldwide leader in providing diagnostic tests and information for the production animal industry, and tests for the quality and safety of water and milk.

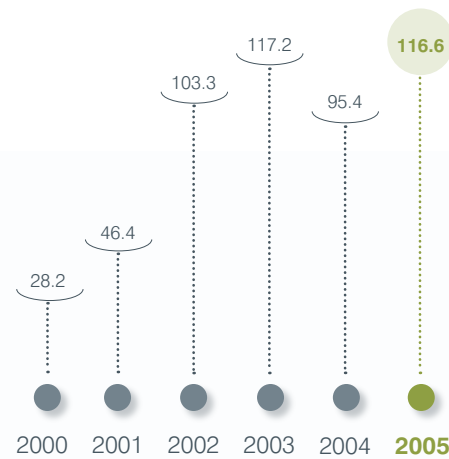
**IDEXX**  
LABORATORIES



TOTAL REVENUE millions of dollars



FULLY DILUTED EARNINGS PER SHARE



OPERATING CASH FLOW millions of dollars

YEAR ENDED DECEMBER 31,  
dollars and shares in thousands, except per share data

	2004	2005
Total revenue	549,181	638,095
Income from operations	108,035	115,331
Net income	78,332	78,254
Net income per share: diluted	2.19	2.30
Diluted weighted average shares outstanding	35,800	34,055
Net cash provided by operating activities	95,379	116,552
Cash and investments	156,959	132,731
Stockholders' equity	397,660	369,010





# IDEXX

## Connecting patient data so veterinarians can solve cases faster

Casper's owner is hoping  
for **healing answers** from  
her trusted veterinarian.

### IDEXX Cornerstone® Practice Management Software

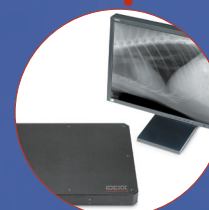
captures new information and updates the patient record through every phase of diagnostic evaluation, in every computer station, so the staff can access it anywhere, anytime. This streamlined method of providing care is transforming veterinary medicine.



Patient-Side Test Kits



Pharmaceuticals



Digital Radiography



In-House Diagnostic Analyzers



Reference Laboratories



Telemedicine Consultations

## DEAR FELLOW STOCKHOLDERS:

Imagine rushing your cat Casper to the veterinary hospital. Something is very wrong, and you're hoping for the miracle of healing from Dr. Miller, your trusted veterinarian.

The receptionist welcomes you and quickly checks Casper into the hospital, updating his computerized medical record. She brings you and Casper to the exam room for evaluation. The veterinary technician retrieves Casper's history from the computer while Dr. Miller questions you about Casper's symptoms. Dr. Miller conducts a physical exam, begins formulating a preliminary diagnosis, and recommends a series of diagnostic tests. You review the cost estimate Dr. Miller provides and agree to his recommendations. In the few minutes it takes to complete a comprehensive in-house blood workup, Casper's x-ray is taken digitally. Test results and x-ray images are immediately updated in Casper's electronic record. Using this complete record, Dr. Miller discusses a preliminary diagnosis with you and suggests a course of action. You are grateful to know the cause of Casper's suffering so quickly, and that relief is on the way.

Dr. Miller's team uses IDEXX's connected tools to free them from the chaos of manual systems so that they can focus on practicing the best medicine possible. **This is just one of the many ways IDEXX is connecting innovative technologies to provide practical solutions for what matters most—your pet's health.**

Our team at IDEXX has delivered another strong year of financial results while continuing to invest in our markets by building our product pipeline, enhancing our customer franchise and developing our talent base. These investments position our business for sustained long-term growth.

Revenue grew 16% to \$638 million, the third straight year of double-digit revenue increases. All of our business areas contributed to this robust performance. We were pleased that the organic growth of the business (growth before acquisitions and at constant exchange) was 10%.

At the same time, we reported earnings per diluted share of \$2.30, up 5% over EPS of \$2.19 in 2004. Excluding the effect of certain discrete items in both years, earnings per diluted share grew 13%.\*

Operating cash flow was strong at \$117 million, and operating cash flow less capital investments grew to \$90 million, or 115% of net income. In 2005, we used \$8 million of cash for acquisitions and \$124 million for stock repurchases, consistent with our commitment to using free cash flow to build shareholder value. Our acquisitions complemented our Reference Laboratories business in the U.S. and Europe and our digital radiography business. Stock repurchases resulted in almost two million shares acquired at an average price of \$62.11 per share. We have virtually no debt, and our cash and investments position at year-end was \$133 million, down from \$157 million at the end of 2004.

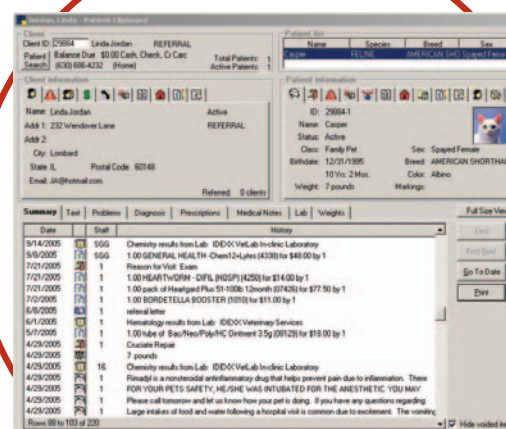
Shareholder return amounted to 32% for the year as our stock price rose from \$54.59 to \$71.98. This return exceeds market returns as represented by the S&P Small Cap Healthcare Index, which rose 11% for the year, and the S&P Mid Cap Healthcare Index, which rose 18%.

“Cornerstone has improved efficiency to allow our DVMs to do what they do best—practice veterinary medicine.”

Trevor Lyon, CVT  
Bells Ferry Veterinary Hospital, Acworth, GA

As a team, we are excited about the potential to serve our customers through investment in the growth of the business while continuing our focus on world-class quality and operating efficiency. In doing so, we fulfill our mission: *to be a great company by creating exceptional long-term value for our customers, stockholders and employees through worldwide leadership in our businesses.*

\*In 2005, discrete items included \$0.08 of net expense per diluted share resulting from acquisition integration costs and income tax expense associated with the repatriation of foreign earnings under the American Jobs Creation Act of 2004. In 2004, discrete items included \$0.08 net benefit per diluted share resulting from a reduction in income tax accruals, a reduction in the estimated liability for a third-party claim and payment received in settlement of litigation, partially offset by acquisition integration costs.



The IDEXX Cornerstone all-in-one patient record.

## COMPANION ANIMAL GROUP

For over 20 years, IDEXX has been dedicated to serving the veterinarian with the ongoing introduction of science-based, veterinary-specific innovations enabled by an ever-growing investment in research and development. Partnering with veterinarians worldwide, we developed the industry's broadest line of state-of-the-art diagnostic, practice-management, and therapeutic products and services, designed to connect simply and seamlessly, providing an integrated approach to medicine at the point of care.

In 2005, the Companion Animal Group reported revenues of \$521 million, up 16% from the previous year. About 7% of the growth resulted from revenues arising from acquisitions made during 2004 and 2005 in the Reference Laboratories business and in Digital Imaging; the remainder represented expansion of all our other products and services in this sector.

Operating profit of \$83 million rose nearly 8% over 2004, and represented 16% of Companion Animal Group revenue.

The Companion Animal Group comprises 82% of IDEXX revenues. Strong drivers of veterinary health care growth make this a business worthy of accelerated investment. Robust health care spending by pet owners is driven in part by the demographics of pet ownership, including the propensity of baby boomers to retain their pets when the nest empties, and of young professionals to add pets to their lives before having children. These demographic segments have the desire and economic means to afford advanced veterinary care. Growth is also

supported by ever-increasing advances in medical care created by the introduction of new technology by IDEXX and others. The veterinary health care technology market has the potential for sustained growth for many years into the future, not only in North America, but worldwide. The markets of Europe, the Asia-Pacific region and Latin America are all developing at a similar or greater pace of growth. Fortunately, IDEXX entered this market over two decades ago and, during this period, has developed a global leadership position with a strong market presence and customer franchise.

During 2005, our investments in product development, targeted to the needs of our customers, allowed us to introduce several new products, as well as upgrades to many currently on the market.

We added important new functionality to the already comprehensive test menu of the IDEXX VetLab® suite of in-clinic diagnostic analyzers.

The IDEXX VetLab system provides integrated diagnostic capability, with instruments that measure parameters in hematology, blood and urine chemistry, electrolytes, endocrinology, and blood gases. The system offers software capability that stores historical data, provides trending analyses, generates a comprehensive printed or electronic report, and delivers that report to the patient's electronic medical record.

When a veterinarian invests in the IDEXX VetLab system, she knows that the investment will grow over time as we regularly enhance software and expand testing menus.

During 2005, we grew unit placement of IDEXX VetLab analyzers worldwide by 30% over 2004. Of note, our growing installed base of instruments creates ongoing utilization of IDEXX's proprietary consumables. Consumable and service revenues from the installed base of instruments make up the majority of revenues in the IDEXX VetLab line of business.

The IDEXX VetTest® Chemistry Analyzer, at the heart of the IDEXX VetLab system, provides veterinarians with the most comprehensive and flexible range of biochemistry capabilities at the point of care. Results from whole-blood samples are available in as little as eight minutes.

During 2005, we introduced the following new menu items for the VetTest analyzer:

- Quality Control Panel, for easy verification of accurate instrument operation
- Lactate Test, for diagnosis and treatment management of emergency and critically ill patients
- NSAID Monitoring Panel, for monitoring and ensuring the health of patients being treated with nonsteroidal anti-inflammatory drugs

In June, we introduced the IDEXX VetStat™ Electrolyte and Blood Gas Analyzer, the first in-house blood gas analyzer adapted specifically for veterinarians.

This new instrument helps practitioners analyze blood gases, ionized calcium, anion gap, electrolytes and glucose—important information in assessing overall patient health.

Our IDEXX LaserCyte® Hematology Analyzer reached a milestone with our installation of the 4000th instrument in December. This revolutionary in-clinic diagnostic capability is making the transition from a state-of-the-art instrument used only by innovative practitioners to the new standard of care that the majority of veterinarians will need to keep their practice technology current. In January 2006, we launched an upgrade to the LaserCyte analyzer's touch screen, software and computer system, called the IDEXX VetLab Station, to provide comprehensive laboratory information management capabilities for our IDEXX VetLab customers.



IDEXX VetLab Station parameter trending shows patient response to treatment over time.



“ We like seeing the LaserCyte graphs that show the patient's blood values over time. Customers feel happier when we can explain what's going on. ”

Tanya McConiskie, veterinary nurse  
Walton Lodge Veterinary Group, Kingshill, Ware, UK  
The 3500th LaserCyte owner worldwide (2005)

Ralph's **treatment for anemia was successful**, and his complete blood count is back to normal.

The IDEXX VetLab System with the IDEXX VetLab Station Laboratory Information Management System provides analysis of all the patient's bloodwork in the IDEXX VetLab System to deliver more information on each patient at the point of care... when it's needed most. For example, this system provides comprehensive reports, parameter trending and interpretive summaries.

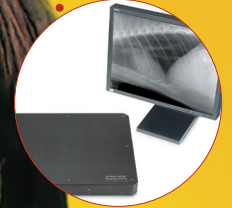
Telemedicine Consultations



Patient-Side Test Kits



Digital Radiography



Reference Laboratories



Practice-Management Software



Offerings on our proprietary SNAP® platform expanded with the addition of the first fully quantitative in-house ELISA test for measuring serum bile acids to quickly assess liver function. This assay is read on the IDEXX SNAP® Reader, an instrument in our IDEXX VetLab system that is integrated with the patient record.

Infectious disease testing on the SNAP rapid assay device gives veterinarians a quick and convenient way to check for common disease conditions while the patient is in the hospital. SNAP tests provide accurate screening prior to vaccination or other preventive medication, and confirm symptomatic animals. Our SNAP® 3Dx® Canine Test, providing results for three diseases in one sample, lets veterinarians check for heartworm, *Ehrlichia canis* and Lyme disease, all common infectious diseases in canines. We have also begun to introduce SNAP® 4Dx™ to the market, adding detection of anaplasmosis, an emerging tick-borne disease, to this screening device.

Our Reference Laboratories business continued to expand during 2005, both organically and through acquisitions. Our European laboratory business added several new locations, acquiring a second facility in the UK, as well as one in Switzerland and one in France. Our expanding laboratory network allows us to offer more of our customers the benefits of integration between in-clinic testing and reference laboratory testing.

To expand our line of digital radiographic systems, we acquired Innovative Technologies and Systems (ITS), a Georgia-based provider of veterinary-specific direct digital radiography systems.

ITS brings us two product additions to our digital line:

The IDEXX EquiView™ Digital Radiography System, a portable diagnostic imaging system designed specifically for equine practitioners, and a direct digital system to be launched later this spring for small-animal veterinarians. This acquisition builds upon our digital imaging line, including our computed digital radiography system that is the leader in the small-animal market. Customers using these systems can also access IDEXX Telemedicine Services for consulting support from our board-certified veterinarians, another example of the way we integrate our products and services to enhance the medical practices of our customers.

IDEXX Computer Systems introduced version upgrades to its market-leading practice-management system, IDEXX Cornerstone. The enhanced software offers our customers new functionality: tools that automatically measure clinic compliance with standard diagnostic and treatment best practices, easy-to-use bar-coded laboratory requisition forms, seamless connection with IDEXX's digital radiography and computed radiography platforms, and no-interest payment processing through an arrangement with GE's CareCredit®.

IDEXX Pharmaceuticals, while a small component of the Companion Animal Group, reported strong sales growth for its product offerings during 2005. We also remain excited about the technologies we have in the pharmaceutical development pipeline.

Veterinarians appreciate IDEXX for the benefits our advances in medical and information technologies bring to their practices. From a SNAP test that screens for three infectious diseases in eight minutes, to the IDEXX LaserCyte Hematology Analyzer that provides reference laboratory-quality diagnostic results at the point of care, to specialized tests conducted in our reference laboratories—IDEXX products and services put accurate, complete diagnostic information into the veterinarians' hands.

By providing an integrated practice-management system that connects IDEXX diagnostic equipment (blood analysis and digital radiographs) and reference laboratory results to the patient's electronic health record, we provide veterinarians greater access to medical information, reduce paperwork, and increase staff productivity and medical data accuracy.

By supplementing in-house diagnostic results with access to a broad menu of tests at the reference laboratory and the ability to consult with board-certified specialists, we give veterinarians easy access to case-specific information and specialized medical expertise.

By sponsoring conference speakers, local seminars, journal articles and Webinars featuring veterinary medical thought leaders, we help veterinarians and their staff members stay abreast of current medical developments.

And, by providing superior customer support 24/7 by telephone, by the Internet and in the field, we back our technology with world-class service.



Digital images can be viewed anywhere in six seconds, promoting a streamlined workflow and unparalleled efficiency.



“No other piece of equipment has yielded as much return in time, money or client satisfaction as the EquiView Digital Radiography System.”

Roland Thaler, VMD  
Metamora Equine, Metamora, Michigan

For Mystic, contrast radiography helps the veterinarian **easily determine vital structure damage** from traumatic injury.

The IDEXX EquiView Digital Radiography System uses innovative direct-capture technology to deliver exceptionally sharp images to support a faster, more accurate diagnosis.

Telemedicine Consultations



Patient-Side Test Kits



Pharmaceuticals



Practice-Management Software



In-House Diagnostic Analyzers



Reference Laboratories



IDEXX

Connecting  
livestock producers  
to the herd health  
information they  
need to improve their  
farms' performance

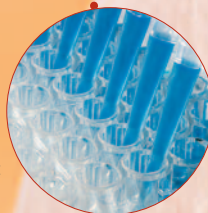
Porcine Reproductive and  
Respiratory Syndrome (PRRS) Test Kit



Research and Development



Technical and  
Service Support



FlockChek® Kit



Dr. Smith doesn't want  
to face a **respiratory  
disease outbreak.**

**IDEXX xChek® software** quickly organizes animal health data to assist livestock and poultry veterinarians in implementing preventive medicine programs—guaranteeing optimal herd and flock health.



## FOOD DIAGNOSTICS GROUP

Our Food Diagnostics Group achieved 28% revenue growth over 2004, driven by strong sales of established products, as well as the addition of revenues from business lines acquired during 2004.

Our Production Animal Services (PAS) business launched several new products during the year. The IDEXX HerdChek® Bovine Spongiform Encephalopathy Antigen Test Kit received formal European Commission approval for sale in February. This test for "mad cow disease," which addresses an annual European market of approximately 10 million tests, offers an ease-of-use and speed advantage over competitive products. In 2006, we have expanded our tests for transmissible spongiform encephalopathies (TSEs), launching a combined bovine spongiform encephalopathy-scrapie test kit with a shortened test protocol, resulting in strong sales momentum in early 2006. We also launched new diagnostic kits for pseudorabies screening in swine herds and for the H3N2 type of swine influenza virus.

PAS also benefited from higher worldwide sales volume of livestock diagnostics and, to a lesser extent, poultry diagnostics, including sales attributable to acquisitions in 2004. Our established avian influenza test detects exposure to the most common and prevalent avian influenza viruses, including the highly pathogenic H5N1 version of the virus. This test is being utilized in expanded bird flu surveillance programs across the world as countries try to protect their poultry industries. xChek software continues to provide invaluable baselines and data management systems that assist veterinarians and producers in monitoring and addressing flock and herd health.



BSE (Mad Cow) Test Kit

“xChek reports help us execute appropriate changes in our vaccination programs and establish corrective actions in the biosecurity process.”

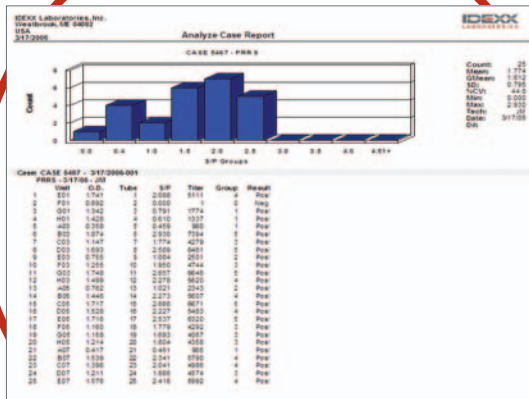
John A. Smith, DVM, MS, MAM  
Fieldale Farms, Baldwin, GA

## WATER

Our water-testing products business, a world leader in providing tests for detecting microbial contamination in drinking and other water supplies, achieved 7% sales growth over 2004, primarily due to higher worldwide sales volume. We received approval for our Colilert®-18/Quanti-Tray® system in Denmark, and our coliform/*E. coli* testing products have been proposed for approval in the U.S. for wastewater testing. In the fourth quarter of 2005, we launched Quanti-Disc™, a new platform for microbial testing in water, and we are in the process of gaining important regulatory approvals for this product.



The revolutionary new Quanti-Disc test for total bacteria count in water offers laboratories a much easier and faster alternative to complex traditional methods.





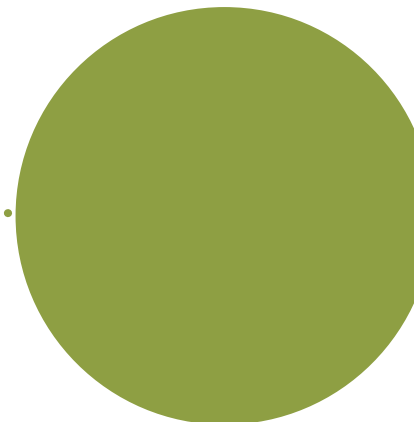
## BUILDING FOR THE FUTURE

To support the ongoing growth of our businesses, we continue to make appropriate investments in talent, systems and facilities to accommodate expansion and maintain high levels of operational excellence. A number of initiatives during 2005 addressed this aspect of our business, including:

- We have continued our ongoing investment in research, development and commercial launch of new products, managed by a disciplined new product development process and supported by rigorous attention to our intellectual property portfolio. In 2005, we were awarded five new patents and applied for 33 others.
- We expanded our Six Sigma™/Lean initiative, certifying our first black belts and lean belts on the strength of their completed projects. We have already seen important cost savings and quality improvements as a result of this work, and we expect the impact of the program to increase as more employees participate in the training.
- We reached agreement with our landlord to purchase our headquarters building, and put in place a long-term facilities strategy to accommodate our expected operations growth in Maine.
- We redesigned our equity compensation programs, enabling management to address the new environment associated with stock option expensing, balancing the interests of stockholders with the benefits our business derives from having employees who are also stockholders.

In January 2006, Ali Naqui, PhD, was promoted to Corporate Vice President, Dairy and Water Products, and IDEXX's Asia-Pacific and Latin America Operations. Ali joined IDEXX in 1993 as a result of IDEXX's original acquisition of the Water products business. He served as head of Water research and development, where he led product development and U.S. Environmental Protection Agency approval of some of the most successful water products on the market today. In 1997, Ali assumed responsibility as general manager of the Water business, and he has led strong business growth via very successful geographic expansion, as well as innovation in product offerings.

We are pleased to have Barry C. Johnson, PhD, Dean of the College of Engineering at Villanova University, join our Board. Prior to his appointment to that position in 2002, he had a distinguished career in industry, serving as chief technology officer of Honeywell International, Inc., and corporate vice president of Motorola, Inc. Barry's extensive background in technology management, engineering and product development will be especially valuable to our Board and our company as we seek to bring science-based innovations to the veterinary medical market. He also brings a wealth of practical commercial experience useful for a growing company of our size.



## OUTLOOK

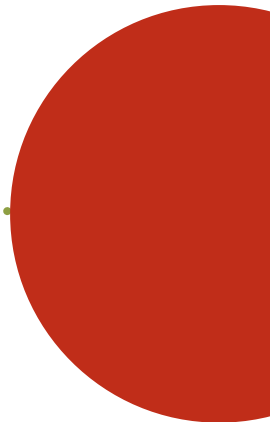
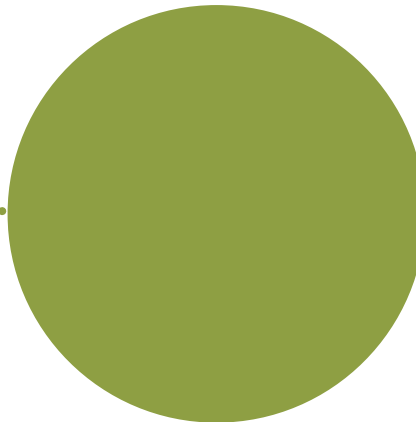
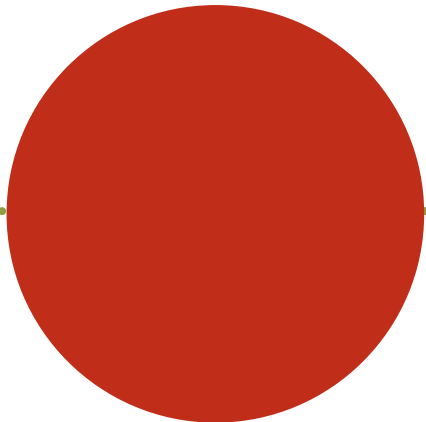
Over the next several years, we have significant potential to grow our current businesses through new product introductions, geographic expansion and “tuck-in” acquisitions. We are fortunate to participate in markets with strong growth dynamics, particularly the companion animal market for health care services. We are excited about the opportunity to enhance our commitment to our customers through the further innovation and enhanced connectivity of our products and services.

We continue to focus our long-term financial goals on revenue growth of over 10% and mid-teens earnings per share growth, and we are confident in our ability to attain these goals.

Our success is based on the creativity, dedication, intelligence, collaboration and integrity of our team, and I thank all of IDEXX’s employees for their ongoing contributions to our collective achievements.



Jonathan W. Ayers  
Chairman, President and Chief Executive Officer



## CORPORATE INFORMATION

### Corporate Offices

IDEXX Laboratories, Inc.  
One IDEXX Drive  
Westbrook, Maine 04092-2041  
Tel: 1-207-856-0300  
Fax: 1-207-856-0346

### Web Site

[idexx.com](http://idexx.com)

### Investor Relations

IDEXX Laboratories, Inc.  
One IDEXX Drive  
Westbrook, Maine 04092-2041  
Tel: 1-207-856-8155  
Fax: 1-207-856-0427  
E-mail: [investorrelations@idexx.com](mailto:investorrelations@idexx.com)

### Executive Officers

Jonathan W. Ayers  
*Chairman, President and  
Chief Executive Officer*

Conan R. Deady  
*Vice President, General Counsel  
and Secretary*

S. Sam Fraton, PhD  
*Vice President and  
Chief Information Officer*

Robert S. Hulsy  
*Vice President  
IDEXX Reference Laboratories*

Jennifer A. Joiner  
*Vice President  
CAG North American  
Commercial Operations*

Laurel E. LaBauve  
*Vice President  
Worldwide Operations*

Ali Naqui, PhD  
*Vice President  
Dairy, Water, Asia-Pacific  
and Latin America Operations*

Merilee Raines  
*Vice President, Chief Financial Officer  
and Treasurer*

Quentin J. Tonelli, PhD  
*Vice President  
Rapid Assay and  
Production Animal Services*

William C. Wallen, PhD  
*Senior Vice President and  
Chief Scientific Officer*

### Board of Directors

Jonathan W. Ayers  
*Chairman, President and  
Chief Executive Officer  
IDEXX Laboratories, Inc.*

Thomas Craig  
*Founding Director  
Monitor Group*

Errol B. De Souza, PhD  
*President and Chief Executive Officer  
Archemix Corp.*

William T. End  
*Retired Executive Chairman of the Board  
Cornerstone Brands, Inc.*

Rebecca M. Henderson, PhD  
*Eastman Kodak LFM Professor  
of Management/MIT Sloan School  
of Management*

Barry C. Johnson, PhD  
*Dean of the College of Engineering  
Villanova University*

Brian P. McKeon  
*Executive Vice President and  
Chief Financial Officer  
The Timberland Company*

Robert J. Murray  
*Retired Chairman and  
Chief Executive Officer  
New England Business Service, Inc.*

### Stock Listing

NASDAQ National Market  
Trading Symbol: IDXX

### Transfer Agent and Registrar

American Stock Transfer &  
Trust Company  
59 Maiden Lane  
Plaza Level  
New York, New York 10038  
Tel: 1-800-937-5449  
E-mail: [info@amstock.com](mailto:info@amstock.com)  
[amstock.com](http://amstock.com)

### 10-K

The form 10-K, contained herein, for the Company's fiscal year ended December 31, 2005, is not accompanied by the exhibits that were filed with the Securities and Exchange Commission. These exhibits are accessible on the Internet by visiting the Edgar section of the SEC Web site ([sec.gov/edgar.shtml](http://sec.gov/edgar.shtml)) or the Investor Relations pages of [idexx.com](http://idexx.com).

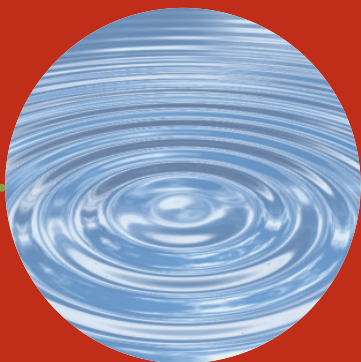
Similarly, the Company will furnish any such exhibits to those stockholders who request the same upon payment to the Company of its reasonable expenses in furnishing such exhibits. Requests for any such exhibits should be made to:

Investor Relations  
IDEXX Laboratories, Inc.  
One IDEXX Drive  
Westbrook, Maine 04092-2041

### Quarterly Reports and Proxy Statements

Forms 10-Q and proxy statements can be obtained via the Investor Relations pages of [idexx.com](http://idexx.com), e-mail or fax distribution.





**IDEXX**  
LABORATORIES

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